

President's Depreciation Proposal Will Encourage Capital Investment

Assumptions	
Machine Cost	\$100
Machine Useful Life	5 years
Machine Cash Flow	\$122
Effective Tax Rate	40.00%
Discount Rate	4.00%

The depreciation method affects the economics of investing. For example, a machine that costs \$100 and produces total cash flow of \$122 pro rata over its five-year life makes economic sense in a 4% interest rate environment with a \$100 depreciation deduction in the first year. The purchase does not make economic sense under the current methods of depreciation.

	President's Proposal					Current Accelerated				Straight Line			
	Cash Produced	Depreciation	Taxable Income	Tax Cost (Benefit)	After Tax Cash Flow	Depreciation	Taxable Income	Tax Cost (Benefit)	After Tax Cash Flow	Depreciation	Taxable Income	Tax Cost (Benefit)	After Tax Cash Flow
Year 1 (begin 7/1)	12.20	100.00	(87.80)	(35.12)	47.32	20.00	(7.80)	(3.12)	15.32	10.00	2.20	0.88	11.32
Year 2	24.40	-	24.40	9.76	14.64	32.00	(7.60)	(3.04)	27.44	20.00	4.40	1.76	22.64
Year 3	24.40	-	24.40	9.76	14.64	19.20	5.20	2.08	22.32	20.00	4.40	1.76	22.64
Year 4	24.40	-	24.40	9.76	14.64	11.52	12.88	5.15	19.25	20.00	4.40	1.76	22.64
Year 5	24.40	-	24.40	9.76	14.64	11.52	12.88	5.15	19.25	20.00	4.40	1.76	22.64
Year 6 (end 6/30)	12.20	-	12.20	4.88	7.32	5.76	6.44	2.58	9.62	10.00	2.20	0.88	11.32
	122.00	100.00	22.00	8.80	113.20	100.00	22.00	8.80	113.20	100.00	22.00	8.80	113.20
				NPV After				NPV After				NPV After	
				Tax Cash Flow	NPV Profit (Loss)			Tax Cash Flow	NPV Profit (Loss)			Tax Cash Flow	NPV Profit (Loss)
				102.38	2.38			99.82	(0.18)			98.85	(1.15)