

CHAPITRE V : INCOME TAXES

Taxable liability from operations

Net operating income (NOI)
- Depreciation (DEP)
- Interest expense (INT)
- Amortized financing costs (AFC)
Taxable income (TI)
x % Tax rate (TR)
= Tax liability (TAX)

Taxes due on sales

GSP (Gross Selling Price)
- SE (Selling expense)
= NSP (Net Selling Price) or (Net Sale Proceeds)
- Adjusted basis (AB) (*)
= Taxable gain (TG)
X Tax rate (TR)
= Taxes Due on Sale (TDS)

(*) *Adjusted tax basis of the property (including land)*

Original Acquisition Price (AP)
- Total depreciation
= Adjusted basis (AB)

Cash flow from sales

GSP
- SE
= NSP
- RMB (Remaining Mortgage Balance)
=BTER (Before-Tax Equity Reversion)
- TDS (Taxes Due on Sale)
ATER (After-tax Equity Reversion)

Expected cash flows

Year	0	1	2	3	4	5
NOI		NOI ₁	NOI ₂	NOI ₃	NOI ₄	NOI ₅
- DS		DS ₁	DS ₂	DS ₃	DS ₄	DS ₅
BTCF		BTCF ₁	BTCF ₂	BTCF ₃	BTCF ₄	BTCF ₅
- Taxes		T ₁	T ₂	T ₃	T ₄	T ₅
ATOCF		ATOCF ₁	ATOCF ₂	ATOCF ₃	ATOCF ₄	ATOCF ₅
- E	E					
+ ATER						ATER
= ATCF	ATCF ₀	ATCF ₁	ATCF ₂	ATCF ₃	ATCF ₄	ATCF ₅

Source : Real Estate Perspectives, An Introduction to Real Estate. 3th edition, J.B. Gorgel, H.C. Smith, D.C. Ling, Mc Graw Hill, 1998