

Sample Company
Calculating Incremental After-tax Cash Flows

1. Worksheet

Capital Cost: New Asset	\$52,000
Market Value: Old	\$4,500
CCA Rate	20%
Tax Rate	40%
ITC Rate	10%
ITC Amount	\$5,200
Life	5
Incremental Revenue	\$60,000
Incremental Operating Costs	\$25,000
Incremental Margin	\$35,000
Chg in Other W/C Items	\$10,500

2. Calculate Tax Shield

<u>Year</u>	<u>UCC-Bcca</u>	<u>CCA</u>	<u>UCC-Acca</u>
1	\$42,300	\$4,230	\$38,070
2	\$38,070	\$7,614	\$30,456
3	\$30,456	\$6,091	\$24,365
4	\$24,365	\$4,873	\$19,492
5	\$19,492	\$3,898	\$15,593

3. Calculate Cash Flows

	<u>YEAR</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
Incremental Revenues	\$60,000	\$60,000	\$60,000
Less: Incr Operating Costs	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
Incremental Margin	35,000	35,000	35,000
Less: Tax on Incremental Margin	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>
After-tax Incremental Margin	21,000	21,000	21,000
Plus: Tax Shield from CCA	1,692	3,046	2,436
Other - ITC	5,200		
- Other W/C Items	<u>-10,500</u>		
Net After-tax Incremental CFs	<u>\$17,392</u>	<u>\$24,046</u>	<u>\$23,436</u>