

23.(19.4) Lessee's analysis

Answer: a HARD

Life of equipment:	3	Tax rate:	20%
Loan amount = equipment cost:	\$100,000	Maintenance costs:	\$3,000
Interest rate, simple:	10.0%	Salvage value:	\$30,000
Lease Pmt:	\$29,000		

Loan Analysis:	0	1	2	3	Totals
MACRS factor		0.33	0.45	0.15	0.93
Depreciation		33,000	45,000	15,000	93,000

Loan repayment				-100,000
Interest		-10,000	-10,000	-10,000
Int tax saving (Interest × T)		2,000	2,000	2,000
Maintenance	-3,000	-3,000	-3,000	-3,000
Maint. tax saving (Maint. × T)	600	600	600	600
Depr'n tax saving (Deprn × T)		6,600	9,000	3,000
Net operating CF	-2,400	-3,800	-1,400	-105,000
Salvage value before taxes				30,000
Book value (Cost - Total dep'm)				<u>7,000</u>
Taxable salvage value				23,000
Tax on salvage value				<u>4,600</u>
Salvage value after taxes				25,400
Total Net CF	<u>-2,400</u>	<u>-3,800</u>	<u>-1,400</u>	<u>-79,600</u>
PV cost at I(1 - T) = 8.00%				-70,308

Lease Analysis:	0	1	2	3
Lease payment	-29,000	-29,000	-29,000	
Tax saving on pmt	5,800	5,800	5,800	0
Net cost of lease	<u>-23,200</u>	<u>-23,200</u>	<u>-23,200</u>	<u>0</u>
PV cost of leasing at I(1 - T)				-64,572

NAL = \$5,736