

Construction Accounting and Financial Management

Chapter 18
Income Tax and Financial Decisions

Effects of Income Taxes

- If all cash flows are treated the same for income tax, income tax has little effect on the decision process in Chapter 17
- Losses carried forward defer tax to future years reducing their value when using decision method that take into account time value of money (interest)

Effects of Income Taxes

- Changes in tax rates (brackets) from year to year can increase or decrease the tax deductions associated with an alternative
- Depreciation defers to future years the tax savings associated with the purchase of depreciable equipment; reducing their value when using decision method that take into account time value of money (interest)

Effects of Income Taxes

- Capital gains can reduce the tax rate used for an alternative increasing the alternative's attractiveness
- Tax credits replace the tax deduction associated with an alternative with a tax credit increase the alternative's attractiveness

Effects of Income Taxes

- When alternatives are treated differently for tax purposes, use after-tax cash flow when comparing