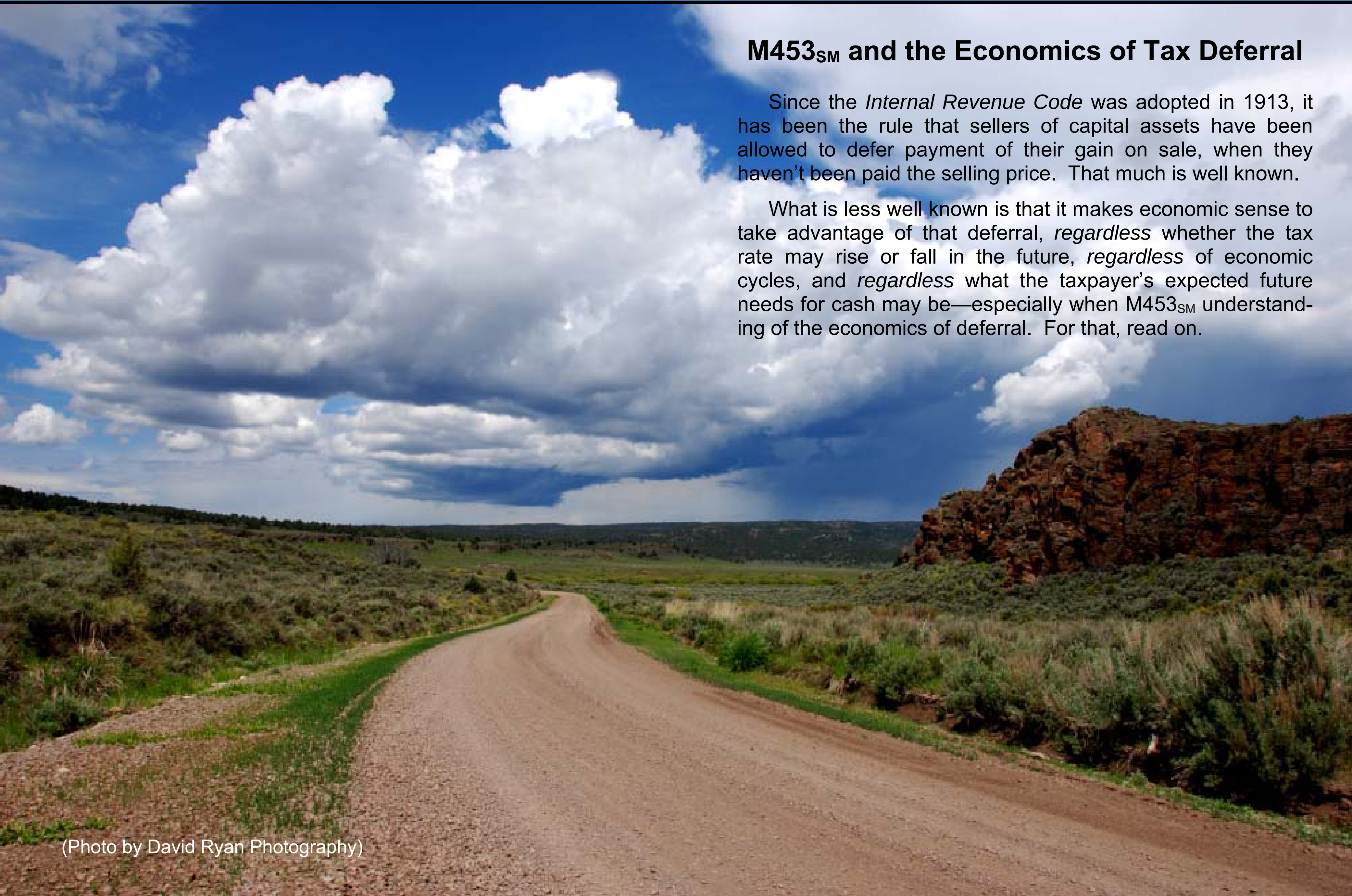
S.Crow Collateral Corp.

A uniquely qualified dealer in capital assets



M453$_{SM}$ and the Economics of Tax Deferral

Since the *Internal Revenue Code* was adopted in 1913, it has been the rule that sellers of capital assets have been allowed to defer payment of their gain on sale, when they haven't been paid the selling price. That much is well known.

What is less well known is that it makes economic sense to take advantage of that deferral, *regardless* whether the tax rate may rise or fall in the future, *regardless* of economic cycles, and *regardless* what the taxpayer's expected future needs for cash may be—especially when M453$_{SM}$ understanding of the economics of deferral. For that, read on.

(Photo by David Ryan Photography)

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As shown in the chart to the right, if you have the choice of paying $100,000 in capital-gains tax now or 30 years from now, and if you were to invest that $100,000 at the 5% annually compounded after-tax return rate used in the chart (a rate that is not out of line for 30 years), you or your estate would have $432,194 at the end of the 30 years, just from investing the tax money. That would be enough to pay the tax then, even if the capital-gains tax rate were to quadruple during that 30 years.

In addition, however, is the effect of inflation. At the 3% inflation rate assumed in the chart, $100,000 in 30 years would be worth only $41,199 in today's dollars. Just from the effect of inflation, therefore, the tax rate would have to rise about 250%, for that $41,199 to equal the $100,000 tax cost today, in today's dollars. You could ask yourself this rhetorical question: Would I rather pay $100,000 in taxes today in today's dollars, or $41,199 in today's dollars 30 years from now? It's not a hard question to answer, and it leaves plenty of room for the possibility that tax rates then might be higher than they are now.