





We seldom encounter perpetuities. This shows how to calculate the PV of after-tax cash flows from bonds when the subsidized loan is a bullet loan (principal repaid only at maturity).

#### DATA

Cost of debt	10%	Amount borrowed	4.00
Tax rate	40%	Subsidized rate	5%
After-tax cost of debt	6%		

#### AFTER-TAX CASH FLOWS FROM BONDS

Year	0	1	2	3	4
Interest		(0.20)	(0.20)	(0.20)	(0.20)
Interest tax shield		0.08	0.08	0.08	0.08
After-tax interest		(0.12)	(0.12)	(0.12)	(0.12)
Principal receipt (repayment)	4.00	-	-	-	(4.00)
Principal plus after-tax interest	4.00	(0.12)	(0.12)	(0.12)	(4.12)
PV factor at after-tax cost of debt	100%	94%	89%	84%	79%
PV of cash flow	4.00	(0.11)	(0.11)	(0.10)	(3.26)
Cumulative PV	4.00	3.89	3.78	3.68	0.42
NPV	0.42				