

# MEASURING CASH CREATION AND FLOW

Taxes

James P. Weston

Professor of Finance

The Jones School, Rice University

# FREE CASH FLOW AND TAXES

- ▶ Taxes are a real cash flow
- ▶ Expenses shield revenue from tax
- ▶ Tax forecasting is tricky

# FREE CASH FLOW AND TAXES

- ▶ Assume taxes paid at marginal rate
- ▶ Can make use of all shields
- ▶ Ignore tax loss and carryforward
- ▶ A whole world of tax accounting!
- ▶ Our treatment is simplified

# SUMMARY

- ▶ Taxes are real cash
- ▶ Can be difficult to forecast
- ▶ Often drive financial decisions
- ▶ Full scope beyond this course