

**Average Rate Assumption Method (ARAM)**

**Change in Tax Rate - Before ADIT Set Up is Complete**

Plant Asset = \$100

Year	Tax Depreciation (A)	Book Depreciation (B)	Timing Difference (A)-(B)= (C )	Tax Rate (D)		Deferred Expense (C )*(D)=(E )	ADIT
1	40	10	30	35%		11	11
2	30	10	20	21%	(1)	4	15
3	15	10	5	21%		1	16
4	10	10	-	29%	(2)	-	16
5	5	10	(5)	29%	(2)	(1)	14
6	-	10	(10)	29%	(2)	(3)	11
7	-	10	(10)	29%	(2)	(3)	9
8	-	10	(10)	29%	(2)	(3)	6
9	-	10	(10)	29%	(2)	(3)	3
10	-	10	(10)	29%	(2)	(3)	-
	100	100	-			-	

(1) Tax rate change from 35% to 21% occurs in Year 2 of asset's life

(2) Average rate is used to unwind deferred tax liability over remaining life of asset. This is an average of the 35% and 21% rates used to calculated deferred tax expense for the years when tax depreciation was greater than book depreciation

**Change in Tax Rate - After ADIT Set Up is Complete**

Plant Asset = \$100

Year	Tax Depreciation (A)	Book Depreciation (B)	Timing Difference (A)-(B)= (C )	Tax Rate (D)		Deferred Expense (C )*(D)=(E )	ADIT
1	40	10	30	35%		11	11
2	30	10	20	35%		7	18
3	15	10	5	35%		2	19
4	10	10	-	21%		-	19
5	5	10	(5)	35%	(1), (2)	(2)	18
6	-	10	(10)	35%		(4)	14
7	-	10	(10)	35%		(4)	11
8	-	10	(10)	35%		(4)	7
9	-	10	(10)	35%		(4)	4
10	-	10	(10)	35%		(4)	-
	100	100	-			-	

(1) Tax rate change from 35% to 21% occurs in Year 5 of asset's life, when book depreciation is greater than tax depreciation and the ADIT balance is unwinding

(2) Average rate is used to unwind deferred tax liability over remaining life of asset, which is 35% since the tax rate change occurred after the ADIT balance had finished setting up.