

Summit Natural Gas of Missouri, Inc.
MPSC Case No GR-2014 - 0086
Income Tax Calculations and Statistics

Schedule TDP-1
 Exhibit 7

FIT = {NIBT - SIT} * rate → state income taxes deductible for FIT calculation

SIT = {NIBT - (FIT *.50)} * 6.25% → 50% of federal income taxes deductible for state income taxes

Solve for FIT with SIT stated in terms of FIT

Where: FIT = federal income taxes

SIT = state income taxes

SIT rate = 6.25%

NIBT = Net income before income taxes

Federal income tax rate = 35% in SNGM case

Formula for FIT:

- (1) FIT = {NIBT - [6.25% * NIBT - 0.5 * FIT * 6.25%]} * FIT rate
- (2) FIT = {NIBT - [0.0625NIBT - 0.5FIT * .0625]} * 0.35
- (3) FIT = {NIBT - 0.0625NIBT + 0.03125FIT} * 0.35
- (4) FIT = {0.9375NIBT + 0.03125FIT} * 0.35
- (5) FIT = 0.328125NIBT + 0.0109375FIT 0.328125
- (6) FIT -.0109375FIT = 0.328125NIBT
- (7) .989063FIT = 0.328125NIBT
- (8) FIT = [0.328125 ÷ 0.989063]NIBT
- (9) FIT = 33.175% of NIBT

Formula for SIT:

- (1) SIT = 0.0625*[NIBT-0.33175*0.5NIBT]
- (2) SIT = 0.0625*[NIBT- 0.16588NIBT]
- (3) SIT = 0.0625*0.83412NIBT
- (4) SIT = 5.213% of NIBT

Example using 35.00% federal income tax rate with \$100,000 NIBT

$$\text{FIT} = \{ \$100,000 - (6.25\% * \$100,000) - (0.5 * \text{FIT} * 6.25\%) \} * 35.00\%$$

$$\text{FIT} = \{ \$100,000 - \$6,250 + 3.125\% * \text{FIT} \} * 35.00\%$$

$$\text{FIT} = \{ \$93,750 + 3.125\% \text{FIT} \} * 35.00\%$$

$$\text{FIT} = \$32,813 + 0.0109375 * \text{FIT}$$

$$0.98906 \text{ FIT} = \$32,813$$

$$\text{FIT} = \$33,176$$

Solve for SIT

$$\begin{aligned} \text{SIT} &= \{ \$100,000 - (\$33,176 * 0.50) \} * 6.25\% \\ &= \{ \$100,000 - \$16,588 \} * 6.25\% \\ &= \$5,213 \end{aligned}$$

Federal income tax rate	35.00%
Missouri income tax rate	6.25%

Percentages of total income tax applied to rate base - at 12.00% ROE

NIBT	100,000	100.00%	composite income tax rate
state income tax	5,213		
federal income tax	33,175		
	<u>38,388</u>	38.39%	
return to common equity	<u>61,612</u>	61.61%	
		<u>100.00%</u>	

Percent of total income taxes to return on common equity (38.39% ÷ 61.61%)	62.3060%
	x
component return to common equity - adjusted for 12.00% ROE	<u>6.83%</u>