

Missouri-American Water Company  
 Name of Issuing Corporation

For \_\_\_\_\_

All Missouri Service Areas  
 Community, Town or City

**Rules and Regulations Governing the Rendering of  
 Water Service**

**Taxable Advances or Contributions in Aid of Construction**

The Company shall not accept into its system any taxable Advances or Contributions in Aid of Construction, whether in cash or property (except amounts paid for remote meter reading service), unless accompanied by an amount equal to the Tax Impact of such acceptance as defined as follows:

**Tax Impact = (Company's Current Year Tax) – (Present Value of Company's Future Tax Benefits)**

The foregoing Tax Impact shall be charged to an applicant making a taxable Advance or Contribution in Aid of Construction.

**Company's Current Year Tax**

- C = Amount of taxable Advances or Contributions in Aid of Construction
- F = Marginal Statutory Federal Income Tax Rate
- S = Marginal Statutory State Income Tax Rate
- T = Effective Combined Income Tax Rate

**T = F x (1 – S) + S x (1 – F)**

**Company's Current Year Tax = C x T**

**Present Value of Company's Future Tax Benefits**

- CF = Annual cash flow from tax savings due to tax depreciation taken on "C", based on Company's projected tax depreciation life and method in effect for the year in which taxes on "C" will be incurred.
- R = Company's most recently allowed Rate of Return on original cost rate base
- N = Tax life (in years) used to calculate tax depreciation taken on "C"

**Present Value of Company's Future Tax Benefits = CF x  $\left[ \frac{1 - (1 + R)^{-N}}{R} \right]$**

**Interest Offset**

The contributor of taxable Advances or Contributions in Aid of Construction will receive an interest offset to be netted against the Tax Impact. The interest rate used will be the 3-month US Dollar LIBOR rate as published by the Federal Reserve Bank of St. Louis, and 2 months of interest will be netted against the Tax Impact payment.

**Interest Offset = Tax Impact x Interest Rate x (2/12)**

\* Indicates new rate or text

+ Indicates change

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