

AN ESTIMATE OF ANNUAL TAXES APPLYING TO A FERTILIZER PLANT  
LOCATED IN WESTERN IOWA

CAUTION: These figures are estimates, based on certain assumptions concerning the firm, the plant, and local tax bodies. This report is meant only to show the types of taxes Iowa manufacturers pay and to provide an example of how these taxes are levied. The detailed computations following this table should be carefully examined in order to better understand Iowa's tax structure.

Type of Tax	Corporate Council Bluffs	Corporate Sioux City	Rural Pottawattamie County	Rural Woodbury County
Corporation capitalization tax	350.00	350.00	350.00	350.00
Corporate income tax	8,604.00	8,604.00	8,604.00	8,604.00
Workmen's compensation	1,507.20	1,507.20	1,507.20	1,507.20
Unemployment compensation, excluding federal .3% <sup>1</sup>	4,050.00	4,050.00	4,050.00	4,050.00
Property taxes:				
Land, bldgs & equip	234,143.86	233,123.28	144,308.94	164,967.98
Inventory	3,872.89	3,764.36	2,029.58	2,313.29
Moneys & credits <sup>2</sup>				
Total estimated taxes <sup>3</sup>	\$252,527.95	\$251,398.84	\$160,849.72	\$181,792.47

- 1 After four years' operation in the state this tax may be reduced to zero. See page 5.
- 2 See page 9.
- 3 Does not include use tax since it is impossible to estimate this tax. However, it is doubtful that this plant would have to pay any use tax. See page 6.

Corporation capitalization tax or annual license fee:

Value of property employed and used in Iowa \$9,200,000

Corporation capitalization tax \$350

<u>Stated Capital</u>		<u>Fee</u>
	Not over \$ 20,000	\$ 5
Over \$	20,000 but not over \$ 40,000	\$ 10
Over \$	40,000 but not over \$ 60,000	\$ 15
Over \$	60,000 but not over \$ 80,000	\$ 20
Over \$	80,000 but not over \$ 100,000	\$ 25
Over \$	100,000 but not over \$ 150,000	\$ 30
Over \$	150,000 but not over \$ 200,000	\$ 35
Over \$	200,000 but not over \$ 250,000	\$ 40
Over \$	250,000 but not over \$ 300,000	\$ 45
Over \$	300,000 but not over \$ 350,000	\$ 50
Over \$	350,000 but not over \$ 400,000	\$ 55
Over \$	400,000 but not over \$ 500,000	\$ 60
Over \$	500,000 but not over \$ 600,000	\$ 70
Over \$	600,000 but not over \$ 700,000	\$ 80
Over \$	700,000 but not over \$ 800,000	\$ 90
Over \$	800,000 but not over \$ 900,000	\$ 100
Over \$	900,000 but not over \$ 1,000,000	\$ 110
Over \$	1,000,000 but not over \$ 2,500,000	\$ 175
Over \$	2,500,000 but not over \$ 5,000,000	\$ 250
Over \$	5,000,000 but not over \$ 10,000,000	\$ 350
Over \$	10,000,000 but not over \$ 50,000,000	\$ 800
Over \$	50,000,000 but not over \$ 100,000,000	\$1,200
Over \$	100,000,000 but not over \$ 200,000,000	\$1,600
Over \$	200,000,000 but not over \$ 300,000,000	\$2,000
Over \$	300,000,000 but not over \$ 500,000,000	\$2,500
Over \$	500,000,000	\$3,000

Corporate income tax:

Assume a 10% return on \$12 million investment or \$1.2 million net income after federal tax but before Iowa tax. Also assume that this \$1.2 million figure is less any interest and dividends from federal securities and includes any capital gains or losses used in computing the federal income tax, any interest and dividends from foreign securities and securities of states and other political subdivisions that are exempt from federal income tax, and the Iowa income tax deducted in computing the federal taxable income.

Iowa's corporate income tax applies only to that portion of business done within the state, as determined by the ratio of gross sales within Iowa to total gross sales of the plant. Assume that the plant's gross sales are apportioned among the six states composing the market area (Iowa, Kansas, Minnesota, Missouri, Nebraska and South Dakota) according to each state's share of total annual liquid fertilizer sales in the six state area.

LIQUID COMMERCIAL FERTILIZER USAGE, TONS, 1959

	<u>Iowa</u>	<u>Kansas</u>	<u>Minnesota</u>	<u>Missouri</u>	<u>Nebraska</u>	<u>S. Dakota</u>	<u>Total Market</u>
Total	81,897	23,877	50,801	43,695	135,197	2,771	343,238
% of Total	23.9%	8.4%	14.8%	12.7%	39.4%	0.8%	100.0%

Source: 1959 Census of Agriculture - Preliminary. USDA

Iowa's share of the total gross sales of this plant would then be 23.9%.  
23.9% of \$1.2 million is \$286,800. Three percent of \$286,800 is \$8,604.

Workmen's Compensation:

Assume annual payroll as follows:

Forty hour week and 52 weeks per year.

Production workers:

20 at average hourly wage of \$2.77 including overtime.

$\$2.77 \times 40 \text{ hrs} \times 52 \text{ weeks} = \$5,761.60 \times 20 = \$115,833.00$  annual

Maintenance workers:

16 at average hourly wage of \$2.70 including overtime.

$\$2.70 \times 40 \text{ hrs} \times 52 \text{ weeks} = \$5,616.00 \times 16 = \$89,856.00$  annual

Administrative workers; no salesmen:

14 at average hourly wage of \$1.50

$\$1.50 \times 40 \text{ hrs} \times 52 \text{ weeks} = \$3,120.00 \times 14 = \$43,680.00$  annual

Total annual payroll	<u>\$249,374.00</u>
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Chemical and Dye Class, Code 4815, Iowa experience rating for operative and maintenance personnel is 72¢ per \$100 of annual payroll or \$1,480.9968. The administrative personnel (no salesmen) would come under a rate of 6¢ per \$100 of annual payroll or \$26.2080. Thus the total annual premium should be \$1,507.20 for this plant.

Unemployment Compensation:

Assume an annual payroll of \$249,374.00, as used above in estimating workmen's compensation. Assume also that all workers earn at least \$3,000 yearly, though some clerical personnel probably wouldn't. \$3,000 x 50 employees = \$150,000 of taxable payrolls for unemployment compensation. For the first four years that this firm operates in Iowa, it will pay 2.7% to the State of Iowa and .3% to the federal government.

2.7% Iowa	\$4,050.00
.3% federal	<u>450.00</u>
Total tax	\$4,500.00

After four years of employment experience under the Iowa Employment Security Law program, the rate of tax will then be based on the ratio of his cash reserve to his average annual payroll.

Iowa had second lowest average employer tax rate in the U.S., 0.8% in 1959.

SCHEDULE OF CONTRIBUTION RATES

<u>Ratio of employer's cash reserve to his average annual payroll</u>	<u>Contribution Rate For:</u>		
	<u>State</u>	<u>Federal</u>	<u>Total</u>
Less than 2 1/2%	2.7%	.3%	3.0%
Over 2 1/2% but below 5%	1.8%	.3%	2.1%
5% but less than 7 1/2%	0.9%	.3%	1.2%
7 1/2% but less than 10%	0.45%	.3%	.75%
10% or over	0.0%	.3%	.3%

Example: After completing 4 fiscal years, an employer's taxable payroll averaged \$117,332.32 and his excess of contributions over benefits amounted to \$12,242.09. The ratio would be 10.4% and so the employer's Iowa rate would be zero.

An employer may make voluntary contributions over those required by the law in order to increase his ratio and thus secure a lower rate.

Minimum and maximum benefits to employees are as follows:

A worker's weekly benefit varies from a maximum of \$44 to a minimum of \$10, depending on the total wages for insured work paid to him during the calendar quarter of his base period in which such total wages were the highest. The amount of benefit is also based on the number of children in his family, whether he has a wife and, if so, whether she is working. The law allows a maximum of 26 weeks benefits in the year following the filing of a claim.

Use tax:

The rate of the use tax is two per cent of the purchase price.

If the property is processed or manufactured into another article of tangible personal property intended to be sold ultimately at retail, the use tax does not apply.

Examples of property that is exempt because it is used in processing include: personal property that forms an integral or component part of a manufactured product intended to be sold ultimately at retail; fuel that is consumed in creating power, heat, or steam for processing or for generating electric current; property used as material and equipment that does not form a component or integral part of a manufactured product but that is used directly in the actual fabricating, compounding, manufacturing, or servicing of tangible personal property intended to be sold ultimately at retail, provided such property is not readily obtainable in Iowa. In determining the "readily obtainable" exemption of a given article, it should be ascertained whether or not similar property in the same general classification could be purchased from a distributor or retailer in Iowa, notwithstanding the fact that such property might be of a different brand or manufacture. If similar equipment

of a different brand or manufacture can be obtained through distributors or retailers in Iowa, all property in the same general classification is considered to be readily obtainable in Iowa and not exempt from the use tax. Property on which the Iowa sales tax has been paid is exempt from the use tax.

If sales or use tax equal to the amount of the Iowa tax, has been paid on an article in another state, no further tax is due. If the amount of tax paid by a person to another state on a given article is less than the amount of the Iowa tax, the amount of Iowa tax due is the difference between the tax paid to the foreign state and the tax due under the Iowa law.

Property tax:

Assume that all machinery and equipment is considered as real property by the assessor.

Assume that the actual value of this property as determined by the assessor is as follows:

Land	\$200,000
Buildings	\$2,000,000
Machinery & equipment	\$4,000,000
Equipment for storage	<u>\$3,000,000</u>
	\$9,200,000

The Iowa Code specifies that assessed value shall be 60% of actual value. However, in practice most Iowa assessors use a much lower percent. For the state as a whole the percent of actual value averages about 24%. Assume that the assessor in each locality sets the assessed value of the property at that percentage of determined actual value as shown by the ratio of assessments

to real estate sales in each locality for 1959. (Source: 1960 Iowa Ratio Study, Warranty Deed Sales & Assessments For the Year 1959, Iowa Association of Utility Tax Representatives, 1960.)

<u>Locality</u>	<u>% of Actual Value<sup>1</sup></u>	<u>Assessed Value</u>	<u>Millage Levied, 1960</u>	<u>Tax Due</u>
Council Bluffs	23.00%	\$2,116,000	110.654	\$234,143.86
Sioux City	23.56%	\$2,167,520	107.553	\$233,123.28
Rural Fottawattomie County	27.05%	\$2,488,600	57.988 <sup>2</sup>	\$144,308.94
Rural Woodbury County	27.13%	\$2,495,960	66.094 <sup>2</sup>	\$164,967.98

1 Weighted average of assessed value, 1959 for a 10% sample of real estate sales price, 1959 sold in each county and municipality during 1959.

2 This average millage rate includes school, county and other property taxes levied upon the rural districts of this county in 1960.

Assume an annual average inventory of 4,200 tons, including raw materials, work in process and finished goods, representing \$50,000 worth of raw materials. Assume that the assessor in each locality sets the assessed value of manufacturers' inventories at 70% of the raw material value. (Manufacturers' inventories are taxed at raw material value in Iowa.)

<u>Locality</u>	<u>% of Raw Material Value</u>	<u>Assessed Value</u>	<u>Millage Levied, 1960</u>	<u>Tax Due</u>
Council Bluffs	70. %	\$35,000	110.654	\$3,872.89
Sioux City	70. %	\$35,000	107.553	\$3,764.36
Rural Fottawattomie County	70. %	\$35,000	57.988	\$2,029.58
Rural Woodbury County	70. %	\$35,000	66.094	\$2,313.29



The tax on moneys and credits is 6 mills per \$1, regardless of location within Iowa. However, noninterest-bearing funds, such as checking accounts, are exempt. Also, all debts in good faith owed by a person may be deducted from total moneys and credits in arriving at the net or taxable moneys and credits. Five thousand dollars of moneys and credits are allowed exempt, except that this exemption will not apply if the amount of noninterest-bearing funds and/or debts in good faith exceeds \$5,000. If the total amount of debts and noninterest-bearing moneys and credits is less than \$5,000 the allowable exemption is the difference between total debts, noninterest-bearing moneys and credits and \$5,000.

Assume that on January 1 this plant's working capital of \$2,800,000 is in inventories, noninterest-bearing checking accounts and accounts receivable. Assume further that debts in good faith equal or exceed accounts receivable. Therefore, this plant would not be required to pay any moneys and credits tax.

RECAP OF PROPERTY TAXES

	<u>Council Bluffs</u>	<u>Sioux City</u>	<u>Rural Pottawattamie County</u>	<u>Rural Woodbury County</u>
Land, bldg & equip	\$234,143.86	\$233,123.28	\$144,308.94	\$164,967.98
Inventory	3,872.89	3,764.36	2,029.58	2,313.29
Moneys & credits	_____	_____	_____	_____
Total property tax	\$238,016.75	\$236,887.64	\$146,338.52	\$167,281.27

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