

Final Decision

TasNetworks Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 7 Corporate income tax

April 2024

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1	30 April 2024	11

List of attachments

This attachment forms part of the AER's final decision on the distribution determination that will apply to TasNetworks for the 2024–29 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 7 – Corporate income tax

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

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7 Corporate income tax

Our distribution determination includes the estimated cost of corporate income tax for TasNetworks' 2024–29 regulatory control period (period).¹ Under the post-tax framework, the cost of corporate income is calculated as part of the building block assessment using our post-tax revenue model (PTRM).

This attachment sets out our final decision on TasNetworks' revised proposed corporate income tax for the 2024–29 period. It presents our assessment of the inputs required in the PTRM for the calculation of the cost of corporate income tax.

7.1 Final decision

Our final decision on TasNetworks' estimated cost of corporate income tax is \$50.4 million (\$ nominal) over the 2024–29 period. This is an increase of \$3.6 million (or 7.7%) from TasNetworks' revised proposed cost of corporate income tax of \$46.8 million. The reasons for this increase are due to our final decision:

- on a higher regulatory depreciation amount (section 4.1 of Attachment 4).²
- on a higher return on equity amount (section 2.2 of the Overview).³

Our final decision is to determine an opening tax asset base (TAB) value as at 1 July 2024 of \$1,691.3 million (\$ nominal), which is consistent with TasNetworks' revised proposal (section 7.1.1).

We accept the following aspects of TasNetworks' revised proposal, which are consistent with our draft decision:⁴

- there is no forecast capital expenditure (capex) to be immediately expensed for tax purposes in the 2024–29 period (section 7.1.2)
- the standard tax asset lives for all of its asset classes (section 7.1.3).

Table 7.1 sets out our final decision on the estimated cost of corporate income tax for TasNetworks over the 2024–29 period.

¹ NER, cl. 6.4.3(a)(4).

² The higher regulatory depreciation is driven by a lower expected inflation rate applied in our final decision compared to TasNetworks' revised proposal. All else being equal, a higher regulatory depreciation increases the cost of corporate income tax as it is a component of revenue for tax purposes.

³ The higher return on equity amount is driven by a higher rate of return on equity determined in our final decision compared to TasNetworks' revised proposal. All else being equal, a higher return on equity amount will increase the cost of corporate income tax as it is a component of revenue for tax purposes.

⁴ TasNetworks, *2024–29 Revised Regulatory Proposal*, 30 November 2023, p. 29.

Table 7.1 AER’s final decision on TasNetworks’ cost of corporate income tax for the 2024–29 period (\$million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	23.5	23.2	22.2	23.5	24.8	117.2
Less: value of imputation credits	13.4	13.2	12.6	13.4	14.1	66.8
Net cost of corporate income tax	10.1	10.0	9.5	10.1	10.7	50.4

Source: AER analysis.

In the draft decision, we made the following changes to TasNetworks’ modelling of its cost of corporate income tax:⁵

- We revised the opening TAB as at 1 July 2024 to reflect our amendments to some inputs in the roll forward model (RFM) and the depreciation tracking module:
 - We corrected the 2018–19 and 2019–20 actual gross capex values, and the 2018–19 forecast gross capex values,
 - We corrected the input errors in the depreciation module for calculating the actual year-by-year tracking tax depreciation for the 2019–24 period, including the commencement date of the tracking approach.
- We accepted TasNetworks’ proposed standard tax asset lives for its existing asset classes for the 2024–29 period. However, we introduced a new asset class for ‘Composite poles’ and assigned a standard tax asset life of 45 years that is consistent with the Australian Taxation Office (ATO) Taxation Ruling 2022/1.

TasNetworks’ revised proposal adopted the changes required by the draft decision in full. It also made some updates to its TAB roll forward.⁶

7.1.1 Opening tax asset base as at 1 July 2024

Our final decision is to determine an opening TAB value as at 1 July 2024 of \$1,691.3 million (\$ nominal) for TasNetworks, which is consistent with its revised proposal.⁷

In our draft decision, we accepted TasNetworks’ proposed method to establish the opening TAB as at 1 July 2024. However, we amended some of the proposed inputs used for the TAB roll forward—specifically, we made some corrections for 2018–19 and 2019–20 actual gross capex values, and the 2018–19 forecast gross capex values in the RFM. We also corrected the input errors in the depreciation module for calculating the actual year-by-year tracking tax depreciation for the 2019–24 period. We noted that the opening TAB may be

⁵ AER, *Draft decision, TasNetworks distribution determination 2024 to 2029, Attachment 7 – Corporate income tax*, September 2023, p. 10.

⁶ TasNetworks, *2024-29 Revised Regulatory Proposal*, 30 November 2023, p. 29.

⁷ TasNetworks, *2024-29 Revised Regulatory Proposal*, 30 November 2023, p. 30.

updated as part of the final decision to reflect actual capex for 2022–23 and any revised capex estimate for 2023–24.⁸

TasNetworks' revised proposal adopted our draft decision changes.⁹ It also updated the opening TAB as at 1 July 2024 to reflect the actual capex and asset disposals for 2022–23, and a revised 2023–24 capex estimate. For the reasons discussed in Attachment 2, we accept the actual 2022–23 capex and the updated 2023–24 capex estimates for this final decision. The 2023–24 capex estimate is lower than what we approved in our draft decision, reflecting more recent data. We will update the 2023–24 estimated capex for actuals at the next distribution determination for 2029–34.

Table 7.2 sets out our final decision on the roll forward of TasNetworks' TAB over the 2019–24 period.

Table 7.2 AER's final decision on TasNetworks' TAB roll forward for the 2019–24 period (\$million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24 ^a
Opening TAB	1,383.8	1,446.9	1,519.4	1,574.8	1,629.8
Capital expenditure ^b	132.1	152.1	146.5	154.9	165.1
Less: tax depreciation	69.0	79.6	91.1	99.9	103.7
Closing TAB	1,446.9	1,519.4	1,574.8	1,629.8	1,691.3

Source: AER analysis.

- (a) Based on estimated capex. We expect to update the TAB roll forward with actual capex at the next determination.
- (b) Net of disposals.

7.1.2 Forecast immediate expensing of capex

For this final decision, we confirm our acceptance of TasNetworks' revised proposal that it has no forecast of immediately expensed capex for the 2024–29 period.

TasNetworks did not propose any forecast capex to be immediately expensed for tax purposes in the 2024–29 period in its initial proposal. In the draft decision, we accepted this aspect of the proposal. We considered TasNetworks' proposal was consistent with its current approach and informed by the actual amount of capex immediately expensed historically.

We will continue to collect actual data relating to the immediate expensing of capex in our annual reporting regulatory information notices to further inform our decision for this type of expenditure in the next distribution determination for TasNetworks.

⁸ AER, *Draft decision, TasNetworks distribution determination 2024 to 2029, Attachment 7 – Corporate income tax*, September 2023, p. 10.

⁹ TasNetworks, *2024-29 Revised Regulatory Proposal*, 30 November 2023, p. 31.

7.1.3 Standard tax asset lives

Our final decision accepts TasNetworks' revised proposed standard tax asset lives for all of its asset classes because they are consistent with our draft decision.¹⁰ We confirm our position that the standard asset lives are broadly consistent with the values prescribed by the Commissioner of Taxation in the ATO Ruling 2022/1 and the *Income Tax Assessment Act 1997*.¹¹

Table 7.3 sets out our final decision on TasNetworks' standard tax asset lives as at 1 July 2024. We are satisfied that the standard tax asset lives are appropriate for application over the 2024–2029 period. We are also satisfied that the standard tax asset lives provide an estimate of the tax depreciation amount that would be consistent with the tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.¹²

Table 7.3 AER's final decision on TasNetworks' standard tax asset lives for the 2024–29 period (years)

Asset class	Standard asset life
Overhead subtransmission lines (urban)	44.5
Underground subtransmission lines (urban)	50.0
Urban zone substations	32.8
Rural zone substations	32.8
SCADA	32.8
Distribution switching stations (ground)	36.3
Overhead high voltage lines urban	34.9
Overhead high voltage lines rural	33.4
Voltage regulators on distribution feeders	45.5
Underground high voltage lines	31.4
Underground high voltage lines SWER	31.4
Distribution substations HV (pole)	37.6
Distribution substations HV (ground)	33.2
Distribution substations LV (pole)	36.6
Distribution substations LV (ground)	34.1

¹⁰ AER, *Draft decision, TasNetworks distribution determination 2024 to 2029, Attachment 7 – Corporate income tax*, September 2023, pp.13–15.

¹¹ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022; ITAA 1997, s 40.105.

¹² NER, cl. 6.5.3.

Overhead low voltage lines underbuilt urban	37.4
Overhead low voltage lines underbuilt rural	38.7
Overhead low voltage lines urban	35.3
Overhead low voltage lines rural	36.7
Underground low voltage lines	42.5
Underground low voltage common trench	43.1
HVST service connections	36.4
HV service connections	36.4
HV metering CA service connections	36.4
HV/LV service connections	36.4
Business LV service connections	36.3
Business LV metering CA service connections	36.4
Domestic LV service connections	36.4
Domestic LV metering CA service connections	36.4
Emergency network spares	n/a
Motor vehicles	9.2
Minor assets	5.2
Non-system property	34.5
Spare parts	n/a
NEM assets	3.0
Business management systems	5.0
Land	n/a
Easements	n/a
Composite poles	45.0
Buildings ^a	40.0
Equity raising costs ^a	5.0

Source: AER analysis.

n/a not applicable. We have not assigned a standard tax asset life to the 'Land' and 'Easements' asset classes because the capex allocated to them are not subject to depreciation. We also have not assigned a standard tax asset life to the 'Emergency network spares' and 'Spare parts' asset classes because there is no forecast capex allocated to these asset classes for the 2024–29 period.

(a) These are the only asset classes used for the straight-line method of tax depreciation for new capex. All new capex for other asset classes used the diminishing value method of tax depreciation.

7.2 Assessment approach

We did not change our assessment approach for the cost of corporate income tax from our draft decision. Attachment 7 (section 7.3) of our draft decision details that approach.¹³

¹³ AER, *Draft decision, TasNetworks distribution determination 2024 to 2029, Attachment 7 – Corporate income tax*, September 2023, pp. 3–9.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
ATO	Australian Taxation Office
capex	capital expenditure
ITAA	<i>Income Tax Assessment Act 1997</i>
NER	National Electricity Rules
PTRM	post-tax revenue model
RFM	roll forward model
TAB	tax asset base
