

Final Decision

TasNetworks

Electricity Transmission

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 7
Corporate income tax

April 2024

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List of attachments

This attachment forms part of the AER's final decision on the transmission 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 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 7 – Corporate income tax

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7 Corporate income tax

Our transmission 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 tax 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 \$16.9 million (\$ nominal) over the 2024–29 period. This is an increase of \$2.9 million (or 20.3%) from TasNetworks' revised proposed cost of corporate income tax of \$14.1 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 \$1,089.7 million (\$ nominal), which is slightly lower than TasNetworks' revised proposal of \$1,089.8 million (\$ nominal). This is because we increased the value of the assets TasNetworks proposed as a final year adjustment by \$0.1 million. TasNetworks' revised proposal removed these assets, which were no longer providing prescribed transmission services, from its closing TAB as at 30 June 2024 (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. 6A.5.4(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	9.5	6.2	7.0	7.5	9.1	39.4
Less: value of imputation credits	5.4	3.5	4.0	4.3	5.2	22.5
Net cost of corporate income tax	4.1	2.7	3.0	3.2	3.9	16.9

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 2019–20 actual capex values⁶ and 2018–24 asset disposal values.⁷
 - We corrected the inputs used to calculate the adjustment to the opening TAB as at 1 July 2019 to reflect the approved amounts set out in the 2014–19 final determination.⁸
 - 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.

TasNetworks’ revised proposal adopted the changes required by the draft decision in full. It also made some updates to its TAB roll forward.⁹

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 \$1,089.7 million (\$ nominal) for TasNetworks, which is slightly lower than its revised proposal of \$1,089.8 million (\$ nominal).¹⁰

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 2019–20 actual capex values¹¹

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

⁶ For as-commissioned capex only.

⁷ For both as-incurred and as-commissioned capex. But only the as-commissioned capex correction is relevant for the TAB roll forward.

⁸ This includes increasing the proposed 2018–19 forecast gross capex value on an as-commissioned basis by \$2.3 million.

TasNetworks transmission determination 2019–24, Roll forward model, April 2019.

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

¹⁰ TasNetworks, *2024–29 Revised Regulatory Proposal*, 30 November 2023, p. 30.

¹¹ For as-commissioned capex only.

and 2018–24 asset disposal values.¹² 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, including the commencement date of the tracking approach. We noted that the opening TAB may be updated as part of the final decision to reflect actual capex for 2022–23 and any revised capex estimate for 2023–24.¹³

TasNetworks' revised proposal adopted our draft decision changes.¹⁴ It 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. It also updated the final year asset adjustment by removing \$6.9 million of assets from the closing TAB at 30 June 2024 due to these assets no longer providing prescribed transmission services.

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 transmission determination for 2029–34.

We also accept TasNetworks' proposed final year asset adjustment for its closing TAB to remove the value of assets which are no longer providing prescribed transmission services (discussed in Attachment 2). However, we marginally increased the proposed adjustment amount of –\$6.9 million to –\$7.0 million following the correction for a minor calculation error.¹⁵ TasNetworks agreed with our calculation of the final year adjustment amount in its response to our information request.¹⁶

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	1,105.7	1,120.6	1,109.5	1,102.1	1,085.6
Capital expenditure ^b	58.1	37.4	43.3	33.6	62.1
Less: tax depreciation	43.2	48.5	50.7	50.2	51.0
Final year asset adjustment ^c	-	-	-	-	-7.0
Closing TAB	1,120.6	1,109.5	1,102.1	1,085.6	1,089.7

Source: AER analysis.

¹² For both as-incurred and as-commissioned capex. But only the as-commissioned capex correction is relevant for the TAB roll forward.

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

¹⁴ TasNetworks, *2024-29 Revised Regulatory Proposal*, 30 November 2023, p. 31.

¹⁵ The error is due to a minor difference between the TAB roll forward process set out in the RFM and the model used by TasNetworks to calculate the value these assets.

¹⁶ TasNetworks, *Response to AER information request IR#53*, 8 February 2024.

- (a) Based on estimated capex. We expect to update the TAB roll forward with actual capex at the next determination.
- (b) Net of disposals.
- (c) Reflects the value of assets no longer providing prescribed services.

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 transmission determination for TasNetworks.

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.¹⁷ We confirm our position that the standard asset lives are broadly consistent with the values prescribed by the Commissioner of Taxation in the Australian Taxation Office Ruling 2022/1 and the *Income Tax Assessment Act 1997*.¹⁸

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.¹⁹

¹⁷ AER, *Draft decision, TasNetworks transmission determination 2024 to 2029, Attachment 7 – Corporate income tax*, September 2023, pp. 13–15.

¹⁸ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022; ITAA 1997, s 40.105.

¹⁹ NER, cl. 6A.6.4.

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

Asset class	Standard tax asset life
Transmission line assets - long life (60)	60.0
Transmission line assets - medium life (45)	45.0
Transmission line assets - short life (10)	10.0
Substation assets - long life (60)	60.0
Substation assets - medium life (45)	45.0
Substation assets - short life (15)	15.0
Protection and control - short life (15)	15.0
Protection and control - short life (4)	4.0
Transmission operations - short life (10)	10.0
Transmission operations - short life (4)	4.0
Other - medium life (40)	40.0
Other - short life (9)	9.0
Other - short life (4)	4.0
Land and easements	n/a
Communication assets - long life (45)	45.0
Communication assets - medium life (10)	10.0
Communication assets - short life (5)	5.0
Buildings	40.0
Equity raising costs ^a	n/a

Source: AER analysis.

n/a not applicable. We have not assigned a standard tax asset life to the ‘Land and easements’ asset class because the assets allocated to it are not subject to depreciation.

(a) For this final decision, the forecast capex determined for TasNetworks does not meet a level to trigger any benchmark equity raising costs.

7.1 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.²⁰

²⁰ AER, *Draft decision, TasNetworks transmission 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	Income Tax Assessment Act 1997
NER	National Electricity Rules
PTRM	post-tax revenue model
RFM	roll forward model
TAB	tax asset base
WACC	weighted average cost of capital
