Draft Decision

Murraylink Transmission Determination 2023 to 2028

(1 July 2023 to 30 June 2028)

Attachment 7
Corporate income tax

September 2022

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's draft decision on Murraylink's 2023–28 transmission determination. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

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Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

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7 Corporate income tax

Our revenue determination includes the estimated cost of corporate income tax for Murraylink's 2023–28 regulatory control 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 amount allows Murraylink to recover the costs associated with the estimated corporate income tax payable during the 2023–28 period.

This attachment presents our assessment of Murraylink's proposed corporate income tax amount for the 2023–28 period. It also presents our assessment of its proposed opening tax asset base (TAB), and its proposed standard and remaining tax asset lives used to estimate tax depreciation for the purpose of calculating tax expenses.

7.1 Draft decision

Our draft decision determines an estimated cost of corporate income tax amount of $1.7 million ($ nominal) for Murraylink over the 2023–28 period. This decision represents an increase of $1.1 million (186.6%) from Murraylink's proposal of $0.6 million. The key reason for the increase is our draft decision on the rate of return on equity (Attachment 3) using updated market data.[2] This in turn increased ElectraNet's taxable revenue and therefore the cost of corporate income tax.

Our draft decision on the forecast tax amount for the 2023–28 period is significantly lower than that forecast for the 2018–23 period. This is primarily a result of implementing our findings from the *Review of the regulatory tax approach* (tax review),[3] which introduced the diminishing value method of tax depreciation, resulting in a significant increase in forecast tax depreciation.[4]

We accept Murraylink's proposed opening TAB value as at 1 July 2023 of $85.3 million. This is because we accept Murraylink's approach for establishing the opening TAB including its actual and estimated capital expenditure (capex) over the 2018–23 period.

We also accept Murraylink's proposed standard tax asset lives for all of its asset classes for the 2023–28 period. These proposed standard tax asset lives are broadly consistent with the tax asset lives prescribed by the Commissioner of Taxation in Australian Taxation Office (ATO) Taxation Ruling 2022/1 and/or consistent with the equivalent approved standard tax asset lives for the 2018–23 period.[5]

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1 NER, cl. 6A.5.4(a)(4)

2 All else being equal, a higher rate of return on equity will increase the cost of corporate income tax because it increases the return on equity component of taxable income.

3 AER, *Final report: Review of regulatory tax approach*, December 2018.

4 The 2018 tax review also introduced the immediate expensing of capex. However, this does not apply to Murraylink as it did not propose any immediate expensing of capex.

5 ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*. Murraylink proposed to rename a number of its existing asset classes for the 2023–28 period while keeping the same standard tax lives. Our draft decision is to accept the renamed asset classes for the 2023–28 period (see Attachment 4 for more information).

We further accept Murraylink's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2023. This method is a continuation of the approved approach used in the 2018–23 period and applies the approach as set out in our roll forward model (RFM).

Our adjustments to the return on capital (attachments 2, 3 and 5) and the regulatory depreciation (Attachment 4) building blocks affect revenues, which in turn impact the tax calculation. The changes affecting revenues are discussed in Attachment 1.

Table 7.1 sets out our draft decision on the estimated cost of corporate income tax for Murraylink over the 2023–28 period.

Table 7.1 AER's draft decision on Murraylink's cost of corporate income tax for the 2023–28 regulatory control period ($ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Tax payable	0.7	0.6	0.5	0.9	1.5	4.2
Less: value of imputation credits	0.4	0.4	0.3	0.5	0.9	2.4
Net corporate income tax allowance	**0.3**	**0.3**	**0.2**	**0.4**	**0.6**	**1.7**

Source: AER analysis.

7.2 Murraylink's proposal

Murraylink proposed an estimated cost of corporate income tax of $0.6 million ($ nominal) for the 2023–28 period using our PTRM,[6] and with the following inputs:[7]

- an opening TAB value as at 1 July 2023 of $85.3 million (nominal)
- an expected statutory income tax rate of 30 per cent per year
- a value of imputation credits (gamma) of 0.585
- remaining tax asset lives of assets in existence as at 30 June 2023 calculated using a weighted average remaining life approach as set out in our RFM
- the same standard tax asset lives for tax depreciation purposes of new assets for its existing asset classes in the 2023–28 period as approved for the 2018–23 transmission determination.

Table 7.2 sets out Murraylink's proposed cost of corporate income tax for the 2023–28 period.

6 Our published electricity PTRM uses the diminishing value tax depreciation approach for all new assets with the exception of in-house software, buildings (capital works) and equity raising costs. All assets acquired prior to 1 July 2023 will continue to be depreciated using the straight-line depreciation method for regulatory tax purposes, until these assets are fully depreciated. The PTRM also allows for the immediate expensing of certain capex for tax purposes.

7 Murraylink, *2023–28 Revenue proposal, Post-tax revenue model,* January 2022.

Table 7.2 Murraylink's proposed cost of corporate income tax for the 2023–28 regulatory control period ($ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Tax payable	0.2	0.1	0.0	0.3	0.8	1.5
Less: value of imputation credits	0.1	0.1	0.0	0.2	0.5	0.9
Net cost of corporate income tax	**0.1**	**0.1**	**0.0**	**0.1**	**0.3**	**0.6**

Source: Murraylink, *2023–28 Revenue proposal, Post-tax revenue model*, January 2022.

7.3 Assessment approach

We make an estimate of taxable income for each regulatory year as part of our determination of the annual building block revenue requirement for Murraylink's 2023–28 regulatory control period.[8] Our estimate is the taxable income that a benchmark efficient entity would earn for providing prescribed transmission services if it operated Murraylink's business and is determined in accordance with the PTRM. Our draft decision uses version 5.1 of the PTRM, which was published after Murraylink submitted its revenue proposal.[9] This new version of the PTRM applies the same regulatory tax approach as version 5 and makes a minor amendment to the expected inflation calculation (related to regulatory control periods greater than 5 years).[10]

In May 2018, we commenced a review of our regulatory tax approach (tax review). We released the final report of the tax review in December 2018, which identified some required changes to our approach to estimating tax depreciation expenses in our regulatory models (PTRM and RFM).[11] The changes to our regulatory tax approach require amending our models to:[12]

- recognise immediate tax expensing of some capex forecast for a regulatory control period
- adopt the diminishing value method for tax depreciation to all future capex except for a limited number of assets which must be depreciated using the straight-line depreciation method under the tax law.[13]

The above changes to the regulatory tax approach were implemented in version 4 of the PTRM.

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8 NER, cl. 6A.6.4.

9 AER, *Electricity transmission network service providers: Post-tax revenue model (version 5.1)*, May 2022.

10 Version 5 of the PTRM gives effect to the changes set out in the AER's final position paper on the treatment of inflation in its regulatory framework. See AER, *Final position, Regulatory treatment of inflation*, December 2020, pp. 6–8.

11 AER, *Final report, Review of regulatory tax approach*, December 2018, p. 76. The PTRM specifies the manner in which the estimated cost of corporate income tax is to be calculated. The RFM calculates the TNSP's tax asset base, which is an input to the PTRM for the calculation of the tax building block.

12 Capping of gas asset tax lives was also a finding from the final report, but does not require a model change.

13 We will continue to apply straight-line tax depreciation for assets acquired prior to 1 July 2023 for the 2023–28 regulatory control period and until they are fully depreciated.

Our tax review final report stated that the required changes to the tax depreciation approach would only apply to new assets created in future regulatory control periods.[14] The 2023–28 period is the first period for Murraylink after the release of the tax review final report. Therefore, only changes to the PTRM were required when adopting the new tax approach. As such, no immediate change to the TAB roll forward would be required until the subsequent regulatory control period.[15]

In April 2021, we published version 5 of the PTRM, which Murraylink used for its revenue proposal. This version of the PTRM applies the same regulatory tax approach as version 4 but implements the changes set out in the AER's final position paper on the treatment of inflation in its regulatory framework.[16] In May 2022, a new version of the PTRM (version 5.1) was published which amended the expected inflation formula related to regulatory control periods greater than 5 years. Accordingly, our draft decision uses version 5.1 of the PTRM to forecast Murraylink's cost of corporate income tax over the 2023–28 period.[17]

7.3.1 Calculating estimate cost of corporate income tax in the PTRM

Our approach for calculating a transmission network service provider's (TNSP's) estimated cost of corporate income tax is set out in our PTRM[18] and involves the following steps:[19]

1. We estimate the annual assessable income (taxable revenue) that would be earned by a benchmark efficient entity operating the TNSP's business. This is the approved forecast revenues for the transmission business that we determined using the building block approach.[20]
2. We then estimate the benchmark tax expenses such as operating expenditure (opex), interest expense, tax depreciation in the following ways:
    - operating expense is set equal to the opex building block[21]
    - interest expense is a function of the size of the RAB, the benchmark gearing assumption (60%) and the regulated cost of debt

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14 AER, *Final report, Review of regulatory tax approach*, December 2018, p. 73.
AER, *Explanatory statement, Electricity transmission and distribution network service providers, Proposed amendments to the roll forward models (Distribution – version 3) (Transmission – version 4), Appendix A*, April 2020.

15 In this case, the diminishing value method and the immediate expensing of certain capex did not apply for Murraylink's TAB roll forward for the 2018–23 regulatory control period. The changes to the regulatory tax approach under version 4 of the RFM will apply in the subsequent reset to roll forward the TAB for Murraylink during the 2023–28 regulatory control period.

16 The changes to the regulatory treatment of inflation does not have a direct impact on the cost of corporate income tax. See AER, *Final position, Regulatory treatment of inflation*, December 2020, pp. 6–8.

17 AER, *Electricity transmission network service providers: Post-tax revenue model (version 5.1)*, May 2022.

18 Ibid.

19 The PTRM must specify the manner in which the estimated cost of corporate income tax is to be calculated: NER, cl. 6A.5.3(b)(4).

20 The total revenue for tax purposes is the sum of the building blocks including return on capital, return of capital, operating expenditure and cost of corporate taxation. It may also include other revenue adjustments, but the assessment of whether they should give rise to a tax cost will occur on a case-by-case basis.

21 Our assessment approach for the opex building block is discussed in Attachment 6 of the draft decision.

- tax depreciation expense is calculated using a separate value for the TAB, and standard and/or remaining tax asset lives for taxation purposes. Previously, the PTRM applied the straight-line method for calculating tax depreciation for all assets. Consistent with the findings of the tax review, the PTRM (version 5.1) applies the straight-line tax depreciation method for existing assets and the diminishing value tax depreciation method[22] for all assets acquired after 30 June 2023 except for in-house software, buildings and equity raising costs. The expenditure for these assets are to be depreciated using the straight-line method under the tax law. The PTRM also accounts for the value of certain forecast capex to be immediately expensed when estimating the benchmark tax expense. The value of immediately expensed capex is deducted from the net capex being depreciated for tax purposes for the year in which it is forecast to be commissioned.[23] The immediately expensed amount is then included in the total tax depreciation amount for the relevant year.

There may be other revenue adjustments, but the assessment of whether they should give rise to a tax cost occurs on a case-by-case basis.

3. We estimate the annual taxable income that would be earned by a benchmark efficient entity operating the TNSP's business by subtracting the benchmark estimates of tax expenses (step 2) from the approved forecast revenues for the transmission business (step 1).
4. We apply the statutory income tax rate to the estimated annual taxable income (after adjustment for any tax loss carried forward) to arrive at a notional amount of tax payable.
5. We deduct the expected value for the utilisation of imputation credits (gamma) by investors from the notional amount of tax payable. The tax payable net of the expected value of imputation credits represents the cost of corporate income tax and is included as a separate building block in determining the TNSP's annual building block revenue requirement.

7.3.2 Assessing tax inputs to the PTRM

The estimated cost of corporate income tax is an output of our PTRM. We therefore assess the TNSP's proposed cost of corporate tax by analysing the proposed inputs to the PTRM for calculating that cost. While our assessment approach for most of the tax inputs remain largely the same for the current 2018–23 regulatory control period, our amended PTRM (version 5.1) requires two new sets of inputs for the calculation of tax depreciation—the forecast immediate expensing of certain capex and the assets to be exempted from the diminishing value method of tax depreciation.

Our assessment approach for each of the tax inputs required in the PTRM, including the two new inputs are discussed below:

- **the opening TAB as at the commencement of the 2023–28 regulatory control period:** We consider that the roll forward of the opening TAB should be based on the

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22 For more explanation of how we calculate depreciation using the diminishing value method, please see: AER, *Transmission PTRM handbook*, April 2019, pp. 22–23.

23 That is, the net capex to be added to the TAB for tax depreciation purposes is the amount of gross capex, less disposals, less the immediately deductible capex.

approved opening TAB as at 1 July 2018 and Murraylink's actual capex incurred during the 2018–23 period, and the final year (2017–18) of the previous regulatory control period.[24] As noted above, we do not adjust the TAB value for immediate expensing of past capex in the roll forward process over the 2018–23 period. This is consistent with our final report for the tax review and our 2018–23 transmission determination which applied straight-line tax depreciation to capex commissioned during that period as prescribed in the PTRM.

The roll forward of the opening TAB for 2018–23 is calculated in our RFM. The tax review final report set out that the required changes to the tax depreciation approach would apply to new assets only. As such, the approach for determining the opening TAB value remains the same as the previous determination for the purposes of this draft decision. We have published the amended RFM (version 4) implementing the findings of the tax review.[25] We expect that the approach set out in this version of the RFM will be used for the purposes of the TAB roll forward for 2023–28 at the next reset.[26]

The opening TAB value at 1 July 2023 is used to estimate forecast tax depreciation for the 2023–28 period, including new assets to be added to the TAB over this period. We will continue to apply the straight-line method of tax depreciation for the opening TAB value. However, for all new assets forecast to be added to the TAB in the 2023–28 period (with some exceptions discussed further below), we will apply the diminishing value method of tax depreciation.

- **the standard tax asset life for each asset class:** Our assessment of a TNSP's proposed standard tax asset lives is generally guided by the effective life of depreciating assets determined by the Commissioner of Taxation. We consider that the standard tax asset lives for the majority of Murraylink's asset classes should be consistent with the ATO Taxation Ruling 2022/1 regarding the effective life of depreciating assets where possible.[27]

  As discussed above, the PTRM applies the diminishing value tax depreciation method for all new assets except for in-house software, buildings and equity raising costs. It provides designated asset classes for these assets to be depreciated using the straight-line method for tax purposes.[28] We note that the tax effective lives for in-house software, buildings and equity raising costs are not covered under the ATO Taxation Ruling 2022/1. Therefore, our assessment of the standard tax asset lives for these asset classes are guided by the *Income Tax Assessment Act 1997* (ITAA). Specifically, we consider that the standard tax asset life should be:

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24 The tax depreciation is therefore recalculated based on actual capex. The same tax depreciation approach of using actual capex applies to the roll forward of the TAB at the next reset.

25 See https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/electricity-roll-forward-models-transmission-and-distribution-2020-amendment/final-decision.

26 We have subsequently updated version 4 of the RFM to version 4.1, which corrected default adjustments for capitalised provision in the 'Inputs working' sheet and minor formula errors in the 'TAB roll forward' and 'Remaining lives' sheets.

27 ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*.

28 Our assessment approach on new assets to be exempted from the diminishing value method is discussed in detail below.

  - 40 years for buildings – This is consistent with the number of years required to completely depreciate a capital works asset such as buildings for tax purposes when applying sections 43.15, 43.140 and 43.210 of the ITAA.
  - 5 years for in-house software – This is consistent with subsection 40.95(7) of the ITAA.
  - 5 years for equity raising costs – This is consistent with section 40.880 of the ITAA.

- **the income tax rate:** The statutory income tax rate is 30 per cent per year, which was adopted in Murraylink's proposal.
- **the value of gamma:** The gamma input for Murraylink is 0.585 for this draft decision. This is consistent with the 2018 *Rate of Return Instrument*, which requires us to use a gamma value of 0.585, and adopted in Murraylink's proposal.[29] Refer to Attachment 3 for further discussion on this matter.
- **the size and treatment of any tax losses as at 1 July 2023:** Where a business has tax losses, we require the provision of this value to determine the appropriate estimated taxable income for a regulatory control period. If there is an amount of tax losses accumulated, the forecast taxable income for the regulatory control period will be reduced by this amount. Murraylink does not have any accumulated tax losses as at the start of the 2023–28 regulatory control period, which is consistent with our final determination for the 2018–23 period.[30]
- **forecast immediate expensing of capex:** The PTRM requires a forecast for immediately deductible capex to be provided for each regulatory year of the 2023–28 period. Our assessment of forecast immediate expensing of capex will be guided by the TNSP's actual immediate expensing of capex from the previous regulatory control period.[31] We will collect actual data relating to this expenditure in our annual regulatory accounts to further inform our decision on the amount of forecast immediate expensing of capex in future regulatory determinations. Benchmarking may also be considered going forward.[32]
- **diminishing value multiplier:** The PTRM applies the diminishing value method of tax depreciation and provides an input section for the 'diminishing value multiplier' to be recorded for each year of the regulatory control period. We note that currently the diminishing value multiplier is set at 200% by the ATO.
- **new assets to be exempted from the diminishing value method:** The PTRM applies the diminishing value method for tax depreciation purposes to all new depreciable assets except for certain assets. It provides for asset classes 47 to 50 to be depreciated using the straight-line method for tax purposes rather than the diminishing value method.

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29 AER, *Rate of Return Instrument*, December 2018, p. 19.

30 Murraylink, *2023–28 Revenue proposal, Post-tax revenue model*, January 2022.

31 In the tax review final report we labelled our approach to determining the amount of capex that is to be immediately expensed as an 'actuals informed approach'. AER, *Final report, Review of regulatory tax approach*, December 2018, p. 66.

32 AER, *Final report, Review of regulatory tax approach*, December 2018, pp. 66–67.

These asset classes are to contain new assets associated with in-house software, buildings (capital works) and equity raising costs.

We consider that the benchmark cost for equity raising costs should not be depreciated using the diminishing value method. We note that section 40.880 of the ITAA and the ATO's Taxation Ruling 2011/6[33] require that businesses claim deductions on equity raising costs in equal proportions over a five-year period. Therefore, in the PTRM, we apply the straight-line method for calculating the tax depreciation for equity raising costs, consistent with the ITAA and ATO's requirements.[34] Further, the TNSP may propose capex associated with buildings and in-house software to be exempted from the diminishing value method of tax depreciation in the PTRM if the proposal satisfies the following requirements:

- **buildings**: We consider that capex for buildings may be exempted from the diminishing value method in the PTRM, consistent with sections 43.15, 43.140 and 43.210 of the ITAA. However, such capex must be consistent with the definition of a capital work under section 43.20 of the ITAA and in ATO Taxation Ruling 97/25.[35] We note that this includes new buildings and structural improvements to existing buildings.[36] However, capex on separate assets within a building such as air-conditioning units, transformers and converters are not consistent with the definition of a capital work, and therefore required to be depreciated using the diminishing value method in the PTRM.
- **in-house software**: We consider that capex for in-house software may be exempted from the diminishing value method in the PTRM, consistent with section 40.72 of the ITAA. However, such capex must be consistent with the definition of in-house software under section 995.1 of the ITAA and in ATO Taxation Ruling 2016/3.[37] We note that this includes computer software, or the right to use computer software that the TNSP acquires, develops or has someone else develop for the TNSP's business use.[38] However, capex associated with other IT assets such as computer hardware is not consistent with the definition of in-house software, and therefore required to be depreciated using the diminishing value method in the PTRM.

7.3.3 Interrelationships

The cost of corporate income tax building block feeds directly into the annual building block revenue requirement. This cost is determined by five factors:

- pre-tax revenues
- tax expenses (including tax depreciation)
- the corporate tax rate

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33 ATO, *Taxation Ruling 2011/6*, July 2016.

34 The benchmark cost for equity raising costs is determined within the PTRM.

35 ATO, *Taxation Ruling 97/25*, July 2017.

36 ITAA, section 43.20.

37 ATO, *Taxation Ruling 2016/3*, October 2018.

38 ITAA, section 995.1.

- any tax losses carried forward
- gamma—the expected proportion of company tax that is returned to investors through the utilisation of imputation credits—which is offset against the cost of corporate income tax.

Of these factors, the corporate tax rate is set externally by the Government. The higher the tax rate the higher the required cost of corporate income tax.

The pre-tax revenues depend on all the building block components. Any factor that affects revenue will therefore affect pre-tax revenues. Higher pre-tax revenues can increase the tax payable.[39] Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.[40]

The tax expenses (or deductions) depend on various building block components and their size. Some components give rise to tax expenses, such as opex, interest payments and tax depreciation of assets. However, others do not, such as increases in return on equity. Higher tax expenses offset revenues as deductions in the tax calculation and therefore reduce the cost of corporate income tax (all things being equal). Tax expenses include:

- Interest on debt – because interest is a tax offset. The size of this offset depends on the ratio of debt to equity and therefore the proportion of the RAB funded through debt. It also depends on the allowed return on debt and the size of the RAB.
- General expenses – these expenses generally will match the opex including any revenue adjustments, but the assessment of whether they should be treated as a tax expense occurs on a case-by-case basis.
- Tax depreciation – a separate TAB is maintained for the TNSP reflecting tax rules. This TAB is affected by many of the same factors as the RAB, such as capex, although unlike the RAB value it is maintained at its historical cost with no indexation. The TAB is also affected by the depreciation rate/method and asset lives assigned for tax depreciation purposes.

A business that has tax expenses which are greater than its taxable revenue in a period would not be subject to pay tax and generate a tax loss. A tax loss can be carried forward to offset against tax payable in the future.

7.4 Reasons for draft decision

Our draft decision on the estimated cost of corporate income tax is $1.7 million ($ nominal) over the 2023–28 period. This represents an increase of $1.1 million from Murraylink's proposal of $0.6 million. The key components of our tax treatment are discussed in the following sections.

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39 In fact, there is an iterative relationship between tax and revenues. That is, revenues lead to tax, being applied, which increases revenues and leads to slightly more tax and so on. The PTRM is therefore set up to run an iterative process until the revenue and the cost of corporate income tax become stable.

40 For example, although increased opex adds to the revenue requirement, these expenses are also offset against the revenues as deductions in determining tax, so there is no net impact in this case. A higher return on equity, in contrast, gives rise to no offsetting tax expenses and therefore increases the cost of corporate income tax in proportion to the company tax rate.

7.4.1 Implementation of the tax review

The amended PTRM (version 5.1) provides for two new inputs which affect the calculation of tax depreciation compared to the current 2018–23 period:

- **immediate expensing of capex –** we allow for certain capex to be immediately expensed when estimating the benchmark tax expense
- **diminishing value depreciation method –** we apply the diminishing value method for tax depreciation purposes to all new depreciable assets except for capex associated with in-house software, buildings and equity raising costs.[41]

Our assessment of the new tax inputs submitted by Murraylink are discussed below.

7.4.1.1 Forecast immediate expensing of capex

Murraylink did not propose any forecast capex to be immediately expensed for tax purposes in the 2023–28 period.[42] Murraylink submitted that its forecast capex does not contain any projects that can be immediately expensed for tax purposes.[43] This is consistent with Murraylink's current practice as it has reported no actual immediately expensed capex over the 2018–23 period.

For this draft decision, we accept Murraylink's proposal that it has no forecast immediate expensing of capex for the 2023–28 period. We will collect actual data relating to this expenditure in our annual reporting regulatory information notices to further inform our decision on the amount of forecast immediate expensing of capex in the next determination for Murraylink.

7.4.1.2 Assets exempt from the diminishing value method

The PTRM (version 5.1) applies the straight-line tax depreciation method to the opening TAB at 1 July 2023, but applies the diminishing value method as the regulatory benchmark for tax depreciation to all new capex.[44] However, as discussed above, there are some exceptions to this approach under the tax law such as assets relating to in-house software, buildings (capital works) and equity raising costs.[45] In the PTRM, the benchmark equity raising cost is determined within the model and depreciated using the straight-line tax depreciation method as default.

Murraylink has not proposed any forecast capex that are to be depreciated using the straight-line method for tax depreciation purposes. As a result, all of Murraylink's forecast assets acquired after 30 June 2023 are subject to the diminishing value method of tax depreciation.[46] We accept Murraylink's proposal and have not allocated any forecast capex

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41 The buildings asset class is for capital works.

42 Murraylink, *2023–28 Revenue proposal, Post-tax revenue model*, January 2022.

43 Murraylink, *2023–28 Revenue proposal, Attachment 22 – Table of Regulatory Information Notice responses*, January 2022, p. 10.

44 AER, *Final report, Review of regulatory tax approach*, December 2018, p. 76.

45 Asset classes 47, 48, 49 and 50 in the PTRM provide for this.

46 Murraylink, *2023–28 Revenue proposal, Attachment 22 – Table of Regulatory Information Notice responses*, January 2022, p. 10

to be depreciated under the straight-line method for tax depreciation over the 2023–28 period.

7.4.2 Opening tax asset base as at 1 July 2023

We accept Murraylink's proposed opening TAB value as at 1 July 2023 of $85.3million ($ nominal), since we accept Murraylink's proposed method to establish the opening TAB as at 1 July 2023. This is because Murraylink's proposed approach is based on our RFM and consistent with that previously approved for the 2018–23 period.

We have reviewed the inputs to the TAB roll forward and found that they were correct and reconcile with relevant data sources such as annual regulatory accounts and the 2018–23 decision models. We note that the opening TAB as at 1 July 2023 may be updated to reflect actual 2021–22 capex and any revised 2022–23 capex estimates as part of the final decision.

Table 7.3 sets out our draft decision on the roll forward of Murraylink's TAB values over the 2018–23 period.

Table 7.3 AER's draft decision on Murraylink's TAB roll forward for the 2018–23 regulatory control period ($ million, nominal)

	2018–19	2019–20	2020–21	2021–22[a]	2022–23[a]
Opening TAB	86.1	91.5	92.6	92.2	88.2
Capital expenditure[b]	10.3	6.8	5.7	2.5	3.6
Less: tax depreciation	4.8	5.6	6.1	6.5	6.5
Closing TAB	**91.5**	**92.6**	**92.2**	**88.2**	**85.3**

Source: AER analysis.

(a) Based on estimated capex.

(b) As commissioned, net of disposals.

7.4.3 Standard tax asset lives

We accept Murraylink's proposed standard tax asset lives for its existing asset classes because they are:

- consistent with the values prescribed by the Commissioner of Taxation in ATO Taxation Ruling 2022/1[47]
- the same as the approved standard tax asset lives for the equivalent asset class in the 2018–23 period.

Murraylink has proposed to rename a number of its existing asset classes from those approved in the 2018–23 determination.[48] As discussed in Attachment 4, our draft decision is to accept the renaming of these asset classes as it largely reflects the nature of the assets being added to each asset class. Forecast tax depreciation over the 2023–28 period is not

[47] ATO, *Taxation Ruling TR20221/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*.

[48] Murraylink, *2023–28 Revenue proposal, Transmission determination – overview*, January 2022, pp. 30–31.

affected as Murraylink has not proposed to modify the standard tax asset lives of the relevant asset classes.

Table 7.4 sets out our draft decision on the standard tax asset lives for Murraylink. We are satisfied that the standard tax asset lives are appropriate for application over the 2023–28 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.[49]

7.4.4 Remaining tax asset lives

We accept Murraylink's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2023 for its existing asset classes. The proposed method is a continuation of the approved approach used in the 2018–23 period and applies the approach as set out in our RFM.

Murraylink's proposed RFM did not include inputs for 2013–18 actual capex in the 'TAB remaining lives' sheet to calculate the remaining tax asset lives as at 1 July 2023 under the weighted average method. Our draft decision approach therefore is to add the inputs to calculate the remaining tax asset lives as at 1 July 2023. This is consistent with the approach determined in our RFM handbook for electricity transmission businesses. As a result, there are small changes (increases and reductions) in the proposed remaining tax asset lives.

We will update the remaining tax asset lives for the final decision for any changes to the estimated capex values in the RFM because they are used as inputs for calculating the remaining tax asset lives.[50]

Table 7.4 sets out our draft decision on the remaining tax asset lives at 1 July 2023 for Murraylink. We are satisfied that the remaining tax asset lives are appropriate for application over the 2023–28 period. We are also satisfied that the remaining 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.[51]

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49 NER, cl. 6A.6.4.

50 At the time of this draft decision, the roll forward of Murraylink's TAB includes estimated capex values for 2021–22 and 2022–23. We will update the 2021–22 estimated capex value with the actual value for the final decision, and may further update the estimate of 2022–23 capex. The capex values are used to calculate the weighted average remaining tax asset lives in the RFM. Therefore, for the final decision we will recalculate Murraylink's remaining tax asset lives as at 1 July 2023 using the method approved in this draft decision.

51 NER, cl. 6A.6.4.

Table 7.4 AER's draft decision on Murraylink's standard and remaining tax asset lives for the 2023–28 regulatory control period (years)

Asset class	Standard tax asset life[a]	Remaining tax asset life as at 1 July 2023
Switchyard	40.0	23.1
Transmission cable	40.0	20.4
Easements	n/a	n/a
Control systems	15.0	11.6
Ancillary asset - 30 Years	30.0	24.0
Ancillary asset - 7 Years	7.0	5.0
Other operating assets	5.0	4.0
Non ancillary asset	3.0	0.0

Source: AER analysis.

(a) All new assets use the diminishing value method of tax depreciation.

n/a not applicable. We have not assigned a standard tax asset life to the 'Easements' asset class because these assets are not subject to depreciation

Glossary

Term	Definition
AER	Australian Energy Regulator
ATO	Australian Taxation Office
Capex	Capital expenditure
ITAA	Income Tax Assessment Act 1997
NER	National Electricity Rules
Opex	Operating expenditure
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RFM	Roll forward model
TAB	Tax asset base
TNSP	Transmission network service provider