REVENUE PROPOSAL 2019 - 2023

Attachment 8

Corporate Income Tax

28 March 2017

ElectraNet

Company Information

ElectraNet Pty Ltd (ElectraNet) is the principal electricity transmission network service provider (TNSP) in South Australia.

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Note

This attachment forms part of our Revenue Proposal for the 2018-19 to 2022-23 regulatory control period. It should be read in conjunction with the other parts of the Revenue Proposal.

Our Revenue Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 15:

Revenue Proposal Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax (this document)

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

Attachment 14 – Negotiated services

Attachment 15 – List of supporting documents

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8. Corporate Income Tax

8.1 Key points

- Our proposed allowance for corporate tax has been calculated in accordance with the methodology set out in the Rules.
- Inputs relating to tax asset values and tax depreciation used to calculate the corporate tax allowance are consistent with the tax law and the AER's determination for our current regulatory period.
- We have applied a gamma value of 0.25 as detailed in Attachment 4 of this Revenue Proposal.

8.2 Introduction

This attachment presents information on our proposed allowance for corporate tax for the forthcoming regulatory period. The information and calculations presented in this attachment accord with the requirements of the Rules.

The remainder of this attachment is structured as follows:

- Section 8.3 describes the methodology for determining the corporate tax allowance.
- Section 8.4 provides information on the inputs to the calculation of the allowance.
- Section 8.5 sets out our corporate tax allowance for the forthcoming regulatory period.

8.3 Methodology

As part of the building blocks approach, a separate allowance must be made in the revenue cap for corporate income tax, net of the value ascribed to dividend imputation credits. Clause 6A.6.4 of the Rules sets out the methodology for calculating the allowance for corporate income tax in accordance with the following formula:

$$\mathbf{ETC_t} = (\mathbf{ETI_t} \times \mathbf{r_t})\,(1 - \boldsymbol{\gamma})$$

where:

- ETI_t is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of prescribed transmission services if such an entity, rather than the Transmission Network Service Provider, operated the business of the Transmission Network Service Provider, such estimate being determined in accordance with the post-tax revenue model;
- r_t is the expected statutory income tax rate for that regulatory year as determined by the AER; and
- γ is the assumed utilisation of imputation credits.

8.4 Inputs to the calculation of the tax allowance

We have determined the inputs to the calculation of the corporate income tax allowance as follows:

- The opening tax asset base (TAB) as at 1 July 2018 is based on the AER approved opening TAB as at commencement of the current regulatory period and our actual capital expenditure incurred during that period and the final year (2012–13) of the previous regulatory control period.
- We applied standard tax asset lives for each asset class, where necessary, in accordance with those prescribed by the Commissioner for Taxation in tax ruling 2015/2, and the approved standard tax asset lives in the AER's transmission determination for the current regulatory period.
- We used the roll forward model (RFM) to determine the remaining tax asset lives using the weighted average method.
- We calculated tax depreciation in accordance with tax law on a straight-line basis.
- The statutory income tax rate of 30% per year was applied.
- A gamma value of 0.25 was applied. Attachment 4 sets out detailed information on gamma.

Table 8.1 shows the forecast tax depreciation schedule for the forthcoming regulatory period, which has been used to calculate our corporate tax allowance.

Table 8.1: Forecast tax depreciation schedule ($m nominal)

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Straight-line tax depreciation	96.1	109.5	112.6	115.9	118.2	**552.2**

8.5 Corporate tax allowance

Based on the inputs described in Section 8.4, our proposed net tax allowance for the forthcoming regulatory period is set out in Table 8.2 below.

Table 8.2: Tax allowance ($m nominal)

Tax Allowance	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Tax payable	15.9	20.1	22.0	23.4	24.3	**105.7**
Less value of imputation credits	(4.0)	(5.0)	(5.5)	(5.8)	(6.1)	**(26.4)**
Net tax allowance	**11.9**	**15.1**	**16.5**	**17.5**	**18.2**	**79.3**

This tax allowance has been calculated using the AER's Post Tax Revenue Model (PTRM) and the tax depreciation allowance summarised in Section 8.4.

For the forthcoming regulatory period, we currently expect to capitalise the same expenditure for regulatory accounting purposes and for tax accounting purposes. Our standard asset lives for regulatory depreciation purposes are detailed in Attachment 5, while our standard lives for tax purposes are detailed in the PTRM accompanying this Revenue Proposal.

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