Attachment 9: Corporate income tax

Regulatory proposal for the ACT electricity distribution network 2019–24
January 2018

evoenergy

Table of contents

List of tables

Key points

Evoenergy has estimated total tax expenses using the AER's roll-forward model and post-tax revenue model. In accordance with the National Electricity Rules (Rules), total tax expenses are reduced by the value of imputation credits. Evoenergy has adopted the Australian Energy Regulator's (AER's) preferred value of 0.4 for estimating imputation credits. The resulting net tax expenses, which are included in the calculation of Evoenergy's annual revenue requirement, are presented in the table below.

Net tax expenses, $ million nominal

	2019/20	2020/21	2021/22	2022/23	2023/24
Distribution net tax expenses	5.97	6.33	6.66	7.18	7.42
Transmission net tax expenses	0.92	0.97	1.03	1.13	1.19
Total net tax expenses	6.90	7.30	7.69	8.31	8.61

9.1. Introduction

In a post-tax framework, net tax expenses are included as one of the building blocks that make up Evoenergy's annual revenue requirement. To calculate tax expenses, a tax asset base (TAB) must be calculated. This is similar to the calculation of the regulatory asset base (RAB) with some exceptions. The TAB is used together with other inputs to calculate total tax expenses. Net tax expenses are calculated by reducing total tax expenses by the value of imputation credits.

This attachment sets out Evoenergy's approach to calculating the TAB, total tax expenses and net tax expenses.

9.2. Tax asset base

The TAB is calculated using the AER's roll-forward model (RFM) and post-tax revenue model (PTRM). The RFM is used to calculate the opening TAB for the first year of the 2019–24 regulatory control period, 2019–20. The PTRM is used to calculate the TAB for each year of the 2019–24 regulatory control period. Consistent with the approach used for the RAB (see Attachment 7 Regulatory asset base), two TAB's are calculated—one for distribution and one for transmission.

9.2.1 Opening TAB for 2019/20

Evoenergy has used the most recently available version of the AER's RFM (version 2, December 2016) to calculate the opening TAB for 2019/20. The TAB is rolled forward using the same methodology as the RAB with the following exceptions:

- the opening tax values and tax asset lives (standard and remaining) are input to the RFM;
- actual tax depreciation is used rather than forecast depreciation;
- customer contributions are not deducted from the TAB;[1] and
- the TAB is not indexed for inflation.

The opening tax values and tax assets lives used in the RFM are taken from the AER's 2015 Final Decision PTRMs. Actual tax depreciation is calculated using the straight-line methodology as contained in the RFM.

The resulting TAB roll-forward is set out in Table 9.1 for distribution and Table 9.2 for transmission.

Table 9.1   Distribution tax asset base 2014/15 – 2019/20

$ million nominal	2014/15	2015/16	2016/17	2017/18	2018/19
Opening tax asset values	608.61	644.55	667.79	684.27	714.32
Actual net capex	67.33	58.10	53.84	66.06	58.24
Actual tax depreciation	-31.39	-34.86	-37.35	-36.02	-38.14
Closing tax asset values	**644.55**	**667.79**	**684.27**	**714.32**	**734.42**

Table 9.2   Transmission tax asset base 2014/15 – 2019/20

$ million nominal	2014/15	2015/16	2016/17	2017/18	2018/19
Opening tax asset values	137.07	143.08	146.38	148.31	149.17
Actual net capex	11.78	9.80	8.94	7.80	14.06
Actual tax depreciation	-5.78	-6.50	-7.01	-6.94	-7.35
Closing tax asset values	**143.08**	**146.38**	**148.31**	**149.17**	**155.88**

9.2.2 TAB for 2019–24

Evoenergy has used the latest available version of the AER's PTRM (Version 3, January 2015) to calculate the TAB for each year of the 2019–24 regulatory period. The tax inputs for the PTRM come from the output of the RFM and therefore incorporate the AER's methodology for calculating weighted average remaining tax lives. Tax depreciation is calculated using the straight-line methodology contained in the PTRM.

The PTRM calculates the TAB in each year of the regulatory control period by starting with the opening value of the TAB for 2019/20 from the RFM, adding net capital expenditure (capex) and deducting tax depreciation.

---

[1] Capex recognised for tax purposes is net of disposals but includes the value of customer contributions. See AER 2015: 19.

The resulting TAB for each year of the 2019–24 regulatory control period is presented in Table 9.3 for distribution and Table 9.4 for transmission.

Table 9.3 **Distribution tax asset base 2019/20 – 2023/24**

$ million nominal	2019/20	2020/21	2021/22	2022/23	2023/24
Opening TAB	734.42	759.77	790.27	820.17	847.14
Net capex	64.54	72.04	74.21	74.27	69.20
Tax depreciation	-39.18	-41.54	-44.32	-47.30	-50.23
Closing TAB	**759.77**	**790.27**	**820.17**	**847.14**	**866.11**

Table 9.4 **Transmission tax asset base 2019/20 – 2023/24**

$ million nominal	2019/20	2020/21	2021/22	2022/23	2023/24
Opening TAB	155.88	154.44	150.20	156.86	153.80
Net capex	6.23	3.76	15.02	5.94	7.06
Tax depreciation	-7.67	-8.01	-8.36	-8.99	-9.41
Closing TAB	**154.44**	**150.20**	**156.86**	**153.80**	**151.45**

9.3. Total tax expenses

Total tax expenses are calculated as taxable income multiplied by the corporate tax rate of 30 per cent. Taxable income is calculated as the revenue for tax assessment purposes less total tax expenses.[2]

Revenue for tax assessment purposes is comprised of:

- the return on capital (see Attachment 7 and Attachment 8 Rate of return, imputation credit and forecast inflation); plus

- the return of capital (see Attachment 7); plus

- operating expenditure (see Attachment 6 Operating expenditure); plus

- tax payable, which is an intermediate tax value calculated as the revenue for tax assessment purposes excluding tax payable and the value of imputation credits multiplied by the corporate tax rate adjusted for gamma (see Attachment 8); less

- the value of imputation credits which is calculated as tax payable multiplied by gamma (see Attachment 8 for Evoenergy's approach to estimating gamma); plus

- additional income (customer contributions plus revenue adjustments included as tax income) (See attachment 12 Annual revenue requirement, for a discussion of revenue adjustments).

Total tax expenses are comprised of:

- operating expenditure (see Attachment 6); plus

---

[2] An adjustment is also made for tax losses carried forward which are tracked in the PTRM.

- tax depreciation (taken from the TAB calculation discussed above); plus

- interest calculated as the return on debt multiplied by the opening RAB multiplied by the gearing ratio (see Attachment 8 for Evoenergy's approach to the return on debt and gearing and Attachment 7 for Evoenergy's calculation of the RAB); plus

- revenue adjustments which is the value of revenue adjustments (discussed in Attachment 12) treated as tax expenses.

Based on the above calculation, the resulting total tax expenses for each year of the regulatory control period are presented in Table 9.5 for distribution and Table 9.6 for transmission.

Table 9.5   Distribution total tax expenses 2019/20 – 2023/24

$ million nominal	2019/20	2020/21	2021/22	2022/23	2023/24
A: Revenue for tax assessment purposes					
Return on capital	50.80	52.34	54.14	55.86	57.29
Return of capital	35.06	38.06	41.25	45.43	48.86
Operating expenditure	52.89	55.30	57.92	60.57	63.20
Tax payable	9.96	10.55	11.10	11.97	12.36
Imputation credits	-3.98	-4.22	-4.44	-4.79	-4.94
Revenue adjustments included as tax income	7.28	7.53	7.76	8.13	8.01
Total	152.00	159.56	167.73	177.17	184.78
B: Total tax expenses					
Operating expenditure	52.89	55.30	57.92	60.57	63.20
Tax depreciation	39.18	41.54	44.32	47.30	50.23
Interest	26.43	27.23	28.16	29.06	29.80
Revenue adjustments treated as tax expenses	0.32	0.32	0.33	0.34	0.35
Total	118.82	124.39	130.73	137.27	143.58
C: Tax losses carried forward	0.00	0.00	0.00	0.00	0.00
D: Taxable income (A-B-C)	33.19	35.17	37.00	39.91	41.20
E: Total tax expense (D * 30%)	**9.96**	**10.55**	**11.10**	**11.97**	**12.36**

Table 9.6   **Transmission total tax expenses 2019/20 – 2023/24**

$ million nominal	2019/20	2020/21	2021/22	2022/23	2023/24
A: Revenue for tax assessment purposes					
Return on capital	11.19	11.18	10.97	11.45	11.29
Return of capital	6.40	7.05	7.75	8.62	9.39
Operating expenditure	8.37	8.76	9.18	9.62	10.05
Tax payable	1.54	1.62	1.71	1.89	1.98
Imputation credits	-0.61	-0.65	-0.69	-0.75	-0.79
Revenue adjustments included as tax income	0.09	0.03	0.03	0.03	0.03
Total	26.97	27.99	28.96	30.86	31.95
B: Total tax expenses					
Operating expenditure	8.37	8.76	9.18	9.62	10.05
Tax depreciation	7.67	8.01	8.36	8.99	9.41
Interest	5.82	5.82	5.71	5.96	5.87
Revenue adjustments treated as tax expenses	0.00	0.00	0.00	0.00	0.00
Total	21.85	22.58	23.25	24.57	25.33
C: Tax losses carried forward	0.00	0.00	0.00	0.00	0.00
D: Taxable income (A-B-C)	5.12	5.41	5.71	6.28	6.61
E: Total tax expense (D * 30%)	**1.54**	**1.62**	**1.71**	**1.89**	**1.98**

9.4. Net tax expenses

The Rules (clause 6.5.3) require that total tax expenses are reduced by the value of imputation credits. As discussed in Attachment 8, Evoenergy has adopted the AER's preferred value of 0.4 for estimating the value of imputation credits. The value of imputation credits and the resulting net tax expenses calculated in the PTRM are presented in Table 9.7 and Table 9.8.

Table 9.7   **Distribution net tax expenses 2019/20 – 2023/24**

$ million nominal	2019/20	2020/21	2021/22	2022/23	2023/24
Total tax expenses	9.96	10.55	11.10	11.97	12.36
Imputation credits	3.98	4.22	4.44	4.79	4.94
Net tax expenses	5.97	6.33	6.66	7.18	7.42

Table 9.8   **Transmission net tax expenses 2019/20 – 2023/24**

$ million nominal	2019/20	2020/21	2021/22	2022/23	2023/24
Total tax expenses	1.54	1.62	1.71	1.89	1.98
Imputation credits	0.61	0.65	0.69	0.75	0.79
Net tax expenses	0.92	0.97	1.03	1.13	1.19

Shortened forms

Term	Meaning
AER	Australian Energy Regulator
capex	capital expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll-forward model
Rules	National Electricity Rules
TAB	tax asset base

References

Author	Title	Date
AER	Amendment electricity distribution network service providers post-tax revenue model handbook	2015