

Draft Decision

Directlink Electricity Transmission Determination 2025 to 2030 (1 July 2025 to 30 June 2030)

Attachment 7 Corporate income tax

September 2024

© Commonwealth of Australia 2024

This work is copyright. In addition to any use permitted under the *Copyright Act 2068* all material contained within this work is provided under a Creative Commons Attributions 4.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 4.0 AU licence.

Important notice

The information in this publication is for general guidance only. It does not constitute legal or other professional advice. You should seek legal advice or other professional advice in relation to your particular circumstances.

The AER has made every reasonable effort to provide current and accurate information, but it does not warrant or make any guarantees about the accuracy, currency or completeness of information in this publication.

Parties who wish to re-publish or otherwise use the information in this publication should check the information for currency and accuracy prior to publication.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aer inquiry@aer.gov.au
Tel: 1300 585 165

AER reference: AER213705

Amendment record

Version	Date	Pages
1	27 September 2024	14

Contents

7 Corporate income tax.....	1
7.1 Draft decision.....	1
7.2 Directlink's proposal.....	3
7.3 Assessment approach	3
7.4 Reasons for draft decision	9
Shortened forms.....	14

7 Corporate income tax

Our determination of the annual building block revenue requirement includes the estimated cost of corporate income tax for Directlink’s 2025–30 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 amount allows Directlink to recover the costs associated with the estimated corporate income tax payable during the 2025–30 period.

This attachment presents our assessment of Directlink’s proposed corporate income tax amount for the 2025–30 period. It also presents our assessment of its proposed opening tax asset base (TAB), and the proposed standard tax asset lives used to estimate tax depreciation for the purpose of calculating tax expenses.

7.1 Draft decision

We determine an estimated cost of corporate income tax amount of \$3.0 million (\$ nominal) for Directlink over the 2025–30 period. This amount is \$0.7 million (19.7%) lower than Directlink’s proposed cost of corporate income tax amount of \$3.8 million. The reasons for the reduction are due to our draft decision:

- on a lower regulatory depreciation amount (Attachment 4)²
- on a lower return on equity capital.³

This reduction is partially offset by our draft decision on a lower tax depreciation amount, which is calculated in our PTRM.⁴

Table 7.1 sets out our draft decision on the estimated cost of corporate income tax for Directlink over the 2025–30 period.

¹ NER, cl. 6A.5.4(a)(4).

² The lower regulatory depreciation is driven by a lower forecast capital expenditure and a higher expected inflation rate applied in our draft decision compared to Directlink’s proposal. All else being equal, a lower regulatory depreciation reduces the cost of corporate income tax as it is a component of revenue for tax purposes.

³ The lower return on equity capital is mainly driven by a lower forecast regulatory asset base in our draft decision compared to Directlink’s proposal. All else being equal, a lower return on equity capital reduces the cost of corporate income as it is a component of revenue for tax purposes.

⁴ The lower tax depreciation is largely driven by a lower forecast capital expenditure in our draft decision compared to Directlink’s proposal. All else being equal, a lower tax depreciation increases the cost of corporate income tax as it is a component of the tax expense.

Table 7.1 AER’s draft decision on Directlink’s cost of corporate income tax for the 2025–30 period (\$ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Tax payable	1.2	1.2	1.4	1.5	1.7	7.0
Less: value of imputation credits	0.7	0.7	0.8	0.9	1.0	4.0
Net cost of corporate income tax	0.5	0.5	0.6	0.7	0.7	3.0

Source: AER analysis.

For our draft decision, we determine an opening TAB value of \$109.2 million (\$ nominal) as at 1 July 2025 for Directlink. This is \$1.8 million lower than Directlink’s proposed opening TAB value of \$111.0 million as at 1 July 2025.⁵ This is mainly because we have used the latest version 4.1 of the transmission roll forward model (RFM), rather than the outdated version 4 used in Directlink’s proposal. We also made the same capital expenditure (capex) input adjustments as for the regulatory asset base (RAB) in the RFM, which impacts the opening TAB value as at 1 July 2025 (section 7.4.1).

We accept Directlink’s proposal:

- for no immediately expensed forecast capex, consistent with the 2020–25 transmission determination and the actual immediately expensed capex reported in the regulatory information notices (RINs) for the 2020–25 period (section 7.4.2)
- that the forecast capex associated with buildings (capital works) for the 2025–30 period will be exempted from the diminishing value tax depreciation method. This maintains the approach approved in the 2020–25 determination of applying the straight-line tax depreciation method for this asset (section 7.4.3)
- to use the year-by-year depreciation tracking method as set out in our depreciation module in the RFM to calculate the forecast tax depreciation of its existing assets (section 7.4.4)
- on the standard tax asset lives for its asset classes for the 2025–30 period, subject to a minor input correction for the ‘Buildings’ asset class (section 7.4.5).

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 calculation of the cost of corporate income tax for this draft decision. The changes affecting revenues are discussed in Attachment 1.

⁵ Directlink, *Attachment 09b – Roll Forward Model*, January 2024.

7.2 Directlink's proposal

Directlink proposed an estimated cost of corporate income tax of \$3.8 million (\$ nominal) for the 2025–30 period using our PTRM,⁶ and with the following inputs:⁷

- an opening TAB value as at 1 July 2025 of \$111.0 million (\$ nominal)
- an expected statutory income tax rate of 30% per year
- a value of imputation credits (gamma) of 0.57
- tax depreciation of the opening TAB as at 1 July 2025 for each asset class applying the year-by-year tracking approach calculated in the depreciation module of the RFM
- the same standard tax asset lives for tax depreciation purposes of new capex for its asset classes in the 2025–30 period as its standard asset lives for RAB depreciation purposes, which align with the remaining technical life of Directlink. This approach is consistent with that approved in our 2020–25 transmission determination for Directlink⁸
- no immediate expensing for forecast capex.

Table 7.2 sets out Directlink's proposed estimated cost of corporate income tax over the 2025–30 period.

Table 7.2 Directlink's proposed cost of corporate income tax for the 2025–30 period (\$ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Tax payable	0.8	1.5	2.3	2.0	2.1	8.7
Less: value of imputation credits	0.5	0.9	1.3	1.2	1.2	5.0
Net cost of corporate income tax	0.3	0.6	1.0	0.9	0.9	3.8

Source: Directlink, *Attachment 09a – PTRM*, January 2024.

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 Directlink's 2025–30 period.⁹ Our estimate is the taxable income that a benchmark efficient entity would earn for providing

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 2020 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 Directlink, *Attachment 09a – PTRM*, January 2024.

Directlink, *Attachment 09b – Roll Forward Model*, January 2024.

Directlink, *Attachment 09e – 2025–30 Depreciation tracking module*, January 2024.

⁸ Directlink's proposed standard tax asset life for its 'Buildings' asset class is 21.2 years, which appears to have been an unintended input error (see section 7.4.5). This proposed standard tax asset life does not reflect the remaining technical life of Directlink.

⁹ Clause 6A.6.4 of the NER sets out the formula we must use to estimate corporate income tax.

prescribed transmission services if it operated Directlink’s business, which is determined in accordance with the PTRM.

7.3.1 Calculating estimated cost of corporate income tax in the PTRM

Our approach for calculating transmission network service provider’s (TNSP’s) estimated cost of corporate income tax is set out in our PTRM¹⁰ and involves the following steps:¹¹

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.¹²
2. We then estimate the benchmark tax expenses such as operating expenditure (opex), interest expense and tax depreciation in the following ways:
 - operating expense is set equal to the opex building block¹³
 - interest expense is a function of the size of the RAB, the benchmark gearing assumption (60%) and the regulated cost of debt
 - 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 2018 tax review,¹⁴ the PTRM (version 5.1) applies the straight-line tax depreciation method for existing assets and the diminishing value tax depreciation method¹⁵ for all assets acquired after 30 June 2020 except for in-house software, buildings (capital works) and equity raising costs. The expenditure for these assets is 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 incurred.¹⁶ The immediately expensed amount is then included in the total tax depreciation amount for the relevant year.

¹⁰ AER, *Electricity transmission network service providers: Post-tax revenue model (version 5.1)*, May 2022.

¹¹ 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).

¹² 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 payable will occur on a case-by-case basis.

¹³ Our assessment approach for the opex building block is discussed in Attachment 6 of the draft decision.

¹⁴ AER, *Final report, Review of regulatory tax approach*, December 2018.

¹⁵ For more explanation of how we calculate depreciation using the diminishing value method, please see: AER, *Final decision – Electricity transmission network service providers – Post-tax revenue model handbook*, April 2021, pp. 13–14.

¹⁶ 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.

There may be other revenue adjustments, but the assessment of whether they should give rise to a tax payable 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 TNSP (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 estimated 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 the tax inputs to the PTRM

The estimated cost of corporate income tax is an output of the PTRM. We therefore assess the TNSP's proposed cost of corporate income tax by analysing the proposed inputs to the PTRM for calculating that cost. Our assessment approach for each of the tax inputs required in the PTRM are discussed in turn below:

- **The opening TAB value as at the commencement of the 2025–30 period:** We consider that the roll forward of the opening TAB should be based on the approved opening TAB as at 1 July 2020 and Directlink's actual/estimated capex incurred during the 2020–25 period, and the actual capex incurred in the final year (2019–20) of the previous regulatory control period.¹⁷ The roll forward of the opening TAB for the 2020–25 period is calculated in our RFM, which relies on the depreciation module.

The opening TAB value at 1 July 2025 is used to estimate forecast tax depreciation for the 2025–30 period, including new assets to be added to the TAB over this regulatory control period. Consistent with the 2020–25 determination, we will continue to apply the straight-line method of tax depreciation for the opening TAB value as at 1 July 2020. However, for all assets added to the TAB after this date (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 life is generally guided by the effective life of depreciating assets determined by the Commissioner of Taxation. However, as discussed in attachment 4, Directlink has a finite technical life and it will cease to operate in 2041–42. Consistent with the previous determinations, Directlink has proposed to align the standard tax asset lives for its new capex with the remaining technical life of Directlink. Our draft decision on Directlink's standard tax asset lives is discussed in section 7.4.5. As discussed above, the PTRM applies the diminishing value tax depreciation method for all new assets except for in-house software, buildings (capital works) and equity raising costs. It provides designated asset classes for these assets to be depreciated using the straight-line method for tax purposes.¹⁸ We note that the tax effective lives for

¹⁷ 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 transmission determination.

¹⁸ Our assessment approach on new assets to be exempted from the diminishing value method is discussed in detail below.

in-house software, buildings (capital works) and equity raising costs are not covered under the ATO Taxation Ruling 2022/1.¹⁹ 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:

- 40 years for buildings. This is consistent with the number of years required to completely depreciate capital works assets 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 annum for businesses of the size we regulate, which was adopted in Directlink’s proposal.
- **The value of gamma:** The gamma input for Directlink is 0.57 for this draft decision. This is consistent with the 2022 *Rate of Return Instrument*, which requires us to use a gamma value of 0.57,²⁰ and adopted in Directlink’s proposal.²¹ This is discussed further in Attachment 3.
- **The size and treatment of any tax losses as at 1 July 2025:** Where a business has tax losses under our benchmark approach, 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. Directlink does not have any accumulated tax losses as at the start of the 2025–30 period, which is consistent with our final determination for the 2020–25 period.²²
- **Forecast immediately expensed capex:** The PTRM requires a forecast for immediately deductible capex to be provided for each regulatory year of the 2025–30 period. Our assessment of forecast immediately expensed capex will be guided by the TNSP’s actual immediately expensed capex from the previous regulatory control period.²³ We will collect actual data relating to this expenditure in our RINs to further inform our decision on the amount of forecast immediately expensed capex in future regulatory determinations. Benchmarking may also be considered going forward.²⁴
- **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

¹⁹ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022.

²⁰ AER, *Rate of Return Instrument*, February 2023, p. 9.

²¹ Directlink, *Attachment 09a – PTRM*, January 2024.

²² Directlink, *Attachment 09a – PTRM*, January 2024.

AER, *Directlink 2020–25 – Transmission post tax revenue model – 2024–25 RoD update*, March 2024.

²³ 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.

²⁴ AER, *Final report – Review of regulatory tax approach*, December 2018, pp. 66–67.

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. 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 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 2011/6²⁵ 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.²⁶ 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 97/25.²⁷ We note that this includes new buildings and structural improvements to existing buildings.²⁸ 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 are 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 2016/3.²⁹ 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.³⁰ However, capex associated with other IT assets such as computer hardware is not consistent with the definition of in-house software, and is therefore required to be depreciated using the diminishing value method in the PTRM.

We note Directlink has not proposed any forecast immediately expensed capex, nor has it proposed any forecast capex associated with in-house software for the 2025–30 period.

²⁵ ATO, *Taxation Ruling 2011/6*, July 2016.

²⁶ The benchmark cost for equity raising costs is determined within the PTRM.

²⁷ ATO, *Taxation Ruling 97/25*, July 2017.

²⁸ ITAA, section 43.20.

²⁹ ATO, *Taxation Ruling 2016/3*, October 2018.

³⁰ ITAA, section 995.1

7.3.3 Interrelationships

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

- pre-tax revenues
- tax expense (including tax depreciation)
- the corporate tax rate
- 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 corporate income tax payable.

Of these factors, the corporate tax rate is set externally by the Australian Government. The higher the tax rate, the higher the required tax payable.

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.³¹ Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.³²

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 forecast 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.

³¹ 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.

³² For example, although increased opex adds to 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 tax payable in proportion to the company tax rate.

A business that has tax expenses which are greater than its taxable revenue in a regulatory control period would not be subject to pay tax and instead will 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

We determine the estimated cost of corporate income tax amount is \$3.0 million (\$ nominal) for Directlink over the 2025–30 period. This represents a reduction of \$0.7 million from Directlink’s proposal of \$3.8 million. The following sections discuss the reasons for our draft decision on:

- the opening TAB value as at 1 July 2025
- the forecast immediately expensed capex
- assets to be exempted from the diminishing value method for tax depreciation
- the year-by-year tracking approach for tax depreciation
- the standard tax asset lives for depreciating forecast capex over the 2025–30 period.

Our draft decision on Directlink’s proposed return on capital (Attachments 2, 3 and 5) and the regulatory depreciation (Attachment 4) building blocks affect revenues, and therefore also impact the forecast corporate income tax amount.

7.4.1 Opening tax asset base as at 1 July 2025

We accept Directlink proposed method to establish the opening TAB value as at 1 July 2025. This is because Directlink’s proposed approach is based on our RFM and consistent with that previously approved for the 2020–25 period. Based on the proposed approach, we determine Directlink’s opening TAB value as at 1 July 2025 to be \$109.2 million (\$ nominal). This represents a reduction of \$1.8 million compared to its proposal.

We have reviewed the inputs to the TAB roll forward and found that they were mostly correct and reconciled with relevant data sources such as the annual regulatory accounts data and the 2020–25 decision models. However, we made some changes to the RFM that impact the opening TAB value as at 1 July 2024. These changes were relating to the same capex input adjustments as for the RAB roll forward (Attachment 2).

We note that Directlink’s proposal used an outdated version 4 of the transmission RFM,³³ which results in an overstatement of the proposed opening TAB as at 1 July 2025 by \$1.9 million. For this draft decision, we used the latest published version 4.1 of the transmission RFM, which Directlink agreed to in its response to our information request.³⁴

We note that the opening TAB value as at 1 July 2025 may be updated as part of the final decision to reflect actual 2023–24 capex and any revised 2024–25 capex estimates.

³³ Directlink, *Attachment 09b – Roll Forward Model*, January 2024.

³⁴ AER, *Electricity transmission network service providers: Roll forward model (version 4.1)*, May 2022.
Directlink, *Response to the AER’s information request #003*, 27 May 2024.

Table 7.3 sets out our draft decision on the roll forward of Directlink’s TAB over the 2020–25 period.

Table 7.3 AER’s draft decision on Directlink’s TAB roll forward for the 2020–25 period (\$ million, nominal)

	2020–21	2021–22	2022–23	2023–24 ^a	2024–25 ^a
Opening TAB	109.6	106.5	103.7	105.8	111.7
Capex ^b	2.0	2.6	7.6	12.1	4.8
Less: tax depreciation	5.1	5.3	5.5	6.2	7.2
Closing TAB	106.5	103.7	105.8	111.7	109.2

Source: AER analysis.

- (a) Based on estimated capex. We expect to update the TAB roll forward with actual capex for 2023–24 and a revised capex estimate for 2024–25 in the final decision.
- (b) Net of disposals.

7.4.2 Forecast immediately expensed capex

Directlink did not propose any forecast capex to be immediately expensed for tax purposes over the 2025–30 period.³⁵

Directlink did not report any actual immediate expensing of capex in the RINs for 2020–21 to 2022–23. For this reason, we consider Directlink’s proposal to be reasonable as its proposed amount is consistent with its current approach and informed by the actual amount of capex immediately expensed historically.

For this draft decision, we accept Directlink’s proposal that it has no forecast immediately expensed capex for the 2025–30 period. We will continue to collect actual data relating to this expenditure in our RINs to inform our decision on the amount of forecast immediately expensed capex in the next determination for Directlink.

7.4.3 Assets exempt from the diminishing value method

The PTRM applies the diminishing value method as the regulatory benchmark for tax depreciation to all new capex. 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.³⁶ In the PTRM, the benchmark equity raising costs is determined within the model and depreciated using the straight-line tax depreciation method as default.

We note Directlink proposed forecast capex associated with buildings (capital works) for the 2025–30 period to be exempted from the diminishing value tax depreciation method. We accept Directlink’s proposal because the forecast capex satisfies the relevant definitions

³⁵ Directlink, *2025–2030 Directlink Revenue Proposal*, January 2024, p. 68.

³⁶ Asset classes 47, 48, 49 and 50 in the PTRM provide for this.

under the tax law.³⁷ Therefore, these assets will be depreciated using the straight-line method for tax purposes, consistent with the approach applied in the 2020–25 determination.

7.4.4 Year-by-year tracking approach

We accept Directlink’s proposed change to using the ‘year-by-year’ tracking method as set out in our depreciation module in the RFM for calculating the tax depreciation of its existing assets as at 1 July 2025.³⁸

The proposed method represents a change from the ‘remaining life’ approach previously adopted in the 2020–25 determination.³⁹ This change is required as a result of implementing the diminishing value tax depreciation method under the 2018 tax review at the 2020–25 determination.⁴⁰

Under the diminishing value method, the tax depreciation of the capex for each year of a regulatory control period must be calculated individually. This could not be achieved under the remaining life approach previously applied by Directlink. Therefore, Directlink is required to switch to using the year-by-year tracking method to correctly calculate its tax depreciation of existing assets in the TAB as at 1 July 2025. Because of this change there will be no single set of remaining tax asset lives for each asset class at the start of the 2025–30 period.

For this draft decision, we have amended some of the depreciation module inputs to reflect those as discussed in section 7.4.1 so that they are consistent with those made to the RFM. With these amendments, we are satisfied the application of the year-by-year tracking method provides an appropriate estimate of the tax depreciation amount for a benchmark efficient service provider as required by the National Electricity Rules (NER).⁴¹

7.4.5 Standard tax asset lives

We accept Directlink’s proposed standard tax asset lives assigned to its existing asset classes for depreciating forecast capex over the 2025–30 period, subject to a minor input correction for the ‘Buildings’ asset class. This is because:

³⁷ ATO, *Taxation Ruling 97/25*, July 2017; ITAA, section 43.20.

³⁸ Under this approach, the capex for each year of a regulatory control period is depreciated individually for tax purposes. It will result in each tax asset class having an expanding list of sub-assets to reflect the regulatory year in which capital expenditures on those assets occurred.

³⁹ The remaining life method calculates the remaining tax asset life at the end of the regulatory control period by aligning with the remaining technical asset life of Directlink.

⁴⁰ AER, *Explanatory statement, Electricity transmission and distribution network service providers, Proposed amendments to the roll forward models (Distribution – version 3) (Transmission – version 4)*, December 2019, pp. 17–20.

⁴¹ Clause 6A.6.4 of the NER sets out the formula we must use to estimate corporate income tax. It requires an estimate of the taxable income of a benchmark efficient entity.

- They generally reflect the guidance provided by the Commissioner of Taxation in ATO Taxation Ruling 2022/1 on determining the effective life of a depreciating asset and the ITAA.⁴²
- They align with the remaining tax asset life and the remaining technical life of Directlink, which is 16.2 years. We note Directlink's assets will not have any useful life when Directlink ceases to operate in 2041–42.⁴³ We consider this alignment of the standard and remaining tax asset lives approach is appropriate for tax depreciation purposes.
- The proposed approach is also consistent with that approved in our 2020–25 transmission determination for Directlink.⁴⁴

We note Directlink's proposed standard tax asset life for its 'Buildings' asset class is 21.2 years. However, Directlink's proposal indicated the standard tax asset life should be consistent with the standard asset life⁴⁵ (discussed in Attachment 4), which is 16.2 years. We therefore consider Directlink's proposed standard tax asset life for the 'Buildings' asset class is an unintended error, which is corrected to 16.2 years in our draft decision. Directlink agreed with this correction in its response to our information request.⁴⁶

Table 7.4 sets out our draft decision on Directlink's standard tax asset lives for each of its asset classes. We are satisfied that the standard tax asset lives are appropriate for application over the 2025–30 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.⁴⁷

⁴² ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, June 2022, Appendix Explanation, cll. 47–50, p. 9.

Asset classes 'Land' and 'Easements' do not depreciate for tax purposes. ITAA, section 40.30.

A standard tax asset life of 5 years for the 'Transmission determination costs' asset class is consistent with the ATO's requirements for intangible assets. ATO, *Taxation Ruling TR2022/1*, June 2022, Appendix Explanation, cll 47–50, p. 9; ITAA, section 40.95(8).

⁴³ Directlink, *2025–2030 Directlink Revenue Proposal*, January 2024, pp. 17, 68.

⁴⁴ AER, *Final decision, Directlink transmission determination 2020–25, Attachment 7 Corporate income tax*, June 2020, p. 6.

⁴⁵ Directlink, *2025–2030 Directlink Revenue Proposal*, January 2024, pp. 17, 68.

⁴⁶ Directlink, *Response to the AER's information request #001*, 23 May 2024.

⁴⁷ NER, cl. 6A.6.4.

Table 7.4 AER’s draft decision on Directlink’s standard tax asset lives (years)

Asset class	Standard tax asset life
Transmission assets	16.2
Transmission determination costs	5.0
Easements	n/a
Land	n/a
Buildings ^a	16.2
Equity raising costs ^a	5.0 ^b

Source: AER analysis.

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

(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.

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

The standard tax asset life for this asset class is corrected to 5 years to be consistent with the ATO’s tax ruling. It is also consistent with that approved in our 2020–25 transmission determination.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
ATO	Australian Taxation Office
capex	capital expenditure
gamma	value of imputation credits
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
RIN	regulatory information notice
TAB	tax asset base
TNSP	transmission network service provider
