# Final Decision

## AusNet Services Transmission Determination 2022 to 2027
## Attachment 7
## Corporate income tax

January 2022

AUSTRALIAN
ENERGY
REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165
Email: AERInquiry@aer.gov.au

AER reference: 65242

# Note

This attachment forms part of the AER's final decision on AusNet Services' 2022–27 transmission determination. 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 attachments:

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

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

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# 7 Corporate income tax

Our revenue determination includes the estimated cost of corporate income tax for AusNet Services' 2022–27 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 attachment sets out our final decision on AusNet Services' revised proposed corporate income tax for the 2022–27 regulatory control 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 AusNet Services' estimated cost of corporate income tax is $0.8 million over the 2022–27 regulatory control period.[2] This represents a reduction of $5.6 million (or 87.6%) from AusNet Services' revised proposed cost of corporate income tax of $6.4 million ($nominal). The key reasons for this reduction are:

- Our final decision to reduce the regulatory depreciation amount (attachment 4).[3]
- Our final decision to reduce the rate of return on equity (attachment 3).[4]

The reduction due to the above two changes is partially offset by:

- Our final decision to increase the revised proposed opening tax asset base (TAB) value as at 1 April 2022 by $1.0 million to $2817.2 million.[5]
- Our final decision to reduce the forecast immediate expensing of capital expenditure (capex).[6]

We accept AusNet Services' revised proposal on the standard tax asset lives for all of its asset classes because they are consistent with our draft decision. We have updated AusNet Services remaining tax asset lives as at 1 January 2022 to reflect our amendments to the opening TAB value.

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

2 Our final decision determined an estimated cost of corporate income tax of $0.8 million for the first year of 2022–27 regulatory control period and $0 for the remaining four years. This is because we expect AusNet Services to incur forecast tax loss in the last four years of the 2022–27 regulatory control period. The forecast tax loss arises because AusNet Services' forecast tax expenses will exceed its revenue for tax assessment purposes in those years. We have determined that $4.6 million in tax losses as at 31 March 2027 will be carried forward to the 2027–32 regulatory control period where it can be used to offset future tax liabilities.

3 See section 4.1 of attachment 4 of this final decision for details.

4 All else being equal, a lower rate of return on equity will reduce the cost of corporate income tax because it reduces the return on equity, a component of the taxable income.

5 All else being equal, a higher opening TAB value will increase the tax depreciation, a component of the tax expense, and reduce the cost of corporate income tax.

6 All else being equal, a lower forecast immediate expensing of capex will increase the cost of corporate income tax because it reduces tax depreciation, a component of the tax expense.

We have also set the tax treatment of the demand management innovation allowance (DMIA) mechanism to be both taxable income and tax expense. This change reduced the forecast cost of corporate income tax by $0.6 million ($ nominal). In its response to our information request, AusNet Services agreed to this change.[7]

Table 7-1 sets out our final decision on the estimated cost of corporate income tax for AusNet Services over the 2022–27 regulatory control period.

### Table 7-1 AER's final decision on AusNet Services' cost of corporate income tax for the 2022–27 regulatory control period ($ million, nominal)

| | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | Total |
|---|---|---|---|---|---|---|
| Tax payable | 1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 1.9 |
| *Less:* value of imputation credits | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| **Net cost of corporate income tax** | **0.8** | **0.0** | **0.0** | **0.0** | **0.0** | **0.8** |

Source: AER analysis.

In the draft decision, we made the following changes to AusNet Services' modelling of its cost of corporate income tax:[8]

- We revised the opening TAB as at 1 April 2022 to reflect our amendments to some inputs in the roll forward model (RFM), which included reducing the residual tax value of 2019–20 capitalised leases to account for asset disposals for that year, and increasing the final year adjustment for the value of 'growth assets' rolled into the opening TAB based on the additional information provided by AusNet Services.[9]
- While we accepted AusNet Services' proposed approach to calculating its remaining tax asset lives as at 1 April 2022, we updated these lives to reflect our adjustments to the opening TAB value.
- We removed the 'Instrument transformers' asset class from the PTRM so no remaining/standard tax asset lives were needed.
- We assigned a remaining tax asset life of 13.4 years for the accelerated depreciation of existing assets in the 'Polymeric insulators' asset class.

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7 The estimated impact on forecast cost of corporate income tax is calculated based on AusNet Services' revised proposal PTRM.
AusNet Services, *Follow up Response to AER Information Request #018*, 1 October 2021.

8 AER, *Draft decision: AusNet Services transmission determination 2022 to 2027, Attachment 7 – Corporate income tax*, June 2021, pp. 16–20.

9 Our draft decision also removed the proposed annual capex entries for capitalised leases in respect of the 'Lease L&B 2019-20 < 20 years rem life', 'Lease L&B 2019-20 > 20 years rem life' and 'Lease L&B 2020-21' asset classes over the 2019–21 period in the RFM. Instead, we recorded the residual value associated with these assets under the final year adjustment section of the RFM. This change did not have a dollar impact on the value of the opening TAB as at 1 April 2022.

- We assigned a standard tax asset life of 35 years for depreciating forecast capex associated with the 'Polymeric insulators' asset class.
- We reallocated some forecast capex which meets the requirements of sections 43.15, 43.140 and 43.210 of the *Income Tax Assessment Act 1997* (ITAA) from the existing 'Premises' asset class into a new asset class labelled 'Buildings - capital works', which depreciates using the straight-line method rather than the diminishing value method for tax purposes.
- While accepting AusNet Services' proposed method to calculate its forecast immediate expensing of capex, we reduced the proposed amount of forecast immediate expensing of capex to reflect our draft decision on reducing the overall forecast capex.

AusNet Services' revised proposal adopted the changes required by the draft decision in full.[10]

### Opening tax asset base as at 1 April 2022

Our final decision is to determine an opening TAB value as at 1 April 2022 of $2817.2 million ($ nominal) for AusNet Services. This amount is $1.0 million (or 0.04%) higher than AusNet Services' revised proposed opening TAB of $2816.1 million ($ nominal) as at 1 April 2022.

In our draft decision, we accepted AusNet Services' proposed method to establish the opening TAB as at 1 April 2022. However, we amended some of the proposed inputs used for the TAB roll forward—specifically, we made adjustments for actual and estimated capex associated with capitalised leases and growth assets. We noted that the opening TAB may be updated as part of the final decision to reflect:

- actual capex for 2020–21
- any revised 2021–22 capex estimate.

AusNet Services' revised proposal adopted our draft decision changes.[11] It also updated the opening TAB as at 1 April 2022 to reflect the actual capex for 2020–21 and a revised 2021–22 capex estimate. Further, AusNet Services provided an updated final year adjustment for capitalised leases and growth assets.[12]

Subsequent to this, AusNet Services provided a revised estimate for the value of the final year adjustment associated with the capitalised lease assets for tax purposes in its response to our information request.[13] Consistent with our assessment in attachment 2, we have reviewed and are satisfied with the additional supporting information provided by AusNet Services, and therefore accepts the revised value.

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10 AusNet Services, *Revised regulatory proposal 2023–27,* September 2021, pp. 131–133.

11 AusNet Services, *Revised regulatory proposal 2023–27,* September 2021, pp. 131–133.

12 AusNet Services, *Revised regulatory proposal 2023–27, RFM,* September 2021.

13 AusNet Services, *Follow up Response to AER Information Request #018*, 8 October 2021.

This resulted in a $1.0 million increase to the opening TAB as at 1 April 2022. We are also satisfied with the revised proposed value of the final year adjustment associated with the growth assets for tax purposes after verifying the value against project cost information provided by AusNet Services.[14]

For the reasons discussed in attachment 2, we accept the actual 2020-21 capex and the updated 2021–22 capex estimate for this final decision. The 2021–22 capex estimate is lower than what we approved in our draft decision, reflecting more recent data.[15] We will update the 2021–22 estimated capex for actuals at the next revenue reset (2027–32).

Table 7-2 sets out our final decision on the roll forward of AusNet Services' TAB values over the 2017–22 regulatory control period.

### Table 7-2 AER's final decision on AusNet Services' TAB roll forward for the 2017–22 regulatory control period ($ million, nominal)

| | 2017–18 | 2018–19 | 2019–20 | 2020–21 | 2021–22[a] |
|---|---|---|---|---|---|
| Opening TAB | 2418.2 | 2403.1 | 2392.3 | 2447.0 | 2468.2 |
| Capital expenditure[b] | 105.0 | 116.0 | 177.5 | 144.6 | 195.1 |
| *Less*: Tax depreciation | 120.1 | 126.9 | 122.8 | 123.4 | 131.2 |
| Final year adjustments (capitalised leases) | | | | | 39.2 |
| Growth assets adjustments[c] | | | | | 245.8 |
| **Closing TAB** | **2403.1** | **2392.3** | **2447.0** | **2468.2** | **2817.2** |

Source: AER analysis.

(a) Based on estimated capex.

(b) As-commissioned, net of disposals.

(c) Roll-in of ‘growth assets’ at 1 April 2022, and true-up for difference between actual and forecast growth assets rolled in at the 2017–22 determination.

## Forecast immediate expensing of capex

For this final decision, we determine that $39.1 million ($2021–22) of AusNet Services' forecast capex is to be immediately expensed for tax purposes in the 2022–27 regulatory control period.

In our draft decision, we accepted AusNet Services' proposed method to calculate its forecast immediate expensing of capex. However, our draft decision amended the

[14] AusNet Services, *Response to AER Information Request #018*, 17 September 2021.

[15] On an as-commissioned basis, which is used to roll forward the TAB in the RFM.

amount of forecast immediate expensing of capex to reflect our draft decision on the overall forecast capex.[16]

AusNet Services' revised proposal applied the same approach accepted in our draft decision to calculate its immediate expensing of forecast capex for tax purposes in the 2022–27 regulatory control period. However, AusNet Services updated its forecast immediate expensing amount to $39.1 million ($2020–21, or 4.8% of total capex), which reflected its revised proposed overall forecast capex.

Consistent with the approach adopted in the draft decision and revised proposal, we need to adjust the amount of immediate expensing of capex to reflect the overall estimate of forecast capex. As discussed in attachment 5, our final decision is to accept a total forecast capex of $818.7 million ($2021–22). This amount is $1.8 million ($2021–22) less than AusNet Services' revised proposal capex forecast, submitted on 1 September 2021. The adjustment reflects a correction to an error in the capex model identified by AusNet Services on 12 October 2021.[17] For this reason, our final decision is to adjust the immediately expensed capex for tax purposes to reflect the new total capex forecast.[18]

We will collect actual data relating to the immediately expensing of capex in our annual reporting regulatory information notice to further inform our decision for this type of expenditure in the next regulatory determination for AusNet Services.

### Standard and remaining tax asset lives

For this final decision, we accept AusNet Services' revised proposed standard tax asset lives for all of its asset classes. They are consistent with our draft decision, and 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 2021/3 and the *Income Tax Assessment Act 1997*.[19]

We also accept AusNet Services' revised proposed approach to calculate the remaining tax asset lives as at 1 April 2022 for tax depreciation purposes of its existing assets, which were calculated using the weighted average method. This is consistent with the approach accepted in our draft decision. However, we have updated the remaining tax asset lives as at 1 April 2022 to reflect the amendments we made to the opening TAB value as at 1 April 2022.

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16 AER, *Draft decision: AusNet Services transmission determination 2022 to 2027, Attachment 7 – Corporate income tax*, June 2021, pp. 14–15.

17 See section 5.1 of attachment 5 of this final decision for detailed reasons.

18 The adjustment resulted in an immaterial reduction of less than $1,000 to the immediately expensed capex for tax purposes.

19 ATO, *Taxation Ruling TR2021/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2021)*, available at https://www.ato.gov.au/law/view/view.htm?docid=%22TXR%2FTR20213%2FNAT%2FATO%2F00001%22; ITAA 1997, Section 40.105.

Table 7-3 sets out our final decision on the standard and remaining tax asset lives as at 1 April 2022 for AusNet Services. We are satisfied that the standard and remaining tax asset lives are appropriate for application over the 2022–27 regulatory control period. We are also satisfied that the standard and 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.[20]

### Table 7-3 AER's final decision on AusNet Services' standard and remaining tax asset lives as at 1 April 2022 (years)

| Asset class | Standard tax asset lives | Remaining tax asset lives as at 1 April 2022[b] |
|---|---|---|
| Secondary | 12.5 | 8.1 |
| Switchgear | 40.0 | 29.4 |
| Transformers | 40.0 | 28.3 |
| Reactive | 40.0 | 23.3 |
| Towers and conductor | 47.5 | 25.0 |
| Establishment | 40.0 | 31.3 |
| Communications | 12.5 | 8.9 |
| Inventory | n/a | n/a |
| IT | 3.5 | 2.7 |
| Vehicles | 8.0 | 6.5 |
| Other (non-network) | 10.0 | 6.1 |
| Premises | 20.0 | 14.5 |
| Land | n/a | n/a |
| Easements | n/a | n/a |
| Insulators - Already decommissioned | 1.0 | 1.0 |
| Insulators - Decommission 2022-2027 | 5.0 | 5.0 |
| Polymeric insulators | 35.0 | 13.4 |
| Instrument transformers - Already decommissioned | 1.0 | 1.0 |
| Instrument Transformers - Decommission 2022-2027 | 5.0 | 5.0 |
| Lease L&B 2019-20 < 20 years rem life | n/a | 7.8 |
| Lease L&B 2019-20 > 20 years rem life | n/a | 46.0 |

20 NER, cl. 6A.6.4.

| Asset class | Standard tax asset lives | Remaining tax asset lives as at 1 April 2022[b] |
|---|---|---|
| Lease L&B 2020-21 | n/a | 6.0 |
| Lease L&B 2022-23 | 25.0 | n/a |
| Lease L&B 2023-24 | 19.0 | n/a |
| Lease L&B 2025-26 | 31.8 | n/a |
| Lease L&B 2026-27 | 15.4 | n/a |
| Buildings - capital works | 40.0[a] | n/a |
| In-house software | 5.0[a] | n/a |

Source: AER analysis.

(a) These are the only asset classes used for the straight-line method of tax depreciation for new assets. All other new assets for other asset classes used the diminishing value method of tax depreciation.

(b) Used for straight-line method of tax depreciation.

n/a not applicable. We have not assigned a standard tax asset life and remaining tax asset life to the 'Inventory', 'Land' and 'Easements' asset classes because the assets allocated to it are non-depreciating assets. We have not assigned a standard tax asset life to the 'Lease L&B 2019-20 < 20 years rem life', 'Lease L&B 2019-20 > 20 years rem life' and 'Lease L&B 2020-21' asset classes because there is no forecast capex allocated to these classes. We also have not assigned a remaining tax asset life to the 'Lease L&B 2022-23', 'Lease L&B 2023-24', 'Lease L&B 2025-26', 'Lease L&B 2026-27', 'Buildings - capital works' and 'In house software' asset classes because they have no opening TAB values as at 1 April 2022.

## 7.2 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.[21]

[21] AER, *Draft decision: AusNet Services transmission determination 2023 to 2027, Attachment 7 – Corporate income tax*, June 2021, pp. 7–13.

# Shortened forms

| Shortened form | Extended form |
|---|---|
| AER | Australian Energy Regulator |
| capex | capital expenditure |
| ITAA | Income Tax Assessment Act 1997 |
| NER | National Electricity Rules |
| PTRM | post-tax revenue model |
| RAB | regulatory asset base |
| RFM | roll forward model |
| TAB | tax asset base |