Final decision

Multinet Gas Networks
Gas distribution access arrangement
1 July 2023 to 30 June 2028

Attachment 7 – Corporate income tax

June 2023

AUSTRALIAN ENERGY REGULATOR

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AER reference: AER212594

Amendment record

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Our determination of the total revenue for MGN includes the estimated cost of corporate income tax for the 2023–28 access arrangement period (2023–28 period).[1] Under the post-tax framework, a corporate income tax amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM). This amount allows MGN to recover the estimated cost of corporate income tax for the 2023–28 period.

This attachment presents our assessment of MGN's proposed corporate income tax amount for the 2023–28 period. It also presents our assessment of the proposed opening tax asset base (TAB), and the standard and remaining tax asset lives as at 1 July 2023 used to estimate tax depreciation for the purpose of calculating tax expenses.

7.1 Final decision

Our final decision on MGN's estimated cost of corporate income tax is $22.4 million ($ nominal) over the 2023–28 period. This decision represents an increase of $0.3 million (1.4%) from MGN's revised proposed cost of corporate income tax of $22.1 million. The reasons for the increase are due to our final decision:

- on a lower imputation credit (gamma) consistent with the new 2022 *Rate of Return Instrument* (attachment 3)[2]
- on a lower tax depreciation[3]

This increase is partially offset by our final decision:

- on a lower return on equity (attachment 3)[4]
- on a lower regulatory depreciation amount (section 4.1 of attachment 4).[5]

For this final decision, we accept MGN's revised proposal and determine an opening TAB value as at 1 July 2023 of $779.6 million.

Table 7-1 sets out our final decision on the estimated cost of corporate income tax for MGN over the 2023–28 period.

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1 NGR, r. 76(c).

2 All else being equal, a lower gamma increases the cost of corporate income tax as it is an offset to the tax payable.

3 The lower tax depreciation is driven by lower expected inflation in our final decision compared to MGN's revised proposal. All else being equal, a lower tax depreciation increases the cost of corporate income tax as it is a component of tax expense.

4 The lower return on equity amount is driven by a lower rate of return on equity and lower expected inflation, which in turn decreases the capital base, in our final decision compared to MGN's revised proposal. All else being equal, a lower return on equity amount decreases the cost of corporate income tax as it is a component of revenue for tax purposes. Our reduction to accelerated depreciation, which in turn resulted in an increase to the capital base, partially offsets the lower return on equity amount.

5 The lower regulatory depreciation is driven by a reduction in accelerated depreciation in our final decision compared to MGN's revised proposal. All else being equal, a lower regulatory depreciation decreases the cost of corporate income tax as it is a component of revenue for tax purposes.

Table 7-1 AER's final decision on MGN's cost of corporate income tax for the 2023–28 access arrangement period ($ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Tax payable	17.3	11.1	6.2	8.7	8.7	52.1
Less: value of imputation credits	9.9	6.3	3.5	5.0	5.0	29.7
Net corporate income tax	**7.4**	**4.8**	**2.7**	**3.7**	**3.8**	**22.4**

Source: AER analysis.

In our draft decision, we accepted:[6]

- MGN's proposed method to establish the opening TAB as at 1 July 2023.
- MGN's proposed standard tax asset lives for all of its existing asset classes and the continuation of using the weighted average method to calculate remaining tax asset lives for estimating the forecast tax depreciation.
- MGN's implementation of the findings of our 2018 tax review, including the diminishing value method of tax depreciation and applying a 20 year cap on the tax asset lives for certain classes of new gas assets.[7]

However, our draft decision updated:

- The method of depreciation in the roll forward model (RFM) to reflect the weighted average remaining life approach, which in turn affected the opening TAB value at 1 July 2023.
- The weighted average remaining life calculation to account for the half-year depreciation for the six-month extension period.
- The tax calculations to include the carrying forward for the forecast tax loss of $1.7 million ($2022–23) as at 1 July 2023, consistent with the final decision PTRM for the half-year extension period.
- MGN's proposed remaining tax asset lives to reflect our adjustments to the opening TAB value.

MGN's revised proposal broadly adopted all our draft decision amendments. It has also updated the estimated capex for 2022 and the six-month extension period.[8] We accept MGN's revisions based on our capex assessment.

Our final decision confirms our acceptance of MGN's approach to forecasting its cost of corporate income tax for the 2023–28 period as set out in the PTRM.

Consistent with our draft decision, we accept MGN's proposal for zero forecast immediate expensing of capex for the 2023–28 period. We are satisfied that MGN has not immediately

6 AER, *Draft decision, MGN Gas Services Access Arrangement 2023–28, Attachment 7 – Corporate income tax, December 2022*, pp. 14–18.

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

8 MGN, *MGN Revised Final Plan 2023-28_Attachment 1.5B_Post Tax Revenue Model*, January 2023.

expensed capex for tax purposes historically and therefore its forecast of zero over the 2023–28 period is consistent with its approach. We will collect actual data relating to this expenditure in our annual reporting regulatory information notice (RIN) to further inform our decision on the forecast for the immediate expensing of capex in the next review for MGN.

In our draft decision, we accepted $1.6 million ($2022–23) of forecast capex associated with equity raising costs are to be exempted from the diminishing value tax depreciation method. MGN's revised proposal has updated this value to $2.1 million. Our final decision updates this amount to $1.9 million, reflecting our final decision on MGN's total revenue requirement.

In its response to our information request, MGN confirmed that its revised proposed gross capex and capital contributions for the 2023–28 period do not contain any gifted assets.[9] We are satisfied that this approach is consistent with the Federal Court's ruling on the tax treatment of gifted assets.[10]

Opening tax asset base as at 1 July 2023

For our final decision, we accept MGN's revised proposed opening TAB value of $779.6 million ($ nominal). This is $13.1 million lower than our draft decision.

In our draft decision, we accepted MGN's proposed method to establish the opening TAB as at 1 July 2023. However, we corrected the tax depreciation method in the RFM to apply the weighted average life approach.

We noted in our draft decision that the opening TAB may be updated to reflect any revisions for 2022 and the six-month extension period capex estimates as part of the final decision.[11]

MGN's revised proposal adopted the amendments we made to the opening TAB value in the draft decision in full. It also updated the capex estimates for 2022 and the six-month extension period with revised amounts, which are lower than the total amount approved in our draft decision for this period.

We accept MGN's revised capex estimates for 2022 and the six-month extension period based on our capex assessment. We will update the 2022 and the six-month extension period capex estimates for actuals at the next access arrangement review.

Table 7-2 sets out our final decision on the roll forward of MGN's TAB values over the 2018–23 period.

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9 MGN, *Response to information request #026*, 23 February 2023, p. 1.

10 Federal Court of Australia, *Victoria Power Networks Pty Ltd v Commissioner of Taxation [2020] FCAFC 169*, 21 October 2020. The Court confirmed that cash contributions were ordinary income and should be treated as assessable income for tax purposes. Therefore, cash contributions are included in gross capex and customer contributions. The Court determined that while a gifted asset was a 'non-cash business benefit' there was effectively nil income for tax purposes. As a result, the cost of construction of gifted assets are excluded from gross capex and customer contributions.

11 AER, *Draft decision, Multinet Gas Networks Access Arrangement 2023–28, Attachment 7 – Corporate income tax*, December 2022, p. 16.

Table 7-2 AER's final decision on MGN's tax asset base roll forward over the 2018–23 period ($ million, nominal)

	2018	2019	2020	2021	2022[a]	2023[b]
Opening TAB	471.6	544.6	602.0	653.0	711.8	753.3
Capital expenditure[c]	97.9	87.5	85.2	87.3	74.7	43.7
Less: tax depreciation	24.9	30.1	34.2	28.5	33.2	17.4
Closing TAB	**544.6**	**602.0**	**653.0**	**711.8**	**753.3**	**779.6**

Source: AER Analysis.

(a) Based on estimated capex. We expect to update the TAB for actual capex at the next review.

(b) The half year period of 1 January to 30 June 2023. Based on estimated capex.

(c) Net of disposals.

Standard and remaining tax asset lives as at 1 July 2023

For this final decision, we accept MGN's revised proposed standard and remaining tax asset lives for all its asset classes. MGN's revised proposed standard tax asset lives are consistent with our draft decision, and we confirm our position that they are broadly consistent with the values prescribed by the Commissioner for taxation in ATO ruling 2022/1 and the *Income Tax Assessment Act* (ITAA).[12]

Consistent with the draft decision, we also accept MGN's revised proposal to apply the weighted average method for calculating 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 RFM. Consequently, our final decision is to accept MGN's revised proposed remaining tax asset lives.

Table 7-3 sets out our final decision on the standard and remaining tax asset lives for MGN. We are satisfied that these lives are appropriate for application over the 2023–28 period. We are also satisfied these 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.[13]

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12 ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022),* p. 179.

13 NGR, r. 87A(1).

Table 7-3 AER's final decision on MGN's standard and remaining tax asset lives as at 1 July 2023 (years)

Asset class	Standard tax asset life[a]	Remaining tax asset life[b]
Transmission and distribution	20.0	38.5
Services	20.0	36.2
Cathodic protection	20.0	50.3
Supply regs/Valve stations	20.0	37.0
Meters to 2017	15.0	1.2
Meters from 2018 (New)	15.0	12.9
Land	n/a	n/a
IT	4.0	3.0
SCADA	10.0	7.6
Other	10.0	5.8
Buildings	35.0	26.7
Equity raising costs	5.0	0.5

Source: AER analysis.

(a) All new assets use 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 'Land' asset classes because the assets allocated to it are non-depreciating assets.

7.2 Assessment approach

For this final decision, with the exception for the value of imputation credits (gamma), we have followed 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.[14]

The gamma input for MGN is 0.57 for this final decision. This is consistent with the 2022 *Rate of Return Instrument*, which requires us to use a gamma value of 0.57.[15] Refer to Attachment 3 for further discussion on this matter.

14 AER, *Draft decision, Multinet Gas Networks Access Arrangement 2023–28, Attachment 7 – Corporate income tax*, December 2022, pp. 7–14.

15 AER, *Rate of Return Instrument*, February 2023, p. 19.

Glossary

Term	Definition
AER	Australian Energy Regulator
ATO	Australian Tax Office
capex	Capital expenditure
ITAA	Income Tax Assessment Act 1997
MGN	Multinet Gas Networks
NGR	National Gas Rules
opex	Operating expenditure
PTRM	Post-tax revenue model
RFM	Roll forward model
RIN	Regulatory Information Notice
TAB	Tax asset base