Final decision

Murraylink transmission determination
1 July 2023 to 30 June 2028

Attachment 7 – Corporate income tax

April 2023

AUSTRALIAN
ENERGY
REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

AER reference: AER202186

Amendment record

Version	Date	Pages
1	28 April 2023	8

Contents

7 Corporate income tax 4

7.1 Final decision 4

7.2 Assessment approach 7

Glossary 8

7 Corporate income tax

Our revenue determination includes the estimated cost of corporate income tax for Murraylink's 2023–28 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 Murraylink's revised proposed corporate income tax for the 2023–28 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 Murraylink's estimated cost of corporate income tax is $1.8 million over the 2023–28 period. This represents an increase of $0.5 million (or 34.6%) from Murraylink's revised proposed cost of corporate income tax of $1.3 million ($nominal). The reasons for the increase are due to our final decision:

- on a higher regulatory depreciation amount (Attachment 4)
- on a lower tax depreciation[2]
- on a lower imputation credit (gamma) consistent with the new 2022 *Rate of Return Instrument* (Attachment 3).

This increase is partially offset by our final decision on a lower rate of return on equity (Attachment 3).[3]

Our final decision is to determine an opening tax asset base (TAB) value as at 1 July 2023 of $85.0 million ($ nominal), this is $0.3 million lower than Murraylink's revised proposal. We accept Murraylink's revised proposal on the standard tax asset lives for all of its asset classes because they are consistent with our draft decision.[4] We also accept Murraylink's weighted average method to calculate the remaining tax asset lives as at 1 July 2023. However, we have updated Murraylink's remaining tax asset lives as at 1 July 2023 to reflect our amendments to the opening TAB.

Table 7.1 sets out our final decision on the estimated cost of corporate income tax for Murraylink over the 2023–28 period.

---

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

2 The lower tax depreciation is driven by a lower forecast as-commissioned capex and a lower opening TAB value as at 1 July 2023 in our final decision. All else being equal, a lower tax depreciation increases the cost of corporate income tax as it is a component of the tax expense.

3 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.

4 AER, *Draft decision: Murraylink transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, pp. 11-12.

Table 7.1 AER's final decision on Murraylink's cost of corporate income tax for the 2023–28 period ($ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Tax payable	0.7	0.6	0.5	0.9	1.4	4.1
Less: value of imputation credits	0.4	0.3	0.3	0.5	0.8	2.3
Net cost of corporate income tax	**0.3**	**0.3**	**0.2**	**0.4**	**0.6**	**1.8**

Source: AER analysis.

In the draft decision, we accepted Murraylink's proposed opening TAB value as at 1 July 2023 and proposed standard tax asset lives for its existing asset classes. However, our draft decision updated the remaining tax asset lives as at 1 July 2023.[5] Murraylink's revised proposal adopted our draft decision changes in full.[6]

7.1.1 Opening tax asset base as at 1 July 2023

Our final decision is to determine an opening TAB value as at 1 July 2023 of $85.0 million ($ nominal) for Murraylink, which is slightly lower than the revised proposal.[7]

In our draft decision, we accepted Murraylink's proposed method to establish the opening TAB as at 1 July 2023 and in turn the value of the opening TAB. We noted that the opening TAB may be updated as part of the final decision to reflect actual capex for 2021–22 and any revised 2022–23 capex estimate.

For this final decision, we updated the 2021–22 capex in the RFM for actual amounts, which are consistent with Murraylink's annual regulatory accounts for that year. The estimated capex for 2022–23 remains the same as the amount we approved in the draft decision and is still appropriate for use in our final decision. We will update the 2022–23 estimated capex for actuals at the next revenue reset (2028–33).

Table 7.2 sets out our final decision on the roll forward of Murraylink's TAB values over the 2018–23 period.

5 AER, *Draft decision: Murraylink transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, p. 1 and 11–13.

6 Murraylink, *Attachment 6 - AER - Draft Decision - RFM - September 2022 – PUBLIC*, December 2022.

7 This reflects our final decision to update Murraylink's revised 2021–22 capex estimates for actuals in the RFM.

Table 7.2 AER's final decision on Murraylink's TAB roll forward for the 2018–23 period ($ million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23[a]
Opening TAB	86.1	91.5	92.6	92.2	87.9
Capital expenditure[b]	10.3	6.8	5.7	2.1	3.6
Less: tax depreciation	4.8	5.6	6.1	6.5	6.5
Closing TAB	**91.5**	**92.6**	**92.2**	**87.9**	**85.0**

Source: AER analysis.
(a) Based on estimated capex.
(b) As commissioned, net of disposals.

7.1.2 Forecast immediate expensing of capex

For this final decision, we confirm our acceptance of Murraylink's revised proposal that it has no forecast immediate expensing of capex for the 2023–28 period. Murraylink did not propose any forecast capex to be immediately expensed for tax purposes in the 2023–28 period in its initial proposal. In the draft decision, we accepted this aspect of the proposal.

We will collect actual data relating to the immediate expensing of capex in our annual reporting regulatory information notices to further inform our decision for this type of expenditure in the next revenue determination for Murraylink.

7.1.3 Standard and remaining tax asset lives

For this final decision, we accept Murraylink's 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 2022/3 and the *Income Tax Assessment Act 1997*.[8]

In the draft decision, we accepted the weighted average method and updated Murraylink's remaining asset lives based on some capex input amendments. We noted that we would recalculate Murraylink's remaining asset lives as at 1 July 2023 to reflect revised capex inputs for the final decision.[9]

For this final decision, we have updated Murraylink's remaining tax asset lives at 1 July 2023 to reflect our adjustments to the RFM (Attachment 2).

Our final decision on Murraylink's standard and remaining tax asset lives as at 1 July 2023 is set out in Table 7.3. We are satisfied that the standard and remaining tax asset lives are appropriate for application over the 2023–28 period. We are also satisfied that the standard

8 ATO, *Taxation Ruling TR2022/3 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*, available at https://www.ato.gov.au/law/view/view.htm?docid=%22TXR%2FTR20223%2FNAT%2FATO%2F00001%22; ITAA 1997, Section 40.105.

9 AER, *Draft decision: Murraylink transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, p. 12.

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.[10]

Table 7.3 AER's final decision on Murraylink's standard and remaining tax asset lives for the 2023–28 period (years)

Asset class	Standard tax asset life[a]	Remaining tax asset life as at 1 July 2023[b]
Switchyard	40.0	23.0
Transmission cable	40.0	20.4
Easements	n/a	n/a
Control systems	15.0	11.6
Ancillary asset - 30 years	30.0	24.0
Ancillary asset - 7 years	7.0	5.0
Other operating assets	5.0	4.0
Non ancillary asset	3.0	0.0

Source: AER analysis.
(a) All new assets use the diminishing value method of tax depreciation.
(b) Used for straight-line method of tax depreciation for existing assets.
n/a: Not applicable. We have not assigned a standard life to the 'Easements' asset class because the assets are not subject to depreciation.

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.[11]

The gamma input for Murraylink 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.[12] Refer to Attachment 3 for further discussion on this matter.

10 NER, cl. 6A.6.4.

11 AER, *Draft decision: Murraylink transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, pp. 3–9.

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

Glossary

Term	Definition
AER	Australian Energy Regulator
ATO	Australian Taxation Office
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