

Final decision

Transgrid transmission determination
1 July 2023 to 30 June 2028

Attachment 7 – Corporate income tax

April 2023

© Commonwealth of Australia 2023

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 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 3.0 AU licence.

Inquiries about this publication should be addressed to:

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

AER reference: 202187

Contents

7 Corporate income tax	4
7.1 Final decision.....	4
7.2 Assessment approach	8
Glossary	9

7 Corporate income tax

Our revenue determination includes the estimated cost of corporate income tax for Transgrid'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 Transgrid'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 Transgrid's estimated cost of corporate income tax is \$111.6 million (\$ nominal) over the 2023–28 period. This represents an increase of \$11.5 million (11.5%) from Transgrid's revised proposed cost of corporate income tax of \$100.0 million. The reasons for this increase are due to our final decision on a:

- lower tax depreciation²
- lower imputation credit value (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
- on a lower regulatory depreciation amount (section 4.1 of Attachment 4)

Our final decision is to determine an opening tax asset base (TAB) value as at 1 July 2023 of \$5,031.4 million (\$ nominal), this is largely consistent with Transgrid's revised proposal.⁴ We accept Transgrid's revised proposal on the standard tax asset lives for all of its asset classes because they are consistent with our draft decision.⁵ We also accept Transgrid's weighted average method to calculate the remaining tax asset lives as at 1 July 2023. However, we have updated Transgrid's remaining tax asset lives as at 1 July 2023 to reflect our amendments to the opening TAB.

Table 0.1 sets out our final decision on the estimated cost of corporate income tax for Transgrid 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 in our final decision compared to Transgrid's revised 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.

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 The difference in the opening TAB value between the final decision and Transgrid's revised proposal is \$1,559. This is due to updates for the estimated asset disposal values.

⁵ Transgrid, *2023–28 Revised revenue proposal*, December 2022, pp. 133.

Table 0.1 AER's final decision on Transgrid'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	54.4	49.1	40.6	54.8	60.6	259.5
Less: value of imputation credits	31.0	28.0	23.1	31.2	34.6	147.9
Net cost of corporate income tax	23.4	21.1	17.4	23.6	26.1	111.6

Source: AER analysis.

In the draft decision, we made the following changes to Transgrid's modelling of its cost of corporate income tax:⁶

- We revised the opening TAB as at 1 July 2023 to reflect our amendments to some inputs in the roll forward model (RFM):
 - We removed capital expenditure (capex) in 2021–22 and 2022–23 relating to capitalised leases and instead included a lower amount which represented the present value of the leases as at 1 July 2023 as a final year asset adjustment.
 - We included capex for Software as a Service (SaaS) related costs in 2021–22 and 2022–23 in the TAB for the 2018–23 period to reflect our approach to mid-period changes in accounting standards.
- We accepted Transgrid's proposed standard tax asset lives for its existing asset classes. We also accepted the proposed two new asset classes relating to buildings (capital works) and in-house software and the proposed standard tax asset lives. However, we did not approve the proposed standard tax asset life of 10 years for the 'Leasehold land and property' asset class for capitalised leases. We instead determined a standard tax asset life of 5 years for this asset class.
- We accepted Transgrid's proposed weighted average method to calculate the remaining tax asset lives as at 1 July 2023 for its existing asset classes and updated the remaining tax asset lives to reflect our adjustments to the opening TAB value as at 1 July 2023. However, we did not accept Transgrid's proposed tax remaining life of 9.4 years for the new 'Leasehold land and property' asset class. We instead determined a remaining tax asset life of 11.6 years for this asset class.

Transgrid's revised proposal adopted the changes required by the draft decision in full.⁷

⁶ AER, *Draft decision: Transgrid transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, pp. 1 and 2.

⁷ Transgrid, *2023–28 Revised revenue proposal*, December 2022, pp. 131–133.

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 \$5,031.4 million (\$ nominal) for Transgrid. This is largely consistent with Transgrid’s revised proposal.⁸

Our draft decision accepted Transgrid’s proposed method to establish the opening TAB as at 1 July 2023. However, we amended some of the proposed inputs used for the TAB roll forward—specifically, we made adjustments for estimated capex associated with capitalised leases and SaaS costs. We noted that the opening TAB may be updated as part of the final decision to reflect actual capex for 2020–21 and any revised 2021–22 capex estimate.

Transgrid’s revised proposal adopted our draft decision changes.⁹ It also updated the opening TAB as at 1 July 2023 to reflect the actual capex for 2021–22 and a revised 2022–23 capex estimate. For the reasons discussed in Attachment 2, we accept the actual 2021–22 capex and the updated 2022–23 capex estimates for this final decision. The 2022–23 capex estimate is higher than what we approved in our draft decision, reflecting more recent data.¹⁰ We will update the 2022–23 estimated capex for actuals at the next revenue reset (2028–33).

Table 0.2 sets out our final decision on the roll forward of Transgrid’s TAB values over the 2018–23 period.

Table 0.2 AER’s final decision on Transgrid’s TAB roll forward for the 2018–23 period (\$ million, nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23 ^a
Opening TAB	3,911.6	4,045.3	4,102.2	4,142.4	4,417.7
Capital expenditure ^b	270.2	208.9	200.1	436.3	781.5
Less: tax depreciation	136.5	152.1	159.8	161.1	171.9
Final year asset adjustment ^c					4.2
Closing TAB	4,045.3	4,102.2	4,142.4	4,417.7	5,031.4

Source: AER analysis.

- (a) Based on estimated capex.
- (b) As commissioned, net of disposals.
- (c) Includes the roll-in of capitalised leases as at 30 June 2023.

7.1.2 Forecast immediate expensing of capex

For this final decision, we confirm our acceptance of Transgrid’s revised proposal that it has no forecast immediate expensing of capex for the 2023–28 period. Transgrid did not propose

⁸ The difference in the opening TAB value between the final decision and Transgrid’s revised proposal is \$1559. This is due to the updated 2022–23 CPI input in the RFM which affects the estimated asset disposal values.

⁹ Transgrid, *2023–28 Revised revenue proposal*, December 2022, pp. 131–133.

¹⁰ On an as-commissioned basis, which is used to roll forward the TAB in the RFM.

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 Transgrid.

7.1.3 Standard and remaining tax asset lives

Our final decision accepts Transgrid’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*.¹¹

We also accept Transgrid’s revised proposed approach to calculate the remaining tax asset lives as at 1 July 2023 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.

Our final decision on Transgrid’s standard and remaining tax asset lives as at 1 July 2023 is set out in Table 7.4. 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 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.¹²

Table 0.3 AER’s final decision on Transgrid’s standard and remaining tax asset lives for the 2023–28 period (years)

Asset class	Standard tax asset life	Remaining tax asset life as at 1 July 2023 ^c
Transmission lines (2018 onwards)	50.0	48.5
Underground cables (2018 onwards)	45.0	45.0
Substations (2018 onwards)	40.0	38.8
Secondary systems (2018 onwards)	15.0	13.7
Communications (short life) (2018 onwards)	10.0	8.8
Business IT (2018 onwards)	4.0	3.7
Minor plant, motor vehicles & mobile plant (2018 onwards)	8.0	6.1

¹¹ 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.

¹² NER, cl. 6A.6.4.

Transmission line life extension (2018–23) ^a	35	33.8
Land and easements	n/a	n/a
Synchronous condensers	30.0	n/a
Leasehold land and property	5.0	11.6
Buildings – capital works ^b	40.0	n/a
In-house software ^b	5.0	n/a
Equity raising costs ^{b d}	5.0	6.7

Source: AER analysis.

- (a) We have changed this asset class name back to 'Transmission line life extension (2018–23)' consistent with the approved PTRM for the 2018–23 determination.
- (b) These are the only asset classes used for the straight-line method of tax depreciation for new assets. All new assets for other asset classes used the diminishing value method of tax depreciation.
- (c) Used for straight-line method of tax depreciation for existing assets.
- (d) For this final decision, the forecast capex determined for Transgrid does not meet a level to trigger any benchmark equity raising costs.
- n/a not applicable. We have not assigned a standard tax asset life and remaining tax asset life to the 'Land and easements' asset class because the assets allocated to it are non-depreciating assets. We have not assigned a remaining tax asset life to the 'Synchronous condensers', 'Buildings - capital works' and 'In-house software' asset classes because they have no opening TAB values as at 1 July 2023.

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.¹³

The gamma input for Transgrid is 0.57 for this final decision. This is consistent with the 2022 *Rate of Return Instrument*.¹⁴ Refer to Attachment 3 for further discussion on this matter.

¹³ AER, *Draft decision: Transgrid transmission determination 2023 to 2028, Attachment 7 – Corporate income tax*, September 2022, pp. 3–10.

¹⁴ 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
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RFM	Roll forward model
SaaS	Software as a Service
TAB	Tax asset base
