Para Substation

Attachment 7

Corporate Income Tax

Revenue Proposal 2023-24 to 2027-28

31 JANUARY 2022

ElectraNet

Company Information

ElectraNet Pty Ltd (ElectraNet) is the principal electricity transmission network service provider (TNSP) in South Australia.

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Note

This attachment forms part of our Revenue Proposal for the 2023-24 to 2027-28 regulatory period. It should be read in conjunction with the other parts of the Revenue Proposal.

Our Revenue Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 14:

- Revenue Proposal 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 (this document)
- Attachment 8 – Efficiency benefit sharing scheme
- Attachment 9 – Capital expenditure sharing scheme
- Attachment 10 – Service target performance incentive scheme
- Attachment 11 – Pricing methodology
- Attachment 12 – Pass through events
- Attachment 13 – Demand Management Innovation Allowance
- Attachment 14 – List of supporting documents

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7. Corporate Income Tax

7.1 Key points

- Our proposed allowance for corporate income tax has been calculated in accordance with the Rules.
- Inputs relating to tax asset values and tax depreciation used to calculate the corporate income tax allowance are consistent with the tax law and the AER's regulatory tax approach review conducted in 2018.
- We have applied the latest versions of the RFM and the PTRM in calculating the tax allowance, which is zero for the 2023-24 to 2027-28 regulatory period.
- In accordance with the 2018 Rate of Return Instrument, we have adopted a placeholder value for imputation credits, known as 'gamma', of 0.585. We anticipate that the value of gamma for the 2023-24 to 2027-28 regulatory period will reflect the 2022 Rate of Return Instrument when it is available.

7.2 Introduction

This attachment presents information on our proposed allowance for corporate income tax for the 2023-24 to 2027-28 regulatory period. The information and calculations presented in this attachment accord with the requirements of the Rules.

The remainder of this attachment is structured as follows:

- Section 7.3 describes the methodology for determining the corporate tax allowance.
- Section 7.4 provides information on the inputs to the calculation of the allowance.
- Section 7.5 sets out our corporate tax allowance for the 2023-24 to 2027-28 regulatory period.

7.3 Methodology

As part of the revenue building blocks approach, a separate allowance must be included in the revenue cap for corporate income tax, net of the value ascribed to dividend imputation credits. Clause 6A.6.4 of the Rules sets out the methodology for calculating the allowance for corporate income tax in accordance with the following formula:

$$\boldsymbol{ETC_t} = (\boldsymbol{ETI_t} \times \boldsymbol{r_t})\,(1 - \boldsymbol{\gamma})$$

where:

- ETI_t is an estimate of the taxable income for that regulatory year that would be earned by a benchmark efficient entity as a result of the provision of prescribed transmission services if such an entity, rather than the Transmission Network Service Provider, operated the business of the Transmission Network Service Provider, such estimate being determined in accordance with the post-tax revenue model;
- r_t is the expected statutory income tax rate for that regulatory year as determined by the AER; and

- γ is the allowed imputation credits for the Transmission Network Service Provider for the regulatory year.

In 2018, the AER reviewed its regulatory tax approach.[1]. The AER subsequently published a new version of the PTRM (version 5) to implement the result of that review.

Specifically, the AER made two changes which affect the calculation of tax depreciation in the PTRM:

- Immediate expensing of capex – allows for inputs of certain refurbishment capex to be immediately expensed when estimating the benchmark tax expense.
- Diminishing value depreciation method – applies diminishing value method for tax depreciation purposes to all new depreciable assets, other than capex associated with in-house software, equity raising costs and buildings which may continue be depreciated on a straight line basis for tax purposes.

We have populated the latest version of the PTRM (version 5) with the data presented in this Revenue Proposal.

7.4 Inputs

We have determined the inputs to the calculation of the corporate income tax allowance as follows:

- The opening tax asset base (TAB) as of 1 July 2023 was based on:
  - the AER approved opening TAB at the commencement of the current regulatory period.
  - our actual capital expenditure incurred during that period and the final year (2017–18) of the previous regulatory period.
- We applied standard tax asset lives for each asset class and the approved standard tax asset lives in the AER’s transmission determination for the current regulatory period. A new asset class and associated tax asset life has been proposed in relation to capitalisable lease costs in accordance with accounting standards.
- We used the AER’s latest RFM (version 4) to determine the remaining tax asset lives using the weighted average method. The proposed method is a continuation of the approved approach used in the current regulatory period and applies the approach as set out in the RFM.
- We adopted the statutory income tax rate of 30% per year.
- We forecast immediate expensed (for tax purposes) capex for the 2023-24 to 2027-28 regulatory period.
- We adopted the diminishing value method for tax depreciation for all new capital expenditure, other than capex associated with in-house software, equity raising costs and buildings which are depreciated on a straight line basis. All assets acquired prior to 1 July 2023 will continue to be depreciated using the straight line depreciation method for regulatory tax purposes, until these assets are fully depreciated.

1 Australian Energy Regulator, Regulatory Tax Approach Review, December 2018.

- We adopted a gamma value of 0.585 as a placeholder value, in accordance with the 2018 Rate of Return Instrument, as explained in Attachment 3.

Table 7.1 shows the forecast tax depreciation schedule for the 2023-24 to 2027-28 regulatory period, which has been used to calculate our corporate tax allowance.

Table 7.1: Forecast tax depreciation ($m nominal)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Tax depreciation	173.6	175.2	156.2	169.0	155.3	**829.3**

7.5 Corporate tax allowance

Based on the inputs described in Section 7.4, our proposed net tax allowance for the 2023-24 to 2027-28 regulatory period is set out in Table 7.2 below.

Table 7.2: Tax allowance ($m nominal)

Tax Allowance	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Tax payable	0.0	0.0	0.0	0.0	0.0	**0.0**
Less value of imputation credits	0.0	0.0	0.0	0.0	0.0	**0.0**
Net tax allowance	0.0	0.0	0.0	0.0	0.0	**0.0**

As explained above, this tax allowance has been calculated using the PTRM (version 5) based on the expected statutory income tax rate for each year of the regulatory period (30%) less the value of imputation credits (gamma) and the tax depreciation allowance summarised in Section 7.4.

As the tax payable is zero under this methodology, no tax allowance is included in our revenue requirement for the forthcoming regulatory period.