

# Combined Proposal 2024-2029

## Attachment 9 Corporate income tax



**Outline:** This attachment to TasNetworks' Combined Proposal sets out forecasts of the corporate tax allowances for TasNetworks' distribution and transmission networks in the regulatory control period commencing on 1 July 2024 and ending on 30 June 2029.



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# 9 Corporate income tax

## 9.1 Introduction

Under the post-tax revenue framework, a corporate income tax allowance is calculated for each Network Service Provider (NSP) using the Australian Energy Regulator's (AER) Post-Tax Revenue Model (PTRM). The NSP's estimate of the cost of corporate income tax for each regulatory year of the regulatory control period forms part of the NSP's building block proposal.

The building block for the estimated cost of corporate income tax takes into account the NSP's estimated taxable revenue and tax expenses (specifically depreciation, interest and operating expenditure), the statutory corporate income tax rate and the value of imputation credits. As with other aspects of the incentive regime applied by the AER, the forecast tax costs are based on a benchmark efficient entity operating the energy network, meaning the forecasts will differ from each NSP's actual tax liabilities.

In December 2018 the AER completed a review of its approach to calculating regulatory tax allowances. The purpose of the review was to investigate the nature of any differences between forecasts of NSPs' tax costs under the post-tax revenue framework and their actual tax payments.<sup>1</sup> The AER examined the drivers of these differences and considered whether changes to the regulatory tax approach were required.<sup>2</sup> In particular, the AER considered whether an alternative regulatory treatment would better measure efficient tax costs.<sup>3</sup>

In considering possible changes to the regulatory approach to assessing tax costs, the AER stated that its aim was not to reduce the tax difference (the AER noted that there may be valid and enduring reasons for the regulatory forecast of tax costs and actual tax payments to differ).<sup>4</sup> Rather, the AER focused on the promotion of the National Electricity Objective (NEO)<sup>5</sup> by seeking to identify the best method of determining NSPs' efficient tax costs.

The focus on the long-term interests of electricity consumers was also reflected in the AER's comments regarding inter-generational equity (i.e., ensuring that customers pay costs relevant only to the delivery of the services they receive), shorter effective regulatory asset lives for refurbishment capital expenditure (capex) and capitalisation policies and efficient capex/operating expenditure (opex) trade-offs.

### 9.1.1 Regulatory requirements

The estimated cost of corporate income tax is determined in accordance with clauses 6.5.3 and 6A.6.4 of the National Electricity Rules (NER). These clauses state that the estimated cost of corporate income tax for TasNetworks must be estimated for each regulatory year of the relevant regulatory control period in accordance with the following formula:

$$ETC_t = (ETI_t \times r_t) (1 - y)$$

where:

- $ETI_t$  is an estimate of the taxable income for each regulatory year that would be earned by a benchmark efficient entity as a result of the provision of standard control services (SCS) if such an entity operated the TasNetworks' regulated network business, such an estimate being determined in accordance with the AER's PTRM
- $r_t$  is the assumed statutory income tax rate for that regulatory year as determined by the AER
- $y$  is the value of imputation credits.

## 9.2 Distribution opening tax asset base

TasNetworks has rolled forward the distribution tax asset base (TAB) to 30 June 2024 using the AER's Roll Forward Model (RFM). In accordance with TasNetworks' 2019-2024 distribution determination, the tax depreciation on the opening TAB at 1 July 2019 has been calculated using the year-by-year tracking approach. These calculations are made in a separate depreciation model (provided in Supporting Document TasNetworks - 5 - RAB Depreciation Model).

1 Australian Energy Regulator, *Final report – Review of regulatory tax approach*, 17 December 2018, p 2.

2 Ibid

3 Ibid

4 Ibid

5 Ibid

The depreciation amounts have been substituted directly into the RFM. This tax depreciation on the opening TAB at 1 July 2019 matches the calculation made in the 2019-2024 distribution determination, except for necessary changes arising from replacing the forecast capex for the 2018-19 regulatory year with actual capex for the 2018-19 regulatory year.

In doing this, TasNetworks determined the roll forward of the TAB value from 1 July 2019 to 30 June 2024 to be \$1,756.52 million (\$ nominal) for SCS. This TAB value is based on the forecast capex net of capital contributions and disposals for the 2022-23 and 2023-24 regulatory years. This value will be updated in TasNetworks' Revised Regulatory Proposal to reflect the latest available information concerning actual and estimated capex for those regulatory years.

The roll forward of TasNetworks' TAB over the 2019-2024 regulatory control period is set out in Table 1.

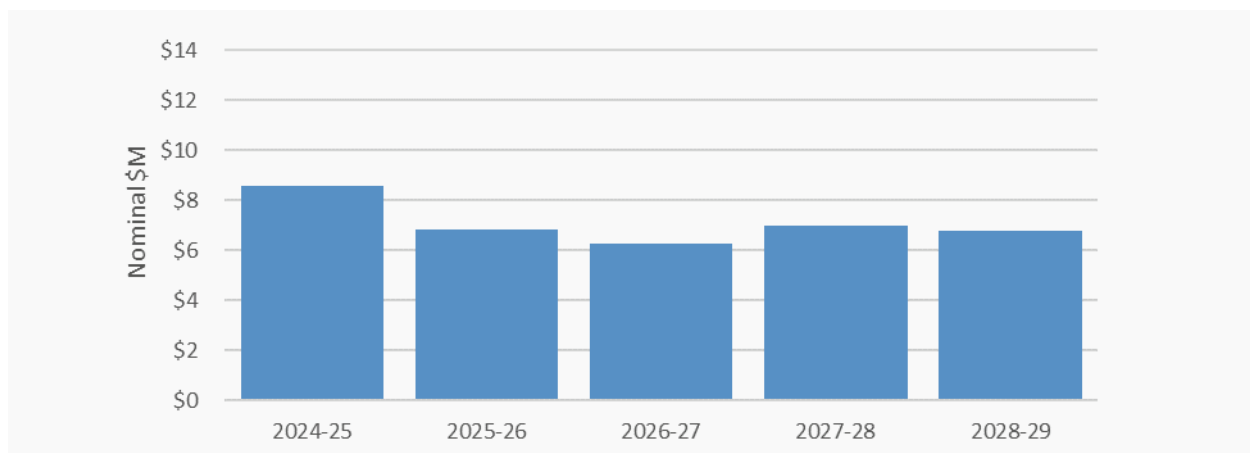
**Table 1. Distribution: SCS TAB roll forward to 30 June 2024 (nominal, \$million)**

	2019-20	2020-21	2021-22	2022-23	2023-24
Opening TAB	1,364.94	1,435.98	1,522.09	1,594.98	1,668.75
Plus capex, net of contributions and disposals	130.95	152.13	146.55	155.62	169.57
Less straight line depreciation	59.91	66.01	73.66	81.85	81.80
Closing TAB	<b>1,435.98</b>	<b>1,522.09</b>	<b>1,594.98</b>	<b>1,668.75</b>	<b>1,756.52</b>

### 9.3 Estimated distribution corporate income tax costs: 2024-2029

TasNetworks estimates that the cost of corporate income tax, net of imputation credits, for the distribution network for the 2024-2029 regulatory control period will be \$35.4 million (\$ nominal), which is represented in Figure 1.

**Figure 1. Distribution forecast tax allowance 2024-2029 (nominal, \$ million)**



As discussed in Attachment 4 – Rate of return, given the timing of the completion of the AER's review of the 2022 Rate of Return Instrument (**RoR Instrument**), for the purposes of this regulatory proposal TasNetworks has applied the AER's 2018 RoR Instrument. TasNetworks' value of imputation credits is based on a gamma value of 0.585 and a statutory tax rate of 30 per cent. TasNetworks' forecast tax allowance for the distribution network in the 2024-2029 regulatory control period is shown in Table 2 (below).

**Table 2. Distribution forecast tax allowance 2024-2029 (nominal, \$ million)**

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Tax payable	20.7	16.4	15.1	16.8	16.3	85.3
Less: value of imputation credits	12.1	9.6	8.8	9.8	9.5	49.9
Net corporate income tax allowance	<b>8.6</b>	<b>6.8</b>	<b>6.3</b>	<b>7.0</b>	<b>6.8</b>	<b>35.4</b>

Any changes arising from the finalisation of the AER's 2022 RoR Instrument will be reflected in TasNetworks' Revised Regulatory Proposal.

## 9.4 Transmission opening tax asset base

TasNetworks has rolled forward the transmission TAB to 30 June 2024 using the AER's RFM. In accordance with TasNetworks' 2019-2024 transmission determination, the tax depreciation on the opening TAB at 1 July 2019 has been calculated using the year-by-year tracking approach. These calculations are made in a separate depreciation model (provided in Supporting Document TasNetworks – 5 – RAB Depreciation Model).

The depreciation amounts have been substituted directly into the RFM. This tax depreciation on the opening TAB at 1 July 2019 matches the calculation made in the 2019-2024 transmission determination, except for necessary changes arising from the replacement of the forecast capex for the 2018-19 regulatory year with actual capex for the 2018-19 regulatory year.

In doing this, TasNetworks determined the roll forward of the TAB value for Prescribed Transmission Services from 1 July 2019 to 30 June 2024 to be \$1,121.09 million (\$ nominal).

This TAB value is based on the forecast/estimated capex for the 2022-23 and 2023-24 regulatory years. This value will be updated in our Revised Revenue Proposal to reflect the latest available information for our actual and estimated capex for those regulatory years.

Further details concerning the roll forward of TasNetworks' TAB over the 2019-2024 regulatory control period are set out in Table 3.

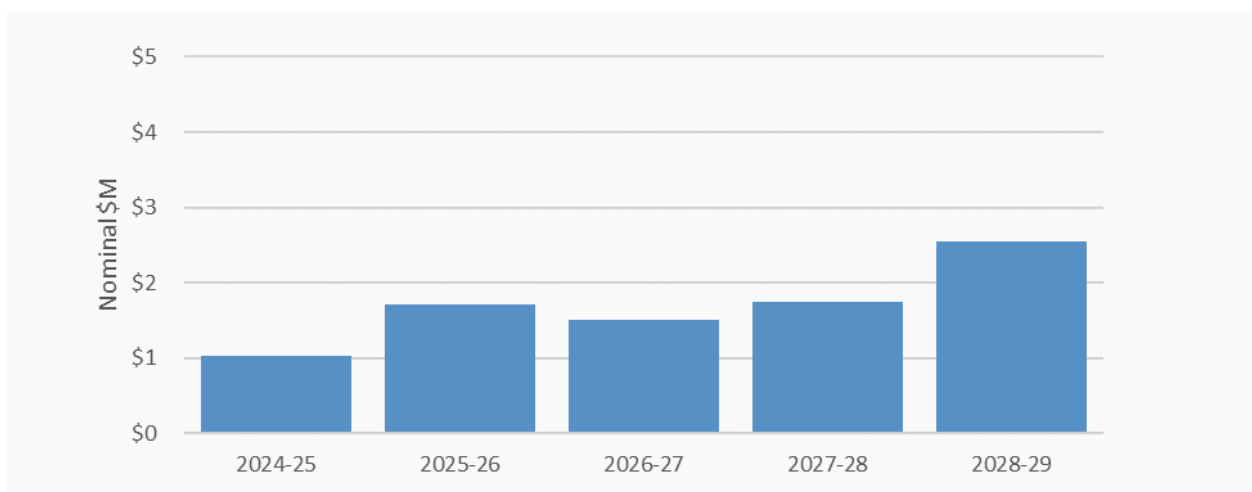
**Table 3. Transmission: Prescribed TAB roll forward to 30 June 2024 (nominal, \$million)**

	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Opening TAB</b>	1,108.07	1,122.18	1,113.40	1,110.70	1,108.17
<b>Plus capex, net of contributions and disposals</b>	57.62	37.41	43.50	45.55	60.89
<b>Less straight line depreciation</b>	43.50	46.20	46.20	48.08	47.96
<b>Closing TAB</b>	<b>1,122.18</b>	<b>1,113.40</b>	<b>1,110.70</b>	<b>1,108.17</b>	<b>1,121.09</b>

## 9.5 Estimated transmission corporate income tax costs: 2024-2029

TasNetworks estimates that the cost of corporate income tax, net of imputation credits, for the transmission network for the 2024-2029 regulatory control period will be \$8.5 million (\$ nominal), which is represented in Figure 2.

**Figure 2. Transmission forecast tax allowance 2024-2029 (nominal, \$ million)**



As described above, consistent with the AER's 2018 RoR Instrument, TasNetworks' value of imputation credits is based on a gamma value of 0.585 and a statutory tax rate of 30 per cent. TasNetworks' forecast tax allowance for the transmission network in the 2024-2029 regulatory control period is shown in Table 4 (below).

**Table 4. Transmission forecast tax allowance 2024-2029 (nominal, \$ million)**

	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>Total</b>
<b>Tax payable</b>	2.5	4.1	3.6	4.2	6.1	20.6
<b>Less: value of imputation credits</b>	1.5	2.4	2.1	2.5	3.6	12.1
<b>Net corporate income tax allowance</b>	<b>1.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.7</b>	<b>2.5</b>	<b>8.5</b>

Any changes arising from the finalisation of the AER's 2022 RoR Instrument will be reflected in TasNetworks' Revised Regulatory Proposal.

