

## **COMMERCIAL IN CONFIDENCE**

# Chapter 18a Regulatory Accounts Historical Cost Accounting

Covering:  
Reconciliation of operating profit to taxation charge

## Chapter 18a

# Regulatory Accounts

# Historical Cost Accounting

### Guidance

The return requirements relate to the appointed business and table 18a is no exception. It should be completed for the appointed business only.

This table has four blocks and a total of 22 lines. It covers the elements that go into the calculation of the tax charge starting at the historic cost operating profit level. The analysis covers all the adjustments required to determine trading profit in lines 2 to 4. All additions and deductions to trading profit are split between the appropriate categories to determine trading profit for tax purposes in lines 6 to 16.

The table should reflect the amounts in the tax computation for HMRC.

NI Water should ensure that values for historic cost depreciation, infrastructure renewals charge and operating profit in this table are consistent with other tables.. All deductions and additions calculated should be consistent with the values in table 18b (Allocation of Capital Expenditure for tax purposes).

All deductions to trading profit for tax purposes should be included in lines 6 to 12 and should represent all deductions agreed with the HMRC and any deductions expected to be received.

All additions to trading profit for tax purposes should be included in lines 14 to 15 and should represent all additions agreed with the HMRC and any additions expected to be received.

### Company commentary

We need to understand significant variations from the estimates that underpinned the tax charges reported in the previous year. Detailed explanations and reconciliations are required in situations where:

- the difference between the current tax charge arising from the submitted computations and that reported in the relevant years' accounts is more than 10%; or
- the difference in any individual item collected in table 18a and 18b is more than 20%.

NI Water should:

- Amend the lines relating to the prior reporting year for any alterations which may have occurred since the AIR08 submission for example due to HMRC determinations or changes made by NI Water in its tax computations or other reasons. NI Water should include explanation for these alterations in its supporting commentary.
- explain what computations have been agreed with HMRC in the current reporting year and those that are still subject to agreement;
- highlight any significant changes in allocations for tax purposes that have arisen as a result of the agreement of computations in the current reporting year;
- if line 12 'Other deductions' is populated, provide details of what this relates to;
- provide a reconciliation of table 18b line 6 (capitalised revenue expenditure deducted in the year of spend) to table 18a line 4. This should include the levels of IRE in table 18b line 6 and the corresponding amount of IRC in table 18a line 4;
- if line 15 'Other additions' is populated, provide details of what this relates to;

- detail any difference between line 17 (Trading profit for tax) and line 18 (Adjusted trading profit for tax) along with full explanations of what the difference relates to;
- if any tax credits have been received relating to previous years, explain how these have arisen;
- if any tax losses have been received from within the group (if such exists), detail the amounts and confirm if these have been paid for or received at nil charge;
- include a reconciliation of the differences between the effective tax rates and the standard rate of tax. Explanation should be provided on any large movements or unusual variances shown in these reconciliations;
- explain any differences between the interest charge reported in line 8 and that reported in table 18 for the previous year; and
- if line 21 (Payments for group relief) is populated; provide details on how the amount has been calculated. eg at full tax value.
- Explain and detail the PPP element of any line in the table.

**Guidance for Auditors**

See "Auditor's guidance", part F, "Taxation".

## Table 18a line definitions

### A CALCULATION OF TRADING PROFIT

<b>1</b>	HCA Operating profit	£m	3dp
<b>Definition</b>	Historic cost operating profit		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Copied: from table 18 line 5		
<b>Responsibility</b>	Regulatory Finance Team		

<b>2</b>	Total HCA Depreciation	£m	3dp
<b>Definition</b>	Total Historic cost depreciation charge for the year to be added back to operating profit to derive trading profit for tax purposes.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Calculated: Table 18 line 3 multiplied by -1		
<b>Responsibility</b>	Regulatory Finance Team		

<b>3</b>	Infrastructure renewals charge	£m	3dp
<b>Definition</b>	Total infrastructure renewals charge for the year to be added back to operating profit to derive trading profit for tax purposes.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Copied: from table 33 line 5 9		
<b>Responsibility</b>	Regulatory Finance Team		

<b>4</b>	Deduction for capitalised revenue expenditure	£m	3dp
<b>Definition</b>	Amount of deduction available relating to total capitalised revenue expenditure net of grants, eg IRC .		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input (negative number)		
<b>Responsibility</b>	Regulatory Finance Team		

<b>5</b>	Trading profit	£m	3dp
<b>Definition</b>	Trading profit for tax purposes		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Calculated field: sum of lines 1 to 4.		
<b>Responsibility</b>	Regulatory Finance Team		

**B DEDUCTIONS TO TRADING PROFIT**

<b>6</b>	Depreciation on capitalised revenue expenditure - Non-infra	£m	3dp
<b>Definition</b>	The amount of depreciation on capital expenditure identified in table 18b, line 7 in this and in previous years, which is allowed as a deduction for tax purposes. This is the total depreciation allowed this year on assets of this type.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field (positive number)		
<b>Responsibility</b>	Regulatory Finance Team		

<b>7</b>	Depreciation - capitalised revenue expenditure - Infra	£m	3dp
<b>Definition</b>	The amount of depreciation on capital expenditure identified in table 18b, line 8 in this and in previous years, which is allowed as a deduction for tax purposes. This is the total depreciation allowed this year on assets of this type.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field (positive number)		
<b>Responsibility</b>	Regulatory Finance Team		

<b>8</b>	Total interest charge	£m	3dp
<b>Definition</b>	<p>The net amount of interest payable by NI Water in the year. This should include interest on;</p> <ul style="list-style-type: none"> <li>• overdrafts;</li> <li>• loans (from all sources); and</li> <li>• debenture stock,</li> </ul> <p>less interest receivable in the year. This includes interest on</p> <ul style="list-style-type: none"> <li>• cash balances;</li> <li>• loans to other group companies or third parties;</li> <li>• the interest element on finance leases; and</li> <li>• other investments.</li> </ul> <p>It should exclude any amounts of interest charges calculated under FRS17.</p> <p>Note: Net interest charged should be entered as a positive number</p>		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field		
<b>Responsibility</b>	Regulatory Finance Team		

<b>9</b>	Capital allowances utilised - general pool	£m	3dp
<b>Definition</b>	Total Capital Allowances utilised in the year relating to the general (25%) pool.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field (positive number)		
<b>Responsibility</b>	Regulatory Finance Team		

<b>10</b>	Capital allowances utilised - long life pool	£m	3dp
<b>Definition</b>	Total capital allowances utilised in the year relating to the long life (6%) pool.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field (positive number)		
<b>Responsibility</b>	Regulatory Finance Team		

<b>11</b>	Industrial building allowance utilised	£m	3dp
<b>Definition</b>	Industrial building allowance utilised in the year.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field (positive number)		
<b>Responsibility</b>	Regulatory Finance Team		

<b>12</b>	Other deductions	£m	3dp
<b>Definition</b>	Deductions allowed from trading profit for tax purposes not covered under lines 6 to 11.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field (positive number)		
<b>Responsibility</b>	Regulatory Finance Team		

<b>13</b>	Total deductions	£m	3dp
<b>Definition</b>	Total deduction from trading profit allowed		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Calculated field: sum of lines 6 to 12.		
<b>Responsibility</b>	Regulatory Finance Team		

## C ADDITIONS TO TRADING PROFIT

<b>14</b>	Grants and contributions taxable on receipt	£m	3dp
<b>Definition</b>	Grants and contributions taxable on receipt		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Calculated field: table 18b line 11 multiplied by minus 1		
<b>Responsibility</b>	Regulatory Finance Team		

<b>15</b>	Other additions	£m	3dp
<b>Definition</b>	Other additions required to trading profits for tax purposes, not covered under line 14.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field (positive number)		
<b>Responsibility</b>	Regulatory Finance Team		

<b>16</b>	Total additions	£m	3dp
<b>Definition</b>	Total additions required to trading profits for tax purposes.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Calculated field: sum of lines 14 and 15		
<b>Responsibility</b>	Regulatory Finance Team		

<b>17</b>	Trading profit for tax	£m	3dp
<b>Definition</b>	Trading profit for tax taking into account all recognised deductions and additions required in the year.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Calculated field: sum of lines 5 and 16 minus line 13		
<b>Responsibility</b>	Regulatory Finance Team		

<b>18</b>	Adjusted trading profit for tax	£m	3dp
<b>Definition</b>	Adjusted trading profit for tax. This line should show the effect of any adjustments to trading profit for tax, e.g. losses brought forward or adjustments arising from the previous year.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field		
<b>Responsibility</b>	Regulatory Finance Team		

<b>19</b>	Current tax charge	£m	3dp
<b>Definition</b>	The current tax charge on profits from ordinary activities in the report year taken from the submitted computation.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input field		
<b>Responsibility</b>	Regulatory Finance Team		

<b>20</b>	Prior year adjustments	£m	3dp
<b>Definition</b>	Any decrease or increase in the reporting year's current tax charge caused by prior year adjustments.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Regulatory Finance Team		

<b>21</b>	Payments for group relief	£m	3dp
<b>Definition</b>	Any payments made to or received from group companies for transferral of losses.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Input		
<b>Responsibility</b>	Regulatory Finance Team		

<b>22</b>	Total current tax charge	£m	3dp
<b>Definition</b>	The total current tax charge for the year incorporating the current year's tax charge, prior year's adjustments and payments for group relief.		
<b>Primary Purpose</b>	Informing future price limit determinations		
<b>Processing rule</b>	Calculated: the sum of lines 19 to 21		
<b>Responsibility</b>	Regulatory Finance Team		

## CHANGE CONTROL SHEET

### CHAPTER 18a

2008/1.0	First issue of chapter for the SBP period
2009/1.0	<ul style="list-style-type: none"><li>• Second issue of chapter for the SBP period;</li><li>• Added requirement for company to update tax calculations submitted in AIR08;</li><li>• Amended processing rules for lines 1-3.</li></ul>