

COMMERCIAL IN CONFIDENCE

Chapter 18b

Regulatory accounts

Historical Cost

Accounting

Covering:
Allocation of capital expenditure for tax purposes

Chapter 18b

Regulatory accounts

Historical Cost Accounting

Guidance

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

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

This table has two blocks and a total of 19 lines. The first block details how capital expenditure will be treated for tax purposes. Line 12 should equal the total capital expenditure including IRE, with lines 1 to 11 showing the split of this expenditure between the different categories. These lines should be completed on a £m basis, they will also be shown as percentages of the total. Lines 1 to 11 should equal 100%. The second block contains additional information required such as the asset lives used for calculating the depreciation allowed for capitalised revenue expenditure, information on the opening tax position and PPP expenditure qualifying for capital allowances.

All capitalised expenditure should be allocated between lines 1 to 11 depending on how they will be treated for tax purposes. NI Water should ensure that all values in these lines are consistent with any deductions and additions in table 18a (Reconciliation of operating profit to taxation charge). The total amount of capitalised expenditure should be consistent with that submitted in the corporation tax computation.

Lines 13 and 14 should be completed with the average asset life used to calculate depreciation on capitalised revenue expenditure (Non-Infrastructure and Infrastructure assets).

Lines 15 to 18 should reflect the tax position for the reporting year.

Company commentary

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

- a) The difference in any individual item collected in table 18a and 18b is more than 20%.
- b) NI Water should:
 - Amend the lines relating to prior reporting years for any alterations which may have occurred since the AIR09 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/ prior reporting years 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/ prior reporting years.
 - Provide commentary on the amount and type of expenditure included in each category, specifically identifying IRE, MNI and enhancement expenditure.
 - Highlight any significant movements from the previous year and explain reasons for the movement.
 - If the total capitalised expenditure recorded in line 12 is significantly different, that is over 5%, to that recorded elsewhere in the Annual Information Return for the relevant year, a reconciliation should be provided.

- Provide commentary where the method of allocating capitalised revenue expenditure differs from that used in the previous year.
- Highlight any changes to accounting standards or policies that have resulted in changes in the allocation of capital expenditure for tax purposes with an explanation of the change and the resulting impact on the values in lines 1 to 11.
- Explain and detail the PPP element in any line of the table.

Guidance for Reporters

The Reporter should comment on the reasonableness of the asset life assumed by NI Water for infrastructure and non-infrastructure assets.

Guidance for Auditors

See "Auditors' guidance", part F, "Taxation".

Table 18b line definitions

A CAPITAL EXPENDITURE CATEGORIES

| | | | |
|------------------------|---|----|-----|
| 1 | Assets qualifying for 100% first year allowances | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12), which qualify for 100% first year allowances. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|---|----|-----|
| 2 | Assets to be included in the general pool (25%) | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12), to be included in the general capital allowance pool which will receive capital allowances at 25% p.a. on a reducing balance basis. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|---|----|-----|
| 3 | Assets qualifying for the long life pool (6%) | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12); to be included in the long life pool which will receive capital allowances at 6% p.a. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 4 | Assets qualifying for the industrial buildings allowance | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12), classified as industrial buildings for tax purposes. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 5 | Assets purchased under finance leasing | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12), purchased under finance leasing. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|---|----|-----|
| 6 | Capitalised revenue expenditure deducted in year of spend | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12) (a) which is of a revenue nature and hence treated as deferred revenue expenditure for tax purposes; and (b) for which a deduction is allowed for tax purposes in year of spend. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|---|----|-----|
| 7 | Capitalised revenue expenditure depreciated - Non infra | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12) (a) which is of a revenue nature; (and hence treated as deferred revenue expenditure for tax purposes); (b) which relates to non-infrastructure assets; and for which a deduction for depreciation is allowed. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 8 | Capitalised revenue expenditure depreciated - Infra | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12) which is (a) treated on a revenue nature and hence as deferred revenue expenditure for tax purposes; (b) related to infrastructure assets; and a deduction for depreciation is allowed. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 9 | Capitalised revenue expenditure not depreciated | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12) which is (a) of a revenue nature and hence is treated as deferred revenue expenditure for tax purposes; (b) not depreciated; and therefore no deduction is allowed. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|---|----|-----|
| 10 | Other assets not qualifying for capital allowances or revenue deductions | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12) in addition to those reported in line 9 which are not of a revenue nature and do not qualify for capital allowances or any other deduction for tax purposes. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 11 | Grants and contributions taxable on receipt | £m | 3dp |
| Definition | Amount of total capitalised expenditure net of grants (as reported in line 12) which relates to grants and contributions which are taxable on receipt. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (negative number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 12 | Total capitalised expenditure including IRE | £m | 3dp |
| Definition | The total of all capitalised expenditure (water and sewerage service) for both base service and enhancement purposes. This expenditure should be reported net of grants and contributions, but excluding adopted assets at nil cost. It should also include infrastructure renewals expenditure. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Calculated field: the sum of lines 1 to 11 | | |
| Responsibility | Regulatory Finance Team | | |

B ADDITIONAL INFORMATION

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|------------------------|---|-------|-----|
| 13 | Average asset life - Non infrastructure | Years | 0dp |
| Definition | The average asset life for non-infrastructure assets identified in line 7 and used in the calculation of the depreciation allowance reported in table 18a line 6. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|---|-------|-----|
| 14 | Average asset life - Infrastructure | Years | 0dp |
| Definition | The average asset life for infrastructure assets identified in line 8 and used in the calculation of the depreciation allowance reported in table 18a line 7. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 15 | Closing pool of capital allowances - general pool | £m | 3dp |
| Definition | Balance carried forward on capital allowances pool as at the balance sheet date for capital assets with a useful economic life of less than twenty-five years. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|---|----|-----|
| 16 | Closing pool of capital allowances - long life pool | £m | 3dp |
| Definition | Balance carried forward on long life capital allowances pool as at the balance sheet date for capital assets with useful economic life of greater than or equal to twenty-five years. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|---|----|-----|
| 17 | Residual IBAs | £m | 3dp |
| Definition | Net balance carried forward of Industrial Buildings Allowance assets as at balance sheet date for calculation of IBA's. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 18 | Losses brought forward | £m | 3dp |
| Definition | Cumulative revenue tax losses carried forward for the appointed business as at the balance sheet date. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

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|------------------------|--|----|-----|
| 19 | PPP expenditure qualifying for capital allowances | £m | 3dp |
| Definition | Amount of total PPP capitalised expenditure qualifying for capital allowances. | | |
| Primary Purpose | Informing future price limit determinations. | | |
| Processing rule | Input field (positive number) | | |
| Responsibility | Regulatory Finance Team | | |

CHANGE CONTROL SHEET

CHAPTER 18b

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| 2008/1.0 | First issue of chapter for the SBP period |
| 2009/1.0 | <ul style="list-style-type: none">• Second issue of chapter for the SBP period;• Added requirement for company to update tax calculations submitted in AIR08. |
| 2010/1.0 | Third issue of chapter for the SBP period. <ul style="list-style-type: none">• Minor changes. |
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