

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; i.e. the tax charge based on the statutory accounts under IFRS.

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 AIR10 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		

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		

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		

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		

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		

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		

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		

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		

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		

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		

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		

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

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		

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		

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		

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		

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		

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		

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

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.
2011/1.0	First issue of chapter for the PC10 period <ul style="list-style-type: none">• Minor changes.