

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

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 prior years for any alterations which may have occurred since the AIR12 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/prior 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 reporting year/ prior years.
- 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.
- If line 21 (Payments for group relief) is populated; provide details on how the amount has been calculated e.g. at full tax value.
- Explain and detail the PPP element of any line in the table.

Guidance for Auditors

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

Table 18a line definitions

A CALCULATION OF TRADING PROFIT

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

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

3	Infrastructure renewals charge (or relevant adjustment)	£m	3dp
Definition	Total infrastructure renewals charge (or relevant adjustment) for the year to be added back to operating profit to derive trading profit for tax purposes.		
Primary Purpose	Informing future price limit determinations		
Processing rule	May be copied from table 33 line 7 or input value if not equal to table 33 line 7. In the event of an input value being used; please provide basis and rationale applied.		
Responsibility	Regulatory Finance Team		

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

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

B DEDUCTIONS TO TRADING PROFIT

6	Depreciation on capitalised revenue expenditure - Non–infra	£m	3dp
Definition	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.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input field (positive number)		
Responsibility	Regulatory Finance Team		

7	Depreciation - capitalised revenue expenditure - Infra	£m	3dp
Definition	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.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input field (positive number)		
Responsibility	Regulatory Finance Team		

8	Total interest charge	£m	3dp
Definition	<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"> • overdrafts; • loans (from all sources); and • debenture stock, <p>less interest receivable in the year. This includes interest on</p> <ul style="list-style-type: none"> • cash balances; • loans to other group companies or third parties; • the interest element on finance leases; and • other investments. <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>		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input field		
Responsibility	Regulatory Finance Team		

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

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

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

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

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

C ADDITIONS TO TRADING PROFIT

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

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

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

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

18	Adjusted trading profit for tax	£m	3dp
Definition	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.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Input field		
Responsibility	Regulatory Finance Team		

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

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

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

22	Total current tax charge	£m	3dp
Definition	The total current tax charge for the year incorporating the current year's tax charge, prior year's adjustments and payments for group relief.		
Primary Purpose	Informing future price limit determinations		
Processing rule	Calculated: the sum of lines 19 to 21		
Responsibility	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"> • Second issue of chapter for the SBP period. • Added requirement for company to update tax calculations submitted in AIR08; • Amended processing rules for lines 1-3.
2010/1.0	Third issue of chapter for the SBP period. <ul style="list-style-type: none"> • Amended processing rule of Line 3. • Minor changes.
2011/1.0	First issue of chapter for the PC10 period. <ul style="list-style-type: none"> • Minor change to state that tax computation should be based on stat account calculation as submitted to HMRC. • Amended processing rule of Line 3.
2012/1.0	Second issue of chapter for the PC10 period. <ul style="list-style-type: none"> • No changes
2013/1.0	Third issue of chapter for the PC10 period <ul style="list-style-type: none"> • Minor changes.