121 point assessment

IT'S TIME TO GET TO WORK.

Take charge of your PowerTax and Provision modules with a wall-to-wall review powered by decades of utility tax experience and the ASI assurance suite.

RCC
REGULATED CAPITAL CONSULTANTS

Creators of ASI AGGREGATE SINGULARITY

START AT THE COR.

Cost of removal (COR) is the cost of disposing of an asset upon sale or retirement at the end of its life for a regulated utility which is capital intensive, this cost is included as a component of book depreciation and recovered from its customers. The COR component of book depreciation is accrued and reverses as actual removal costs are incurred. For tax purposes, the cost of removal expense accrued through the book depreciation reserve is reversed and actual cost of removal incurred is a deduction in the year incurred. This typically creates a net deferred tax asset if the accrual exceeds the actual costs or a net deferred tax liability if the actual costs exceed the accrual. In circumstances where either component of COR is required to be flowed through to customers by utility Commissions, there is a regulatory asset or liability established. Conversely, **Salvage** is the amount received upon disposition or sale of an asset but also has impacts to customer rates and taxable income.

Not since the passage of the **Tax Cuts and Jobs Act (TCJA)**, which created large excess reserves for deferred income taxes for utilities, has the question of whether or not the Section 168 normalization rules apply to COR or Salvage been directly addressed by the Internal Revenue Service (IRS).

IRS Guidance

In **PLR 202141001** just released by the IRS on October 15, 2021, the IRS concluded that a taxpayer's net deferred tax asset (DTA) for the cumulative timing differences between accrued COR and incurred COR is not subject to the normalization rules of Section 168(i)(9). The IRS also ruled that any associated excess deferred tax amount is not subject to the normalization rules of TCJA Section 13001(d).

This aligns with the conclusion in **PLR 202033002**, issued on August 14, 2020, where the IRS concluded that the net DTL created by COR is not protected by the normalization rules.

The IRS came to the opposite conclusion for Salvage...

In PLR 202141001, the IRS concluded that Taxpayer's deferred tax liability (DTL) for cumulative timing differences between the recognition of accrued gross salvage value and the subsequent taxation of such salvage amounts upon disposition is subject to the normalization rules of Code Section 168(i)(9) and the associated excess deferred tax amount is subject to the normalization rules of TCJA Section 13001(d) regardless of whether the gross salvage value timing differences are partially or fully offset by gross COR timing differences.

In either ruling, the IRS did not provide guidance on the actual implementation, however the IRS made it clear that the COR component of book depreciation should not offset protected Method/Life timing differences. For many utilities who have traditionally not performed this bifurcation of the book depreciation component of COR in the spread of book depreciation against protected Method/Life differences, the challenges associated with carving out the COR DTA from the method/life DTL when calculating the reversal of excess deferred taxes under the average rate assumption method (ARAM) can be daunting. If not done, the company will continue to reverse its protected Method/Life excess deferred taxes under ARAM too rapidly and create a potential normalization violation.

Within the context of PowerTax, these rulings support the justification of independent and distinct timing differences for both COR and Salvage:

Cost of Removal can already be configured within PowerTax to be solely independent with the leveraging of the COR vintage and the Net Salvage Book Depreciation column within Load/Depr/COR Salvage. This process is currently used by many within the industry to track COR as a separate timing difference, providing with COR book accrual and reversing with incurred COR.

This approach however is not currently available for the Salvage timing difference. But since Salvage is a protected normalization item, the historical PowerTax configuration of integrated Salvage and Method/Life timing differences is acceptable. Technically, the Salvage book accrual is netted with the whole life book depreciation in PowerTax and allocated to both Method/Life and Basis Difference timing differences, thereby spreading some portion of the Salvage accrual to potential unprotected, non-normalized items. Currently the PowerPlant book depreciation configuration does allow for independent Salvage accrual rates; however, the accumulated Salvage reserve balance is not stored within the system. Additionally, as stated above the salvage depreciation expense cannot be separated from the whole life depreciation automatically in PowerTax. A manual process to mirror the automated COR configuration can be created such that the Salvage timing difference remains fully normalized and is not allocated to basis differences.

The First Step

RCC, with decades of tax functional and system expertise, has the knowledge and expertise to help you with these COR and Salvage challenges. Please reach out to hear more of our thoughts on these topics and on how we can help you become compliant. More broadly, our team can perform a rapid health check of your tax systems, data, and processes to help you take stock of your current state and map out a path to a more optimal future state that aligns with industry leading practices.

More information on the assessment can be found on the next page...

Reach your goals with the capital asset experts.

__Regulated Capital Consultants__ will perform a comprehensive assessment and review of the processes, procedures, configuration, and data related to the PowerTax and Provision modules. The purpose of the assessment will be to align the PowerTax-related processes, procedures, configuration, and data to best practice industry standards. Tax department meetings, cross-departmental meetings, internal data analysis, system reviews, and process reviews will be performed during the assessment and serve as the basis for key issue identification and corresponding recommendations. Quick-fix items will be presented to the tax department and may be resolved as part of the assessment phase. At the conclusion of the work effort, RCC will provide a comprehensive PowerTax and Provision Assessment document which will document key issues as well as any proposed recommendations resulting from the health check.

Schedule a 1 hour call today to get started.

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PowerTax Module

Data Quality

- Case clean-up and consolidation
- Book cost comparison
- Book-to-tax out-of-balances
- Zero records
- Tax book review
- Bonus conformity review

Plant-to-Tax Integration

- Automation of book-tax capitalization differences
- Tax book translate
- Tax depreciation schemas
- Tax retirement rules
- Repair-related retirement processing

Outbound Integration

- Schedule M mappings
- State compliance
- Budgeting & forecasting data

PowerTax-Related Processes

- Tax basis tracking
- PowerTax case management
- Tax compliance processes
- Budgeting and forecasting processes

+ More

Provision

Data Quality

- M-Item configuration review
- Operating indicator level of detail
- Jurisdictional review
- Apportionments
- Deferred and current tax schemas
- Journal entry schemas
- Tax account-type review
- GAAP and FERC accounting review
- Allocations review
- External tax entries (recon)
- Master Data record duplication
- Deprecated/unused Master Data
- Misconfigured journal entry schemas
- Tax account configuration testing
- Stranded deferred tax check
- Deferred tax records to subledger alignment
- Tax account to operating segment alignment
- PP&E alignment to tax depreciation subledger
- CWIP configuration

Interfaces

- CR/GL to Provision
- PowerTax to Provision
- Spreadsheet loader
- Payments to Provision subledger
- Automated consolidations
- Journal entry posting
- Provision to compliance

Reporting

- M-item and account rollups
- Reporting customizations
- Any query for Provision data extraction

Process

- Interim, Quarter and Year End tax accounting close
- Return to Provision
- Forecasting to/from Provision
- External effective tax rate reconciliation
- Regulatory reporting