

THE NEW TAX LAW AND CHOICES FOR STATE UTILITY COMMISSIONS

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Major Utility Tax Law Issues

- Reduction of corporate tax rate from 35% to 21%
- Revaluation of Utility Accumulated Deferred Income Taxes (ADIT)
- Future Depreciation

Tax Rate Reduction

- Revenue requirement includes allowance for income taxes
- What is good for 35% is good for 21%
- It is the customer's money
- Customers should not be paying for costs the utility is not incurring

Accumulated Deferred Income Taxes

- Accumulated deferred income taxes (ADIT) result from a difference in income recognition between tax laws and accounting methods.
- Lower tax rates create excess ADIT
- What was paid by customers needs to be returned to customers

Accumulated Deferred Income Taxes (continued)

- Non-property related ADIT
- Property related ADIT (IRS Normalization)

Future Depreciation

- New 100% bonus tax depreciation is not available for public utility property.
- Existing 50% bonus tax depreciation is phased down.
- Issues remain on interpretation

Regulatory Actions

- Adjust current rates in pending rate case, at the utility's request or in a settlement agreement
- Set up ADIT tax benefit riders to return taxes to customers.