



Wentworth to Broken Hill Pipeline

Attachment 14

Income Tax and Working Capital

30 September 2025

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1. Income tax allowance

WaterNSW has included in our proposed notional revenue requirement our estimated tax liability (i.e. the regulatory tax allowance), in accordance with IPART's decision on the *Incorporation of Company Tax in Pricing Decisions*.

In proposing an income tax allowance, WaterNSW has applied IPART's standard approach consistent with the methodology applied at the 2022 Determination.

The first step in calculating the tax liability is to estimate taxable income. In simple terms, this considers gross income, tax depreciation, tax deductions (including deductible interest) and tax losses. The estimated taxable income is then multiplied by the corporate tax rate (with an appropriate adjustment for franking credits¹) to determine the tax bill for the pipeline services.

WaterNSW has used a notional gearing ratio of 60:40 debt to equity to compute the interest deductions for the tax allowance. This is the standard IPART approach, which also aligns with WaterNSW's actual gearing ratio forecast as specified in the SCI.

There are two elements of the regulatory tax allowance which are discussed further in this section:

- the accumulated tax losses
- tax depreciation.

1.1 Tax losses

As a state-owned corporation, WaterNSW must apply the relevant National Tax Equivalent Regime (NTER); however, IPART generally does not factor into its pricing decisions regarding actual tax losses. Instead, IPART requires expected tax losses to be rolled forward for each subsequent year of the regulatory period, with a starting balance of zero from the formation of the tax asset base.

Consistent with the IPART methodology, WaterNSW has assumed that the Wentworth to Broken Hill Pipeline Determination will have nil accumulated tax losses as at 1 July 2026.

IPART requires expected tax losses to be rolled forward for each subsequent year of the regulatory period, with a starting balance of zero from the formation of the tax asset base (TAB). Consistent with the IPART methodology, WaterNSW has rolled forward the accumulative tax losses from the 2022 Determination period if any.

1.2 Tax depreciation

For tax depreciation, there are two assumptions for IPART to consider:

- the effective life of depreciating assets for tax purposes
- the rate at which the assets are depreciation (e.g. prime method or diminishing method).

¹ A tax imputation credit factor of 0.25 as per IPART's 2018 WACC Method.

WaterNSW has applied effective lives for each of the TABs consistent with the lives used by IPART in the 2022 Determination. These are consistent with the assumptions used in forming the RABs in Attachment 13.

WaterNSW has adopted the prime cost method to calculate the tax depreciation forecast for the 2026 Determination period consistent with the approach used in the 2022 Determination. The prime method is consistent with the expected wear and tear of the pipeline asset. The SPV is not expected to run down its assets in the first half of its useful life as implied under the diminishing method.

1.3 Tax rate

WaterNSW has calculated the tax allowance for the pipeline using a notional corporate tax rate of 30% in accordance with the 2011 IPART review of *The incorporation of company tax in price determinations*.

1.3.1 Tax Allowance

After inputting the accumulative tax losses, tax depreciation assumptions, and the tax rate, WaterNSW has forecasted a regulatory tax allowance of **\$0.7 million** per annum across the 2026 Determination period for the pipeline as shown in the tables below in nominal and real (\$2025-26) terms.

Table 1: Tax allowance Essential Water and Offtakes (\$000s, \$nominal)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total	Average
Notional revenue requirement (excl. tax)	\$26,956	\$27,293	\$28,664	\$28,702	\$28,970	\$140,585	\$28,117
Less:							
Operating expenditure	\$6,018	\$6,001	\$6,991	\$6,649	\$6,567	\$32,226	\$6,445
Tax depreciation	\$4,931	\$4,936	\$4,959	\$4,976	\$4,977	\$24,779	\$4,956
Interest expense allowance	\$13,786	\$13,955	\$14,131	\$14,302	\$14,460	\$70,634	\$14,127
Taxable income	\$2,221	\$2,400	\$2,584	\$2,774	\$2,966	\$12,946	\$2,589
Less accumulated tax losses	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Taxable income after tax losses	\$2,221	\$2,400	\$2,584	\$2,774	\$2,966	\$12,946	\$2,589
Tax before adjustment for franking credits	\$860	\$929	\$1,000	\$1,074	\$1,148	\$5,011	\$1,002
Less: Adjustment for franking credits	-\$215	-\$232	-\$250	-\$268	-\$287	-\$1,253	-\$251
Tax allowance	\$645	\$697	\$750	\$805	\$861	\$3,758	\$752

Table 2: Tax allowance Essential Water and Offtakes (\$000s, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total	Average
Essential Water	\$627.0	\$660.2	\$692.6	\$724.6	\$755.2	\$3,459.6	\$691.9
Offtake customers	\$1.5	\$1.7	\$2.0	\$2.2	\$2.3	\$9.7	\$1.9

2. Working capital

A separate building block item is an allowance for working capital. Working capital represents the difference between current assets and current liabilities arising from the timing differences between accounts payable and accounts receivable, creating a financial liability for WaterNSW.

IPART's methodology for determining the working capital allowance is generally based on a 45-day payment term for accounts receivable and a 30 day payment term for accounts payable. The calculation for the working capital allowance is as follows:

$$\left[\text{Accounts Receivables} \times \frac{\text{Creditor Days}}{365} - \text{Accounts Payable} \times \frac{\text{Debtor Days}}{365} \right] \times WACC$$

IPART typically applies the revenue from the year prior to calculate accounts receivables. WaterNSW has continued to use this approach for consistency.

The proposed working capital allowance is set out in the tables below. This is a small amount that has been included in the notional revenue requirement (around 1% of the total revenue requirement).

Table 3: Working Capital Requirements Essential Water and Offtakes (\$000s, \$2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average
Receivables	\$3,410	\$3,394	\$3,474	\$3,399	\$3,351	\$17,028	\$3,406
Inventory	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Prepayments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: Accounts Payable	\$504	\$491	\$593	\$494	\$478	\$2,560	\$512
Net working capital	\$2,906	\$2,903	\$2,881	\$2,905	\$2,873	\$14,467	\$2,893
Return on working capital (year end)	\$169	\$168	\$167	\$168	\$167	\$839	\$168
Return on working capital (mid-year)	\$164	\$164	\$162	\$164	\$162	\$816	\$163

Table 4: Return on working capital Essential Water and Offtakes (\$000s, \$2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total	Average
Essential Water	\$163.6	\$163.5	\$162.2	\$163.5	\$161.8	\$814.6	\$162.9
Oftakes	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$1.2	\$0.2