



BEVERAGE CONTAINER MANAGEMENT BOARD
Income Tax Expense Calculation Methodology Policy

I. INCOME TAX EXPENSE CALCULATION METHODOLOGY POLICY

Definitions

1. In this policy:
 - a. "BCMB" means the Beverage Container Management Board;
 - b. "Bottle Depot" means a universal bottle depot operating in Alberta;
 - c. "CRA" means the Canadian Revenue Agency;
 - d. "DCA" means the BCMB's Data Collection Agent;
 - e. "HC" means, at any particular time, the Handling Commission rates most recently approved and implemented by the BCMB for payment to Bottle Depots for their handling of registered bottle containers;
 - f. "HCRP" means the Handling Commission Review Panel which was involved in the BCMB's 2005 to 2007 HC review process;
 - g. "Revenue Requirement" means the estimated annual cost to operate the Alberta Bottle Depot network and is used to determine HCs.
 - h. "UCA" means the BCMB Uniform Code of Accounts.

Background to Policy

2. The "Income Tax Expense Calculation Methodology" issue for the BCMB can be summarized as follows:
 - a. Utility regulatory precedent is that utilities receive a certain after-tax net return or profit and that all applicable tax expenses, including without limitation income tax expenses, are to be included in the determination of the revenue requirement for a particular utility.
 - b. The income tax expenses to be included in any particular annual Revenue Requirement could be calculated on a Bottle Depot system basis (assuming that all Bottle Depots are equally profitable and assuming that all Bottle Depots are equally taxable) or on an individual Bottle Depot by Bottle Depot basis (assuming that some Bottle Depots are profitable and others are not based on the reported UCA data and assuming that all Bottle Depots are not equally taxable).
 - c. In Alberta, there are non-profit Bottle Depots that may or may not incur income tax expenses. CRA rules may require that non-profit Bottle Depots pay income taxes in order to ensure a level playing field is maintained with for-profit Bottle Depots.

- d. Some Bottle Depots are owned by corporations and some Bottle Depots are owned by individuals who operate as sole proprietors. The income tax rates for corporations and sole proprietors differ. The income tax rates for sole proprietors vary with net income levels. The income tax rates for corporations vary with net income levels.
3. For utility regulatory applications a system basis is typically used because a utility is typically regulated as a single entity. It does not matter if certain divisions or profit centres of a utility are profitable or not; the income tax expense provision used in the determination of a revenue requirement for that utility is determined for the utility as a whole.
4. The Bottle Depot network is comprised of about 200 individually owned Bottle Depots. Each Bottle Depot incurs income tax expenses based on their individual circumstances, including without limitation their cost structure, the method they used to provide remuneration to their Bottle Depot owner (salary, management fees, dividends, sole proprietor profits, etc.), and their ownership type (incorporated, non-profit, multi-business, sole proprietorship, etc.). The 2006 Revenue Requirement, for example, was determined based on the total sum of the individual Bottle Depot expenses, calculated on a Bottle Depot by Bottle Depot basis. It is reasonable to expect Bottle Depot income tax expenses to be determined on an individual Bottle Depot by Bottle Depot basis as well.
5. During the 2005 to 2007 HC review process, the DCA and all Interested Parties, as determined by the HCRP for that review process, supported the determination of Bottle Depot income tax expenses on an individual Bottle Depot by Bottle Depot basis. The HCRP, however, recommended that an income tax expense using the average small business corporate income tax rate be determined and applied on a system basis.
6. To most accurately represent the real costs of the Bottle Depot network and for consistent treatment of all cost and revenue elements of the Revenue Requirement, the calculation of Bottle Depot income tax expenses to be used in determining any particular Revenue Requirement should be determined on an individual Bottle Depot by Bottle Depot basis.

Income Tax Expense Calculation Determined On An Individual Basis

7. The calculation by the DCA of Bottle Depot income tax expenses to be used in determining any particular Revenue Requirement shall be determined on an individual Bottle Depot by Bottle Depot basis.
8. The DCA will calculate the income tax expense provision for each individual Bottle Depot and in doing so, and in addition to those factors which the DCA determines are relevant to such calculations, will also take into consideration the following factors:
 - a. Bottle Depot ownership structure (for example: incorporated, partnership, sole proprietor, not-for profit, society or charity);
 - b. applicable income tax rate for that Bottle Depot; and
 - c. revenues and as adjusted costs for that Bottle Depot based on UCA reported data.