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## Definitions

1. In this Policy:
  - A. “BCMB” means the Beverage Container Management Board. The BCMB is a management board within the meaning of the Environmental Protection and Enhancement Act (Alberta) whose mandate is to regulate and enhance a leading beverage container system that protects Alberta’s environment;
  - B. “Container” means a bottle, can, plastic cup or paperboard carton or a package made of metal, plastic, paper, glass or other material, or a combination of them, that contains or has contained a beverage;
  - C. “CRA” means the Canadian Revenue Agency;
  - D. “DCA” means the BCMB’s Data Collection Agent;
  - E. “Depot” means a place operated as a business for the collection of empty Containers;
  - F. “Handling Commission” or “HC” means the amount payable for each Container collected from a Depot in accordance with section 13(b) of the Regulation;
  - G. “HCRP” means the Handling Commission Review Panel which was involved in the BCMB’s 2005 to 2007 HC review process;
  - H. “Revenue Requirement” means the amount of money that all Depots as a group must collect through Handling Commissions in a given period of time in order to recover prudently-incurred costs, expenses and taxes and to earn a fair return; and
  - I. “Uniform Code of Accounts” or “UCA” means the series of forms identified as such and provided to each Depot by the Data Collection Agent for the purpose of collecting financial and operational data on an annual basis.

## 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 Depot system basis (assuming that all Depots are equally profitable and assuming that all Depots are equally taxable) or on an individual Depot by Depot basis (assuming that some Depots are profitable and others are not based on the reported UCA data and assuming that all Depots are not equally taxable).
  - C.** In Alberta, there are non-profit Depots that may or may not incur income tax expenses. CRA rules may require that non-profit Depots pay income taxes in order to ensure a level playing field is maintained with for-profit Depots.
  - D.** Some Depots are owned by corporations and some 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 Depot network is comprised of about 200 individually owned Depots. Each 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 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 Depot expenses, calculated on a Depot by Depot basis. It is reasonable to expect Depot income tax expenses to be determined on an individual Depot by 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 Depot income tax expenses on an individual Depot by 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 Depot network and for consistent treatment of all cost and revenue elements of the Revenue Requirement, the calculation of Depot income

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tax expenses to be used in determining any particular Revenue Requirement should be determined on an individual Depot by Depot basis.

### **Income Tax Expense Calculation Determined on An Individual Basis**

7. The calculation by the DCA of Depot income tax expenses to be used in determining any particular Revenue Requirement shall be determined on an individual Depot by Depot basis.
8. The DCA will calculate the income tax expense provision for each individual 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. Depot ownership structure (for example: incorporated, partnership, sole proprietor, not-for profit, society or charity);
  - B. applicable income tax rate for that Depot; and
  - C. revenues and as adjusted costs for that Depot based on UCA reported data.