

NTER update

Eligible water authorities may access the lower corporate tax rate

There has been a degree of uncertainty as to whether water authorities with an annual turnover of less than \$50m could enjoy the lower 27.5% company tax rate.

In particular, questions were raised as to whether the relevant water authority should be regarded as an associated entity of the Department of Environment, Land, Water and Planning (DELWP).

This is an important question, as the restatement of deferred tax balances from applying the lower corporate tax rate could have a material impact (generally a positive one) on the income tax expense/benefit line.

In addition, this will also impact the maximum franking rate that would apply to any dividends paid.

The National Tax Equivalent Regime (NTER) administrator has recently confirmed that eligible water authorities could apply the lower corporate tax rate.

In other words, each water authority is not regarded as an associated entity of DELWP or other water authorities.

The NTER manual has been updated to include eligibility for NTER entities to use the lower company tax rate of 27.5% if they are a base rate entity. Please refer to paragraph 125 of the manual.

For the 2019/20 income year, the NTER entity will qualify to be a base rate entity if:

- no more than 80% of its assessable income for the year of income is base rate entity passive income; and
- its aggregated turnover for the year of income, worked out as at the end of the year, is less than \$50 million.

Base rate entity passive income is:

- Corporate distributions and franking credits on these distributions
- Royalties and rent
- Interest income (some exceptions apply)
- A net capital gain

Finally, we note that ShineWing Australia's proprietary full tax compliance software (CTS) automates the restatement of the deferred tax balances and generation of the tax disclosure notes and journals for the financial statements.

CTS is used by a number of water authorities to streamline their tax compliance processes. Please contact one of our experts if you have any questions or would like a demonstration of CTS.

Contact us



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