



State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THOMAS BRADY
Deputy Director

CHRIS PARKER
Director, Division of Public Utilities

GARY HERBERT
Governor
SPENCER J. COX
Lieutenant Governor

MEMORANDUM

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Bill Duncan, Telecommunications / Water Manager
Mark Long, Utility Analyst

Date: February 28, 2018

Re: Investigation into appropriate Regulatory Action for Water or Sewer Utilities holding a CPCN from the PSC, and the Impacts on those Utilities from New Federal Legislation. Docket No. 18-999-04.

RECOMMENDATION:

The Division of Public Utilities (DPU or Division) recommends that no regulatory action be taken on the water and sewer utilities regulated by the Utah Public Service Commission (PSC) based on the new federal Tax Reform Act.

ACTION REQUEST:

On or about January 2, 2018, the PSC issued an Action Request to the DPU to investigate and report whether any regulatory action is appropriate with respect to each of the water utilities who hold a Certificate of Public Convenience and Necessity from the PSC, and the impacts on those utilities from the new federal legislation titled: "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution of the budget for fiscal year 2018."

TAX REFORM ACT AND APPLICABLE CORPORATE TAX RATES:

The Tax Reform Act was signed into law on or about December 22, 2017, and will be applied to 2018 taxable income. This tax act removes the graduated tax rates range from 15% to 38% and replaces it with a 21% tax rate for all taxable income levels.

According to the instructions for IRS Form 1120, U.S. Corporation Income Tax Return, the 2017 corporate tax rates based on taxable income are as follows:

Tax Rate Schedule				
If taxable income (line 30, Form 1120) on page 1 is:				
<i>Over—</i>	<i>But not over—</i>	<i>Tax is:</i>	<i>Of the amount over—</i>	
\$0	\$50,000	15%	\$0	
50,000	75,000	\$ 7,500 + 25%	50,000	
75,000	100,000	13,750 + 34%	75,000	
100,000	335,000	22,250 + 39%	100,000	
335,000	10,000,000	113,900 + 34%	335,000	
10,000,000	15,000,000	3,400,000 + 35%	10,000,000	
15,000,000	18,333,333	5,150,000 + 38%	15,000,000	
18,333,333	35%	0	

Tax Rate Schedule from IRS Form 1120 Instructions

RESULTS OF DIVISON’S REVIEW OF ALL REGULATED WATER UTILITIES:

The Division reviewed each of the 26 regulated water utilities and the one regulated sewer utility to determine what impact the tax act would have on them. The Division’s review of the 27 water and sewer utilities regulated by the PSC shows the following results:

CATEGORY	Number of Companies
Utilities Registered as Non-Profit (All 12 Water)	12
Utilities Reporting less than \$50K Taxable Income (13 Water & 1 Sewer)	14
Utility with Taxable Income more than \$50K (1 Water)	1

ANALYSIS OF RESULTS:

There are 12 water utilities registered as “Non-Profit” that have no corporate income tax obligations and are unaffected by the new corporate tax rates.

There are 13 water utilities and one sewer utility with taxable income of less than \$50K. Based on past income levels, these 14 companies may pay more corporate income taxes because their tax rate went from 15% to 21%. This 6% increase in taxes on taxable income less than \$50K will be relatively nominal.

The remaining one water utility with 2016 earnings marginally greater than \$50K will have a potential net increase in corporate income taxes of about 4% based on the new tax act. Based on this income level, the impact is minimal.

CONCLUSION:

Based on the Division's analysis, none of the regulated water and sewer utilities will have a reduction in income tax liability based on the new corporate tax act. Some companies will have a 4% to 6% increase in income tax liability based on the new corporate tax act. Since most of the for-profit companies show taxable income well below the \$50K income level, the 4% to 6% increase will be nominal and have an insignificant impact on their revenue requirements.