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RE: Tax Effect Accounting, NTERS and Presentation of Financial Statements

Esteemed members,

I am writing with respect to a technical concern I have in relation to the imposition of Tax Effect Accounting for designated not for profit government owned entities. This concern arises in relation to two matters.

Firstly, to my mind the reference to tax is both confusing and legally incorrect. The tax act itself references the imposition of the National Tax Equivalents (NTERS) as not a tax but only an administrative arrangement (see Part 1.6). This aligns with the constitutional framework between federal and state authorities. Accordingly NTER payments calculated by reference to the Tax Act do not form part of the commonwealth consolidated revenue but instead can be passed directly to the owners – in this case the respective State Government Treasury.

Secondly, the imposition of a payment regime between an entity and its owners which is essentially non-reciprocal in nature would, again to my mind, fail the SAC tests for liabilities. This second matter specifically relates to the presentation of Deferred Future Tax obligations as a Liability rather than an Equity classification.

My concerns are raised with particular emphasis for Victoria Water Authorities, where large net Deferred Tax Liabilities, predominantly driven from inter-government transfers and asset revaluations, are a significant feature of most Balance Sheets. These entities are price controlled through the Essential Services Commission and subject to an agreed dividend should profits arise. State Treasury is thus the recipient of both traditional dividend and NTER calculated returns.

Given that the (net) Deferred Tax Liabilities are likely to remain a significant feature of Water Board accounts it seems that presentation could be much improved through greater consistency with SAC notions of liability and reciprocity. Accordingly I would ask that the board consider presentation of NTER obligations in State entity balance sheets be presented as Equity, thus more fully reflecting both the form and function of obligations between the entity and its owner.

Sincerely

Ms Joh Barker