

ORIGINAL

Decision No. 50148

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
	:	
CITIZENS UTILITIES COMPANY OF)	
CALIFORNIA, a California corporation,	:	
)	Application
for an order approving proposed account-	:	No. 35442
ing treatment of federal and state in-)	
come taxes as affected by accelerated	:	
amortization of certificated defense)	
facilities.	:	
-----)	

O P I N I O N

In this application Citizens Utilities Company of California requests approval of its proposed accounting treatment with respect to deferments of taxes on income resulting from accelerated amortization, for tax purposes, of an investment in certificated defense facilities.

Under the provisions of Section 124-A of the United States Internal Revenue Code, any taxpayer who has received a certificate of necessity from the defense authority for the construction of emergency facilities may amortize the cost of the facilities, for tax purposes, over a period of 60 months, in lieu of taking depreciation over the estimated life of such facilities, and thereby realize reductions in taxes on income during the period of amortization. Applicant, in Exhibit C attached to the application, lists certificates permitting the rapid amortization of \$382,994.28 of expenditures for emergency facilities.

Applicant reports that in preparing its federal and state tax returns based on income earned in the year 1952 it claimed

accelerated amortization in lieu of normal depreciation for the certificated facilities. It may claim similar deductions in preparing its tax returns for 1953 and subsequent years. It proposes to account for the reduction in taxes based on income by charging to an income account, during the period of accelerated amortization, the reduction in taxes and by crediting the same to a special reserve account. Following the close of the amortization period it proposes to draw down the balance in the special reserve account by crediting to current income an amount equal to the annual increase in taxes based on income during the post-amortization period, which increase will result from the fact that normal depreciation on the emergency facilities cannot then be deducted. Applicant asserts that the utilization of the necessity certificates will enable it to realize additional working funds through internal sources.

The accelerated amortization provisions of the Internal Revenue Code do not relieve the utility from the payment of income taxes; they merely defer payment to a later date. The effect of applicant's proposed accounting treatment is to eliminate the fluctuations in the income account which would result from the deferment of taxes to a subsequent period and to state the net income, during both the amortization and the post-amortization periods, as if the certificates had not been accepted.

We have reviewed this matter and are of the opinion that applicant's proposed accounting treatment should be authorized.

O R D E R

The Commission having considered the above entitled matter, and being of the opinion that a public hearing is not necessary and

that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Citizens Utilities Company of California, in accounting for reductions in federal and state income taxes arising from the exercise of necessity certificates permitting the accelerated amortization of defense facilities, is authorized:

(a) To establish and charge Income Account No. 305A, to be entitled Provision for Deferred Income Taxes, and concurrently establish and credit Balance Sheet Account No. 174A, to be entitled Reserve for Deferred Income Taxes, with the aforesaid federal and state income tax reduction for 1952 resulting from accelerated amortization of said certificated defense facilities, and to make similar entries for each year thereafter during the period of accelerated amortization covering the reduction in federal and state income taxes resulting from the deduction from taxable income of the excess of such accelerated amortization over normal tax depreciation; and

(b) Following the expiration or earlier termination of such amortization period, and continuing until the balance in said Account No. 174A has been exhausted, to charge said Account No. 174A and concurrently credit said Account No. 305A, with an amount equal to the increase in federal and state income taxes resulting from the reduction in the amount allowed for depreciation for tax purposes due to said accelerated amortization.

2. Citizens Utilities Company of California shall file with each annual report to the Commission a statement showing for the accounting period in question and for each necessity certificate the normal depreciation expense assignable thereto, the amortization


claimed for tax purposes, the resulting tax deferment, and the accounting for these tax deferments.

3. Property in respect of which said necessity certificates are issued shall be accounted for in the same manner as other property and depreciation for such facilities shall be accrued at normal rates.

4. The authorization herein granted is for accounting purposes only. The Commission reserves the right to determine how the deferred taxes may be treated in any future rate making proceedings which may come before it.

5. The authority herein granted will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 18th day of June, 1954.



President





Commissioners