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Rev. Proc. 2020-39: Normalization rules for public utilities, 2017 tax law changes (TCJA)

The IRS today released an advance version of Rev. Proc. 2020-39 to clarify the normalization requirements for public utilities in light of changes to the corporate income tax by the 2017 U.S. tax law.

Rev. Proc 2020-39 [PDF 51 KB] applies with regard to public utilities subject to normalization that have “excess tax reserve” (the portion of the accumulated deferred income taxes (ADIT) reserve that reflects the difference in the corporate income tax rates due to accelerated depreciation) resulting from the corporate tax rate reduction from 35% to 21% by the U.S. 2017 tax law (Pub. L. No. 115-97 or the law that is often referred to as the “Tax Cuts and Jobs Act” (TCJA)).

“Normalization” is a system of accounting used by regulated public utilities to reconcile the tax treatment of accelerated depreciation of public utility assets with their regulatory treatment. The use of normalization is required for a utility to take advantage of the accelerated cost recovery system under section 168 for public utility property. Under normalization, a utility receives the tax benefit of accelerated depreciation in the early years of an asset’s regulatory useful life and passes that benefit through to ratepayers ratably over the regulatory useful life of the asset in the form of reduced rates.

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