

§ 32.23

4100, Net Current Deferred Operating Income Taxes;
4110, Net Current Deferred Nonoperating Income Taxes;
4340, Net Noncurrent Deferred Operating Income Taxes;
4350, Net Noncurrent Deferred Nonoperating Income Taxes.

In lieu of the accounting prescribed herein, any company shall treat the increase or reduction in current income taxes payable resulting from the use of flow through accounting in prior years as an increase or reduction in current tax expense.

(b) Supporting documentation shall be maintained so as to separately identify the amount of deferred taxes which arise from the use of an accelerated method of depreciation.

(c) Subsidiary records shall be used to reduce the deferred tax assets contained in the accounts specified in paragraph (a) of this section when it is likely that some portion or all of the deferred tax asset will not be realized. The amount recorded in the subsidiary record should be sufficient to reduce the deferred tax asset to the amount that is likely to be realized.

(d) The records supporting the activity in the deferred income tax accounts shall be maintained in sufficient detail to identify the nature of the specific temporary differences giving rise to both the debits and credits to the individual accounts.

(e) Any company that uses accelerated depreciation (or recognizes taxable income or losses upon the retirement of property) for income tax purposes shall normalize the tax differentials occasioned thereby as indicated in paragraphs (e)(1) and (e)(2) of this section.

(1) With respect to the retirement of property the book/tax difference between (i) the recognition of proceeds as income and the accrual for salvage value and (ii) the book and tax capital recovery, shall be normalized.

(2) Records shall be maintained so as to show the deferred tax amounts by vintage year separately for each class or subclass of eligible depreciable telephone plant for which an accelerated method of depreciation has been used for income tax purposes. When property is transferred to nonregulated activities, the associated deferred income

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taxes and unamortized investment tax credits shall also be identified and transferred to the appropriate nonregulated accounts.

(f) The tax differentials to be normalized as specified in this section shall also encompass the additional effect of state and local income tax changes on Federal income taxes produced by the provision for deferred state and local income taxes for book/tax temporary differences related to such income taxes.

(g) Companies that receive the tax benefits from the filing of a consolidated income tax return by the parent company, (pursuant to closing agreements with the Internal Revenue Service, effective January 1, 1966) representing the deferred income taxes from the elimination of intercompany profits for income tax purposes on sales of regulated equipment, may credit such deferred taxes directly to the plant account which contains such intercompany profit rather than crediting such deferred taxes to the applicable accounts in paragraph (a) of this section. If the deferred income taxes are recorded as a reduction of the appropriate plant accounts, such reduction shall be treated as reducing the original cost of the plant and accounted for as such.

[51 FR 43499, Dec. 2, 1986, as amended at 59 FR 9418, Feb. 28, 1994]

§ 32.23 Nonregulated activities.

(a) This section describes the accounting treatment of activities classified for accounting purposes as "nonregulated." Preemptively deregulated activities and activities (other than incidental activities) never subject to regulation will be classified for accounting purposes as "nonregulated." Activities that qualify for incidental treatment under the policies of this Commission will be classified for accounting purposes as regulated activities. Activities that have been deregulated by a state will be classified for accounting purposes as regulated activities. Activities that have been deregulated at the interstate level, but not preemptively deregulated, will be classified for accounting purposes as regulated activities until such time as this Commission decides otherwise.

The treatment of nonregulated activities shall differ depending on the extent of the common or joint use of assets and resources in the provision of both regulated and nonregulated products and services.

(b) When a nonregulated activity does not involve the joint or common use of assets and resources in the provision of both regulated and nonregulated products and services, carriers shall account for these activities on a separate set of books consistent with instructions set forth in §§32.1406 and 32.7990. Transfers of assets, and sales of products and services between the regulated activity and a nonregulated activity for which a separate set of books is maintained, shall be accounted for in accordance with the rules presented in §32.27, Transactions with Affiliates. In the separate set of books, carriers may establish whatever detail they deem appropriate beyond what is necessary to provide this Commission with the information required in §§32.1406 and 32.7990.

(c) When a nonregulated activity does involve the joint or common use of assets and resources in the provision of regulated and nonregulated products and services, carriers shall account for these activities within accounts prescribed in this system for telephone company operations. Assets and expenses shall be subdivided in subsidiary records among amounts solely assignable to nonregulated activities, amounts solely assignable to regulated activities, and amounts related to assets and expenses incurred jointly or in common, which will be allocated between regulated and nonregulated activities. Carriers shall submit reports identifying regulated and nonregulated amounts in the manner and at the times prescribed by this Commission. Nonregulated revenue items not qualifying for incidental treatment as provided in §32.4999(l) of this part, shall be recorded in separate subsidiary record categories of Account 5280, Nonregulated operating revenue. Amounts assigned or allocated to regulated products or services shall be subject to part 36 of this chapter.

[52 FR 6560, Mar. 4, 1987, as amended at 53 FR 49322, Dec. 7, 1988; 59 FR 46930, Sept. 13, 1994; 64 FR 50007, Sept. 15, 1999]

§ 32.24 Compensated absences.

(a) Companies shall record a liability and charge the appropriate expense accounts for compensated absences (vacations, sick leave, etc.) in the year in which these benefits are earned by employees.

(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this part, the liability shall be recorded in Account 4130. Other current liabilities, with a corresponding entry to Account 1438, Deferred maintenance, retirements and other deferred charges. This deferred charge shall be amortized on a straight-line basis over a period of ten years.

(c) Records shall be maintained so as to show that no more than ten percent of the deferred charge is being amortized each year.

[51 FR 43499, Dec. 2, 1986, as amended at 67 FR 5679, Feb. 6, 2002]

§ 32.25 Unusual items and contingent liabilities.

Extraordinary items, prior period adjustments, and contingent liabilities may be recorded in the company's books of account without prior Commission approval.

[65 FR 16334, Mar. 28, 2000]

§ 32.26 Materiality.

Companies shall follow this system of accounts in recording all financial and statistical data irrespective of an individual item's materiality under GAAP, unless a waiver has been granted under the provisions of §32.18 of this subpart to do otherwise.

§ 32.27 Transactions with affiliates.

(a) Unless otherwise approved by the Chief, Wireline Competition Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at