



**BASIN ELECTRIC  
POWER COOPERATIVE**

A Touchstone Energy® Cooperative 

# Manager's Advisory Committee

January 24, 2018

# Tax Reform Update

**Final Bill Signed into Law  
Friday, December 22, 2017**



**BASIN ELECTRIC  
POWER COOPERATIVE**  
A Tractone Energy<sup>®</sup> Cooperative 

# Corporate Tax Rate Change to 21%

- Rate change took effect January 1, 2018
- Rate change impacts the measurement of deferred tax assets/liabilities
- Financial statement impact is recorded in the period the bill is enacted into law (December 2017 when President signed)
- Deferred tax assets and liabilities are measured using the tax rate in effect in the year the deferred tax item will be realized

# Corporate Tax Rate Reduction Estimate

Estimated 2017 Financial Statement Impact of Rate Change (in millions)\*

	DGC	DCC	MLC	PW	Total
NOLs	(\$45.0)	(\$7.9)	(\$2.7)	(\$14.0)	(\$69.6)
DTLs	\$38.5	\$11.7	\$2.9	\$41.6	\$94.7
OCI	(\$1.2)	\$2.8	\$0	\$0	\$1.6
Tax (Exp) or Benefit	<u>(\$7.7)</u>	<u>\$6.6</u>	<u>\$0.2</u>	<u>\$27.6</u>	<u>\$26.7</u>

**\*High level estimate using November 30, 2017 balances**

# Net Operating Loss Modifications

- Existing losses for years 2017 and prior remain subject to the 20 year carry-forward and are eligible to offset 100% of taxable income
- Net operating losses generated in years after 2017 will have an indefinite carry-forward period
- However, use of losses are limited to 80% of taxable income
- These indefinite loss carry-forwards are still subject to a valuation allowance for financial statement purposes

# Interest Expense Limitation

- Deduction for interest expense is limited to 30% of EBITDA for 2018-2021 and 30% of EBIT in 2022 forward
- Interest expense not allowed can be carried forward indefinitely, subject to a valuation allowance for financial statement purposes
- Basin is exempt from this limitation as an electric cooperative
- Non-cooperative subsidiaries are not exempt (DGC and DCC)

# Repeal of Corporate AMT

- Repealed for tax years after 2017
- Under the new tax law, AMT Credits will be refunded (2018-2021)
- However, the AMT Credit refund election opportunity is still available for 2017:
  - Must give up accelerated depreciation on 2017 assets (Urea not in service until 2018)
  - Decision to make: new AMT refund provision vs. the existing AMT Credit refund election

# AMT Credit Refund - 2017 Tax Return

50% of 12/31/15 balance	\$10,540,357
Less: 6.6% sequestration	<u>695,664</u>
Net Cash Refund	\$ 9,844,693

\*Cash refund would be received in mid 2018



# 2017 BEPC Consolidated EOY Estimate

Consolidated Margin & Earnings Before Tax		\$134,274,213
Estimated Tax Impact		(\$33,183,875)
AMT Credit		(\$9,844,693)
Tax Reform Impact		(\$29,719,408)
PrairieWinds Merger Impact		<u>(\$41,712,529)</u>
Consolidated Net Margin & Earnings		\$248,734,718
Deferral		<u>(\$170,000,000)</u>
Margin & Earnings		<b>\$78,734,718</b>
Basin Electric Before Tax Margin		\$242,117,413
Deferral		<u>(\$170,000,000)</u>
Amount to be Allocated		<b>\$72,117,413</b>

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Estimated Tax Impact		(\$33,000,000)
AMT Credit		
Tax Reform Impact		(19,408)
PrairieWinds Merger Impact		<u>(\$41,712,529)</u>
Consolidated Net Margin & Earnings Before Tax		\$248,734,718
Deferral		<u>(\$170,000,000)</u>
Margin & Earnings Before Tax		<b>\$78,734,718</b>
Base Line Before Tax Margin		\$242,117,413
Deferral		<u>(\$170,000,000)</u>
Amount to be Allocated		<b>\$72,117,413</b>

**Preliminary and Unaudited**