M. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION

1. General. All Contributions in Aid of Construction and Advances For Construction (Contributions) made to SCE pursuant to its tariffs shall include a cost component to cover SCE’s estimated liability for Federal and State Income Tax resulting therefrom. SCE shall collect the Federal Income Tax on Contributions made on or after February 11, 1987 for unit costs under Rule 15, and January 1, 1987 for all other Contributions. California Corporate Franchise Tax (CCFT) shall be collected beginning January 1, 1992.

2. Definitions.
   a. Contributions: Contributions shall include, but are not limited to, cash, services, facilities, labor, property, and income taxes thereon provided to SCE by a person or agency (Contributor). The value of all Contributions shall be based on SCE’s estimates. Contributions shall consist of two components as follows:
      (1) Income Tax Component of Contribution (ITCC); and
      (2) The balance of the Contribution (Balance of Contribution).
   b. Eminent Domain Agency: For purposes of administering this part of the Preliminary Statement, an Eminent Domain Agency is any Federal, state, county, or local governmental or quasi-governmental agency or a federally-recognized Native American tribe that has the general authority or is able to readily obtain the authority to condemn property for public good upon the award and payment of just compensation.
   c. Involuntary Conversion: Where, in the opinion of SCE, payments or other forms of compensation received by SCE from an Eminent Domain Agency satisfy the requirements of Internal Revenue Code Section (IRC §) 1033 as an Involuntary Conversion, the value of such payments, property or other permissible forms of compensation will not be treated as taxable income by SCE and, as a result, the ITCC component of the Contribution will not be collected. Generally, the nontaxable provisions of IRC §1033 are satisfied if (1) the Eminent Domain Agency initiates condemnation proceedings, or (2) SCE receives notice of intent by the Eminent Domain Agency to acquire the property before the initiation of condemnation proceedings, or (3) it can be demonstrated that it was reasonable to believe that SCE was compelled to dispose of the property by the impending consequences.
M. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION (Continued)

3. Determination of ITCC.

a. The ITCC shall be calculated by multiplying the Balance of the Contribution by the applicable Tax Factor, as follows. For Contributions received by SCE on or after January 1, 2018 the Tax Factor shall be 0.24 (24%).

b. The Tax Factor is established using Method 5 as set forth in and pursuant to the Commission's Decision No. 87-09-026. Should the IRS deem Method 5 to be a violation of the tax normalization rules, any penalties, interest or taxes incurred by SCE shall be recovered through general rates.

c. SCE will file an Advice Letter for any changes which would cause an increase or decrease of five percentage points or more in the ITCC Tax Factor.

4. Applicability. The ITCC shall apply to contributions under the tariffs, including but not limited to, street and area lighting rate schedules and Rules 2, 13, 14, 15, 16, 20, and 21, unless one or more of the exemptions described herein apply or other applicable exemption exists as determined by SCE.

5. Interest Rate. When interest is payable under this Part of the Preliminary Statement by the Contributor to SCE or by SCE to the Contributor, the Interest Rate shall be 1/12 of the most recent month's interest rate on Commercial Paper (prime, three months), published in the Federal Reserve Statistical Release, G.13. Should publication of the interest rate on Commercial Paper (prime, three months) be discontinued, interest will so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial Paper, which most closely approximates the rate that was discontinued and which is published in the Federal Reserve Statistical Release, G.13, or its successor publication.

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1/ The Tax Cuts and Jobs Act of 2017 (Act) reduced the Federal corporate income tax rate to 21 percent from 35 percent beginning January 1, 2018 and, for regulated electric utility companies such as SCE, required the use of Modified Accelerated Cost Recovery System tax depreciation (i.e., without bonus) for capitalized property acquired and placed in service after September 27, 2017. To ease the administrative burden associated with this change, SCE will not reissue ITCC invoices to reflect the higher ITCC rate for Contributions received between September 28 and December 31, 2017 that did not qualify for the 50 percent 2017 bonus depreciation as a result of the Act. §13201(h)(1) of the Act states that property subject to a binding contract as of the effective date of this provision will not be treated as acquired after September 27, 2017.
M. INCOME TAX COMPONENT OF CONTRIBUTION PROVISION (Continued)