

- Q.23. Under section 1552 of the Internal Revenue Code (26 U.S.C.A. § 1552) and 26 CFR 1.1552-1 (1983), if applicable, a parent company, in filing a consolidated income tax return for the group, must choose one of four options by which it must allocate total income tax liability of the group to the participating members to determine each member's tax liability to the Federal government (if this interrogatory is not applicable, so state):
- a) State what option has been chosen by the group.
  - b) Provide, in summary form, the amount of tax liability that has been allocated to each of the participating members in the consolidated income tax return for the test year and the most recent 3 years for which data is available.
  - c) Provide a schedule, in summary form, of contributions, which were determined on the basis of separate tax return calculations, made by each of the participating members to the tax liability indicated in the consolidated group tax return. Provide total amounts of actual payments to the tax depository for the tax year, as computed on the basis of separate returns of members.
  - d) Provide the most recent annual income tax return for the group.
  - e) Provide details of the amount of the net operating losses of any member allocated to the income tax returns of each of the members of the consolidated group for the test year and the 3 most recent years for which data is available, together with a summary of the actual tax payments for those years.
  - f) Provide details of the amount of net negative income taxes, after all tax credits are accounted for, of any member allocated to the income tax return of each of the members of the consolidated group for the test year and the 3 most recent years for which data is available, together with a summary of the actual tax payments for those years.

- A.23.
- a) PPL Electric Utilities Corporation is owned by PPL Corporation (PPL). Internal Revenue Code Section 1552 provides for an allocation of consolidated income tax for “earnings and profits” purposes only. PPL elected option (a) (1), i.e., ratio of taxable income of each company having income to total consolidated taxable income as modified by Commissioner of Internal Revenue for consolidated income tax return purposes only. A copy of the IRS authorization is included as Attachment II-D-23a. PPL has chosen, for book purposes and all other purposes, to allocate consolidated Federal income tax among all companies based on net taxable income or loss and credits on a separate return basis. PPL Corporation became the common parent of the affiliated group in 1995 and elected to continue this allocation methodology in its 1995 Federal income tax return.
  - b) Attachment II-D-23b details the tax liability allocated to each of the participating members in the consolidated federal income tax return for the 2007, 2008 and 2009.
  - c) PPL Corporation is the parent company of the PPL consolidated group that includes PPL Electric and makes all necessary income tax payments to the Internal Revenue Service for the net tax liability that is due for the consolidated group. PPL Corporation bills member companies that have a positive federal income tax allocation and pays member companies that have a negative federal income tax allocation. The amounts PPL Corporation receives from, or pays to, each member company are the same amounts as detailed in Attachment II-D-23b.
  - d) The most recent Federal income tax return filed by the consolidated group is tax year 2008; the complete tax return is voluminous. Attachment II-D-23c includes pages 1 through 5 of the Federal Form 1120 and a summary of taxable income by Member Company. Additional schedules will be furnished upon request.
  - e) Attachment II-D-23b includes details of the actual payments made to members of the consolidated group with net operating losses.
  - f) Attachment II-D-23b includes details of the actual payments made to members of the consolidated group with a net negative income tax allocation after credits.