Interpretation of the Statutory Accounting Principles (E) Working Group

INT 18-01: Updated Tax Estimates Under the Tax Cuts and Jobs Act

GUIDANCE DETERMINED TO BE NO LONGER RELEVANT

INT 18-01 Dates Discussed

January 30, 2018, February 8, 2018

INT 18-01 References

Current:
SSAP No. 9—Subsequent Events
SSAP No. 101—Income Taxes

INT 18-01 Issue

Issue 1 – Reporting and Updating Estimates

1. Guidance in *SSAP No. 9—Subsequent Events* (SSAP No. 9) requires consideration of Type I [1]subsequent events through the date of the statutory financial statements and the date of issuance of the audited financial statements, or the date in which audited financial statements are available to be issued. For Type I subsequent events identified after the statutory financial statements are filed, but before the audited financial statements are issued, reporting entities are generally required by their domestic state to amend their filed statutory financial statements to ensure that the statutory financial statements and the audited financial statements are consistent.

2. With the enactment of the Tax Cuts and Jobs Act (Act) on December 22, 2017, reporting entities have been required to reflect various accounting adjustments in their financial statements. Although some accounting computations may be considered "complete," other accounting computations or assessments may be considered "incomplete" when the statutory financial statements are filed. As additional information is made available on the impact of the Act, or information becomes available to update estimates and assessments, under existing statutory accounting guidance in SSAP No. 9 reporting entities would need to identify the updated estimates as a Type I subsequent event in the audited financial statements.

3. This issue considers a limited time, limited scope exception to SSAP No. 9 to not require recognition of changes in reasonable estimates from the Act as Type I subsequent events after the issuance of the statutory financial statements. This issue considers whether reporting entities shall report updated estimates identified after the issuance of the statutory financial statements, but before the issuance of the audited financial statements, as changes in estimates under *SSAP No. 3—Accounting Changes and Corrections of Errors* (SSAP No. 3) and included in the statement of income in the period when the information necessary to update the estimate becomes available.

[1] A Type I subsequent event relates to an event or transaction that provides additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Under SSAP No. 9, entities shall recognize in the financial statements the effects of all material Type I subsequent events. With the enactment of Tax Cuts and Jobs Acts on December 22, 2017, the enactment was in existence prior to year-end, therefore, estimates updated subsequent to year-end to adhere to the Act are considered Type I events under SSAP No. 9.

Issue 2 – Reporting Changes to Deferred Tax Assets and Liabilities

4. Although existing statutory accounting guidance details the reporting of changes in deferred tax assets and liabilities, questions have been received regarding the reporting framework to ensure consistency across reporting entities. This issue proposes to specify existing guidance regarding where changes in deferred tax assets and liabilities generated from the Act shall be reported.

Issue 3 – Completion of Note 9C – (Disclosures from paragraph 25 of SSAP No. 101)

5. This issue considers whether the INT should specify that Note 9C – "Significant Components of Income Taxes and Changes in DTAs/DTLS" for year-end 2017 shall be completed in accordance with the December 22, 2017, enacted tax rate. The Note 9C required table has the following columns: current year, prior year, and a change between the two. NAIC staff have identified that the SSAP No. 101, paragraph 24 guidance, and the related annual statement instructions, indicate that the information for changes to DTAs and DTLs shall be completed initially without the change in enacted tax rates (e.g., to show the actual change in DTAs/DTLS from the prior year), then provides for separate identification of the impact from the change in tax rates. However, the required (data-captured) table used to complete this disclosure does not provide a line to separately identify the tax rate component. NAIC staff have identified that if the 35% tax rate is used to complete the table for DTAs and DTLs, rather than the enacted 21% rate, the table will not agree to the financial statements or other respective notes. (For example, information regarding the admitted DTAs, DTLs and net deferred DTAs/DTLs would not agree to the financial statements or Note 9A.)

INT 18-01 Discussion

6. The Statutory Accounting Principles (E) Working Group consensuses to the noted issues are included below.

7. **Issue 1 – Reporting and Updating Estimates**: For year-end 2017 financial statements, reporting entities shall follow the following concepts:

a. Year-end 2017 statutory financial statements must reflect the income tax effects of the Act in which the accounting estimates under SSAP No. 101 are "complete". (For example, a recalculation of DTAs/DTLs from a 35% tax rate to a 21% tax rate is required under existing guidance in SSAP No. 101, and should be completed by the reporting entity and recognized in the year-end 2017 financial statements.)

b. Year-end 2017 statutory financial statements shall recognize impacts for accounting estimates under the Act that may be considered "incomplete" when a reasonable estimate is determinable. (For example, a reporting entity may not have all of the necessary information available, prepared or analyzed to fully "complete" an estimate of certain tax effects under the Act, but the reporting entity has determined a reasonable estimate.)

i. Consistent with SEC Staff Accounting Bulletin 118 (SAB 118), it is not appropriate for a reporting entity to exclude a reasonable estimate from its financial statements to the extent that a reasonable estimate has been determined.

ii. Reasonable estimates shall be updated and recognized as Type I subsequent events to reflect the best estimate available at the time of filing the 2017 statutory financial statements.

c. Consistent with SAB 118, for specific income tax effects of the Act for which a reasonable estimate cannot be determined, reporting entities shall not recognize provisional amounts in the year-end 2017 statutory financial statements. Rather, reporting entities shall continue to apply existing guidance in SSAP No. 101 based on the provisions of the tax laws that were in effect prior to the Act being enacted.

d. Reasonable estimates updated and or established after the issuance of the 2017 statutory financial statements, but before the issuance of the year-end 2017 audited financial statements, shall not be recognized as Type I subsequent events. Instead, these changes, as well as future changes in estimates shall be recognized as a change in accounting estimate, pursuant to SSAP No. 3, when the information necessary to update the estimate becomes available.

i. This provision is a specific exception to SSAP No. 9 as that SSAP requires a subsequent event assessment through the issuance of the audited financial statements. As domestic state regulators generally require statutory financial statements to mirror the audited financial statements, when material Type I subsequent events are recognized in the audited financial statements after the statutory financial statements have been filed, an amendment is necessary to update the statutory financial statements. This provision intends to prevent reporting entities from having to amend statutory financial statements from material Type I subsequent events as a result of updated information / estimates received after the filing of the statutory financial statements pertaining to the accounting for the enactment of the Tax Cuts and Jobs Act.

ii. Although reporting entities will not be required to recognize updated estimates in the audited financial statements as material Type I events after the issuance of statutory financial statements, reporting entities shall disclose updated estimates in accordance with SSAP No. 9, paragraph 13, audited financial statement disclosure that identifies subsequent events after the date subsequent events were reviewed for the statutory financial statements. (This would be a disclosure of the updated estimate in the audited financial statements only, not recognition of the updated estimate.) Furthermore, reporting entities shall utilize existing notes for income taxes in SSAP No. 101 to identify specific income tax effects under the Act that are incomplete similar to the disclosures required in SAB 118:

a) Qualitative disclosures of the income tax effects of the Act for which accounting is incomplete, and why the initial accounting is incomplete.

b) Disclosures of items reported as provisional amounts, the additional information needed to be obtained, prepared or analyzed in order to complete the accounting requirements under ASC 740, and when the accounting for the income tax effects has been completed.

e. Consistent with SAB 118, reporting entities shall be working in good faith to complete the accounting for the changes adopted under the Act, and all accounting impacts shall be completed within one year from the enactment date (i.e., the measurement period in SAB 118).

8. **Issue 2 – Reporting Changes to Deferred Tax Assets and Liabilities**: For year-end 2017 financial statements, reporting entities shall continue to follow existing reporting instructions for reporting changes resulting from the Tax Cuts and Jobs Act, supplemented by the following clarification. These reporting lines include:

a. Change in Net Unrealized Capital Gains (Losses) Less Capital Gains Tax

- Tax effects previously reflected in unrealized capital gains (to present unrealized gains (losses) as "net of tax") shall be re-measured for the change in the corporate tax rate in the same reporting line.

b. Change in Net Deferred Income Tax

- Represents the gross change in net deferred tax, excluding any change reflected in unrealized capital gains, and excluding any change in nonadmitted deferred tax assets. This change in net deferred tax does not include changes in nonadmitted DTAs .

c. Change in Nonadmitted

- Represents changes in nonadmitted DTAs pursuant to the SSAP No. 101 calculation and includes the effect of the change in corporate tax rates on nonadmitted deferred tax assets (computed by comparing beginning-of-year nonadmitted at old rate to end-of-year nonadmitted at new rate).

9. **Issue 3 – Completion of Note 9C**: For year-end 2017 financial statements, reporting entities shall complete Note 9C so that the December 31, 2017, amounts reported agree to the year-end 2017 financial statements. (For example, with this INT, the DTAs and DTLs shall be reported using the December 22, 2017, enacted tax rate change for the 12/31/2017 column. The prior year 2016 information shall not be revised.) As the data-captured table does not include a separate line to detail the impact from a change in tax rates, reporting entities shall include a narrative (pdf) disclosure to provide information on the approximate change in DTAs and DTLS caused from the tax rate change to accompany this required table in the 2017 statutory financial statements pursuant to SSAP No. 101, paragraph 24.e.

INT 18-01 Status

10. The consensuses adopted in this interpretation were adopted predominantly to provide a limited- scope, limited-time exception to the Type I subsequent event requirements in SSAP No. 9. As detailed, the exceptions to SSAP No. 9 are effective for year-end 2017 audited financial statements only. Due to the short-term nature of the SSAP No. 9 exception, and as the other issues only reference existing accounting and reporting guidance, this interpretation will be automatically nullified on December 31, 2018, and will be included as a nullified INT in Appendix H – Superseded SSAPs and Nullified Interpretations in the *As of March 2019 Accounting Practices and Procedures Manual*.

11. No further discussion planned.