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With the likelihood of a drop in the corporate tax rate and a possible Border Adjustment Tax ("BAT"), prudent tax department leaders and CFOs will need to stay on top of pending legislation. Planning and modeling the potential impact that rate and ...

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After the recent failure by the Republicans in the House to build the necessary backing for healthcare reform, House Republicans and the President have said they will be turning their focus to tax reform, with a goal of having markup legislation by



***Current Tax (Cash Tax)***

One may easily conclude that a drop in the corporate income tax rate will reduce a company’s current income tax expense. However, it’s not as simple as that. Tax law changes are required to be revenue neutral. As such, a decrease in the corporate tax rate must be paid for in other areas of the Internal Revenue Code (the “Code”). Lawmakers are currently looking at the 2016 House Ways and Means Committee Republication Blueprint and Representative Camp’s 2014 Tax Reform Proposal as templates for tax reform; both of which advocate lowering the corporate income tax rate to as little as 15%, while also making specific alterations to long standing Code sections and changes to existing tax adjustments that could result in increasing taxable income.

With such a dramatic drop in the tax rate, typical tax planning strategies to minimize cash taxes, such as accelerating deductions or deferring income, will now result in a one-time permanent tax benefit if deductions are accelerated to a higher tax rate year, or income deferred to a lower tax rate year. Companies which have ignored favorable tax method changes as benefits that would only result in a minimal interest play, as interest rates have been at historical lows recently, may now want to seriously reconsider these. A favorable tax method change effective before the tax rate changes would create permanent tax savings.

***Deferred Income Taxes – US GAAP***

Under U.S. GAAP accounting, Accounting Standards Codification (“ASC”) Topic 740, *Income Taxes* (“ASC 740”), enacted tax laws and rates are considered in determining the applicable statutory tax rate and in assessing the need for a valuation allowance. As such, a drop in the corporate income tax rate to 15-20% will have some potentially significant impacts on a company’s financial statement.

Companies with significant deferred tax assets ("DTAs"), such as NOL carryforwards,



effective tax rate footnote disclosure. Tax rate changes are to be reflected in the period that includes the enactment date. Thus, if a company issues interim financial statements, the impact of a tax rate change must be reflected in the interim period the tax rate change is enacted.

This means, for example, that if tax rate change is signed into law by the President on September 30, 2017, the impact of the tax rate change must be reflected in a company's third quarter 2017 financial statements (e.g., SEC Form 10-Q). Additionally, companies with valuation allowances will need to reevaluate their ability to recognize their DTAs and adjust for the new tax rates and tax law provisions (changes to tax adjustments).

Tax department leaders and CFOs will need to keep an eye on pending legislation and should start to plan and model the potential impact of rate and tax adjustment changes on their financial statements. They must be in a position to communicate and advise management on what the tax law changes will mean to the insurer, and be prepared to explain this to their Board of Directors, shareholders and insurance industry regulators.

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