Statutory Accounting Principles (E) Working Group

**Maintenance Agenda Submission Form**

**Form A**

## **Issue:** SSAP No. 101 – Q&A Updates - TCJA

**Check (applicable entity):**

 P/C Life Health

Modification of existing SSAP [x]  [x]  [x]

New Issue or SSAP [ ]  [ ]  [ ]

Interpretation [ ]  [ ]  [ ]

Description of Issue: This agenda item has been drafted to consider revisions to Exhibit A – Implementation Questions and Answers captured in *SSAP No. 101—Income Taxes.* Although revisions were previously considered to SSAP No. 101 in response to the federal Tax Cuts and Jobs Act (TCJA), only limited revisions were previously considered to the Implementation Q&A. When adopting the SSAP revisions, it was identified that a detailed project would be needed to update the Implementation Q&A, and representatives from industry volunteered to undertake this extensive project.

On Dec. 11, 2018, NAIC staff received comment letters and proposed revisions to update the Implementation Q&A from industry. (NAIC staff is greatly appreciative of the work completed by industry for these updates.) The work completed by industry can be divided into two broad categories:

1. Revisions to reflect tax changes driven primarily by the TCJA:
	1. Reduction in the corporate tax rate (and elimination of the graduated corporate tax rates);
	2. Repeal of the corporate alternative minimum tax;
	3. Repeal of the small company deduction; and
	4. Elimination of the net operating carryback for life insurance companies, but allowance of an unlimited carryover period.
2. Revisions to clarify application of the SSAP No. 101, paragraph 11.c DTA admittance test.

Per the industry comment letter, these revisions have been proposed as varying interpretations exist resulting in inconsistent treatment among entities.

This agenda item has been proposed to specifically consider the distinct revisions from the TCJA. A separate agenda item 2019-10 will consider the revisions related to the DTA admittance test in paragraph 11.c.

Existing Authoritative Literature:

***SSAP No. 101—Income Taxes***

Exhibit A – Implementation Questions and Answers provides detailed information on tax scenarios. The guidance currently in Exhibit A was effective Jan. 1, 2012.

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

The Working Group took the following actions in 2018 to consider revisions in response to the TCJA:

* Agenda Item 2018-01: Federal Income Tax Reform – Adopted revisions to SSAP No. 101 in direct response to the TCJA. Pursuant to this adoption, it was identified that additional revisions would be subsequently considered to the Implementation Questions and Answers guide.
* Agenda Item 2018-02: Tax Act Estimates – Adopted *INT 18-01: Updated Tax Estimates under the Tax Cuts and Jobs Act* to provide immediate application guidance in response to the TCJA.
* Agenda Item 2018-15: Additional Elements under the Federal Tax Cuts and Jobs Act – Adopted [*INT 18-03: Additional Elements Under the Tax Cuts and Jobs Act*](https://www.naic.org/documents/cmte_e_app_sapwg_related_int1803.pdf) to provide guidance on additional elements (RTT, AMT Credit and GILTI) under the TCJA.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS):** Not applicable.

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as an nonsubstantive, and expose revisions to the SSAP No. 101 Implementation Q&A to update the guidance as recommended by interested parties for the TCJA.

Due to the extent of the revisions, the proposed revisions are presented in a separate file. The revisions are summarized by section as follows:

|  |  |
| --- | --- |
| Section(Old Section) | Revisions Summary |
| Intro | Revised to reflect new revisions and updated effective date.  |
| Index | No revisions. Will be updated to reflect update paragraphs and page numbers when final.  |
| 1.13 | No revisions. Consider whether to include new, limited-term disclosures for RTT and AMT.  |
| 2.3 | Illustration reflects updated tax rate. Footnote 4 revised for reserve difference.  |
| 2.7 | Footnote 6 revised for carrybacks / carryforwards and indefinite-lived intangible assets. *(Note – indefinite lived intangible assets do not exist for SAP, but would be a SAP / Tax difference.)*  |
| 2.10-2.11 | Illustration reflects updated tax rate.  |
| 3.4-3.6 | Deleted as no longer applicable. (Paragraphs 3.4 and 3.5 were deleted in agenda item 2018-01, the deletion of 3.6 is consistent with the prior action.)  |
| 4.3 | Footnote 10 reflects revisions already incorporated from agenda item 2018-01.  |
| 4.4 | Retain AMT guidance, but revisions clarify that it applies to carrybacks for pre-2018 years.  |
| 4.14-4.15 | Revisions for AMT guidance applicable to small life companies.  |
| 4.17-4.19 | Several revisions incorporate various updated elements including the tax rate, AMT, and net operating loss carryback for a small life company. *(Note – Industry proposed revisions for step 3 of the DTA admittance test (offset to DTLs) are included, but are shaded as they will be discussed separately in a different agenda item.)*  |
| 4.20-4.22 | Several revisions reflect changes in tax rate and AMT.  |
| 4.23-4.25 | Several changes reflect changes in tax rate and AMT.  |
| 4.33 | Updated from 2011 RBC reports. *(Note – Rather than include the “source of the data” should reference be included to the RBC instructions? With reference to the RBC instructions, the information will not be subsequently outdated with changes in RBC.)*  |
| 5.9 | Add new Footnote 28 to clarify the loss payment period.  |
| 5.14 | Update reference to SSAP No. 30R.  |
| 6.5-6.9 | Revisions delete full examples due to repeal of AMT and small life company deduction.  |
| 6.10-6-13 | Retained example revised for repeal of AMT.  |
| 7.1-7.2 | Deleted references to AMT and add the word “applicable” for carryback periods.  |
| 7.3 | New paragraph to clarify guidance before / after Dec. 31, 2017. |
| 8.5-8.10 | Example revised to reflect a nonlife company. Footnote 33 updated to provide the guidance for capital loss carrybacks for both life and nonlife companies.  |
| 9.6-9.7 | Revisions reflect change in tax rate.  |
| 10.3-10.4 | Revisions reflect change in tax rate. Footnote 35 was deleted.  |
| 10.8-10.10 | Revisions reflect change in tax rate.  |
| 11.3-11.5 | Revisions reflect change in tax rate.  |
| 11.8-11.9 | Revisions reflect change in tax rate.  |
| 11.12-11.13 | Example revisions to reflect a nonlife company, with changes in tax rate. Footnote 37 revised.  |
| 12.1-12.7 | Significant revisions delete one part of the answer (resulting in 3 parts). Deletion reflects paragraphs 12.2 through 12.7, which pertained to initial adoption of SSAP No. 101.  |
| 12.10-12.12 | Revisions reflect change in tax rate.  |
| 12.14-12.22 | Revisions reflect change in tax rate.  |
| 12.23 | Deleted Footnote 41. |
| 12.24 | Deleted guidance related to initial adoption of SSAP No. 101.  |
| 12.25 | Revisions reflect change in tax rate.  |
| 12.27 | Revisions incorporate reference to foreign withholding taxes.  |
| 12.31 | Revisions reflect change in tax rate.  |
| 13.7 | Revisions add reference to tax credit carryforward.  |
| 13.9-13.10 | Revisions reflect change in tax rate.  |

Note: Agenda item 2019-10 addresses specific DTA and DTL offsetting issues in the SSAP No. 101 QA which are being separately discussed. Agenda item 2019-10 has proposed revisions to paragraphs: 2.5- 2.7, 4.1, 4.2, 4.9, 4.13, 4.17, 4.18, 4.21, 4.24, 5.1 and 5.3. The final QA will reflect the results of both agenda items specifically paragraphs 4.18, 4.21 and 4.24 have revisions that should be read together.

Staff Review Completed by:

Julie Gann, NAIC Staff – January 2019

Status:

On April 6, 2019, the Statutory Accounting Principles (E) Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to the *SSAP No. 101—Income Taxes* Implementation Q&A to reflect tax changes driven primarily by the Tax Cuts and Jobs Act (TCJA). Due to the extent of the revisions, the proposed revisions are presented in a separate file. Note that some of the revisions to paragraphs 4.18, 4.21,4.24 will also be affected by agenda item 2019-10.

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