

Insurance — Investment Tax Accounting Group (ITAG)

In the wake of the financial crisis, including setbacks in the mortgage industry and efforts by the government and private sector to restore liquidity and revive the markets, investors in debt instruments face both great opportunities — and equally great compliance and reporting challenges related to their debt portfolios.

Deloitte's Investment Tax Accounting Group draws upon a deep understanding and experience in the insurance industry and debt instruments using Deloitte's advanced TARDI database technology to assist companies with their complex debt instrument tax calculations, compliance and reporting requirements.

Addressing the complex investment tax accounting challenges for debt instruments

Today, many insurance companies may be holding impaired debt investments and may also be purchasing discounted or complex high-yield debt investments, the investment tax accounting for which is complicated and very challenging.

Many insurance companies, for example, have experienced large losses on their debt portfolios. Debt instruments, on which losses can be taken, are typically treated as impairments for book purposes and are revalued and written down (adjusting the book basis). For tax purposes, however, these same instruments will typically retain their historical basis unless such assets qualify to be written down under the bad debt tax rules. Many insurance companies are also purchasing complex debt instruments that are denominated in foreign currencies or have complex interest deferral features and these types of instruments typically are treated differently for book and tax purposes.

Tracking different book/tax bases and the book and tax accrual items for each debt instrument typically requires time, personnel, and technology applications. Many insurance companies may not have the internal personnel or resources to manage the current investment tax accounting process and issues related to debt investments. Tax accounting processes and the related investment accounting systems currently in place may not be able to successfully access and track the large volumes of data associated with these more complicated investments and calculations. They may also be unable to generate the necessary tax and reconciliation reports. Because many investment tax accounting methods can differ significantly from financial investment accounting practices, a different set of books is typically required for both accounting and tax. Onto these complications, layer the recognition that today's business environment demands greater transparency than ever. Clearly, it is essential for insurance companies to use a technology framework and approach that provides accurate income tax reporting and effective data management of their debt portfolios — through one efficient process.

Our team

Investment Tax Accounting Group (ITAG) offers a wide range of specialized services designed to accommodate many of the investment tax accounting issues that insurance companies face on their debt portfolios. Our dedicated team of ITAG professionals brings in-depth experience in both tax technical matters and the insurance industry. ITAG members specialize in tax planning, analysis, data management, and information reporting specifically for debt instruments.

Our proprietary approach — TARDI tax database technology

ITAG's deep understanding of insurance and debt taxation, along with our advanced TARDI (Tax Analysis and Information Reporting for Debt Investments) tax database technology enables us to assist insurance tax departments with their increasingly complex investment tax accounting issues and calculations related to their debt portfolios.

Our proprietary TARDI tax database technology assists companies in computing the following debt tax calculations:

- Market discount
- Interest income (including support for accrual/non-accrual)
- Basis adjustments
- Loan modifications
- Gain/Loss on sales/exchanges (including loan modifications)
- OID
- Premium
- Bad debt expense
- IRC section 1277 interest expense deferral
- IRC section 988 foreign currency Gain/Loss

ITAG also utilizes collective team knowledge, experience and technology to advise and consult on tax planning issues and potential opportunities related to transactions within debt portfolios.

Why Deloitte?

Our ITAG professionals understand the insurance industry and the specific issues addressed by investors in debt instruments, including the need for heightened levels of accuracy and timeliness in the face of significant complexity. Our TARDI technology provides a distinctive technological advantage that facilitates sophisticated analytical and reporting capabilities.

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