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Preparing for Tax Reform

Action items necessary to record financial statement impact

November 16, 2017

Companies should consider how anticipated tax reform changes, detailed in the House bill and Senate proposal (released November 2 and November 9, 2017, respectively), will impact their financial statement reporting.

What's new?

Tax reform bill includes a corporate tax rate reduction

If enacted, the tax rate included within the proposed bill would require companies to remeasure their deferred tax assets and liabilities as of the date of enactment. Any tax effects resulting from enactment would need to be accounted for in the reporting period of enactment.

Highlights

Deferred tax assets and liabilities should be remeasured

The proposed bill reduces the corporate tax rate to 20 percent, effective for taxable years beginning after December 31, 2017 (delayed effective date included within the Senate proposal), eliminating current brackets that have a maximum tax rate of 35 percent.

In addition to the proposed tax rate reduction, the proposed bill provides the following change that may impact tax account balances upon enactment:

A U.S. shareholder owning at least 10% of a foreign subsidiary would generally include in income the pro rata share of the accumulated deferred foreign income of the foreign subsidiary. The amount of such deferred income generally takes into account earnings and profits ("E&P") of the foreign entities.

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What does this mean for you
Potential adjustments recorded to tax expense in year of enactment
- Deferred tax balances
- Valuation allowance

Deloitte perspective
Companies should model the impact of the proposed legislative changes now

What does this mean for you

Potential adjustments recorded to tax expense in year of enactment

- **Deferred Tax Balances:** If enacted, the resulting change in the financial statement reported amount of deferred tax assets and liabilities would be recognized as a component of income tax expense or benefit from continuing operations in the financial statements for the interim or annual period that includes the enactment date. The reduction of tax rates would result in lower deferred tax assets and increase income tax expense while lower deferred tax liabilities would reduce income tax expense. In addition, the proposed deemed repatriation of deferred foreign income may require a tax liability to be recognized or adjusted.
- **Valuation Allowances:** Proposed changes to deductions for interest and business expenses as well as limitations on NOL utilization may impact a company's valuation allowance determinations and should be considered in determining the impact of tax reform for financial reporting purposes.

Note: This publication focuses on select key items of tax reform that would be immediately relevant for financial statement reporting purposes if enacted in 2017. The proposed bill (and Senate proposal) contain numerous other provisions not addressed here that, if passed, will be effective for tax years beginning after December 31, 2017.

Deloitte perspective

Companies should model the impact of the proposed legislative changes now

Although the legislative process can be fluid in nature and taxpayers do not have certainty with respect to the final enacted version of the proposed bill, clients do have the ability to begin preparing. By taking inventory of existing temporary differences as well as other tax attributes and carryovers, taxpayers can position themselves to be able to efficiently respond to the enacted version in a timely manner.

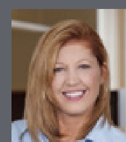
Actions items that should be taken:

- **Inventory of Deferred Balances:** A change in corporate income tax rate means the future reversal of existing deferred tax assets and deferred tax liabilities would need to be remeasured at the newly enacted rate applicable to the period the associated temporary difference or carryforward is expected to reverse. As part of the deferred tax asset and liability remeasurement exercise, companies should confirm there is appropriate documentation to support adjustments to the resulting deferred tax, income tax payable or income tax receivable balances.
- **Deferred Foreign Income:** The proposed deemed repatriation of deferred foreign income would require a taxpayer to calculate their accumulated E&P. As such, companies should confirm there is appropriate documentation of existing E&P, tax pools, and foreign tax credit carryforwards. As part of the analysis, companies may want to evaluate their methods of accounting with respect to the E&P of their foreign subsidiaries.
- **Disclosures:** If enacted before December 31, 2017, calendar year companies will be required to take the impact of these proposed changes into consideration when preparing their year-end financial statements. If legislation passes subsequent to the balance sheet date, but prior to issuance of the financial statements, the event would be considered a non-recognized subsequent event and the impact would not be accounted for in the year-end financial statements, but would likely need to be disclosed within the financial statements. Companies should be in position to analyze and model potential implications of tax reform in order to determine an estimate of its effect in its disclosure.
- In addition, to the extent potential income tax reform could materially affect the Company or their business, SEC registrants should also consider possible disclosure requirements under Risk Factors and Management's discussion and analysis of financial condition and results of operations.

Additional resources

Some companies may need assistance to consider and quantify the implications of the tax reform bill in tandem with Deloitte consulting services. Deloitte's Tax Reform Navigator ("TRN") provides customized insights that can help companies prepare for tax reform. Using a company's actual financial data, Deloitte professionals can utilize the TRN to explore a full range of "what if" scenarios, including the consideration of tax rate reductions on deferred tax assets and liabilities.

National Tax Accounting Group



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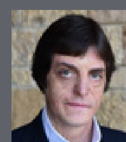

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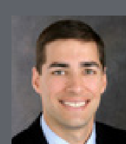

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