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Contents

Frequently Asked Questions About Tax Reform

Introduction

On December 22, 2017, President Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act").[1] Under ASC 740,[2] the effects of new legislation are recognized upon enactment, which (for federal legislation) is the date the president signs a bill into law. Accordingly, recognition of the tax effects of the Act is required in the interim and annual periods that include December 22, 2017.

Shortly after enactment, however, the SEC staff issued SAB 118,[3] which provides guidance on accounting for the Act's impact. Under SAB 118, an entity would use something similar to the measurement period in a business combination. That is, an entity would recognize those matters for which the accounting can be completed, as might be the case for the effect of rate changes on deferred tax assets (DTAs) and deferred tax liabilities (DTLs). For matters that have not been completed, the entity would either (1) recognize provisional amounts to the extent that they are reasonably estimable and adjust them over time as more information becomes available or (2) for any specific income tax effects of the Act for which a reasonable estimate cannot be determined, continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the Act was signed into law (i.e., the entity would not adjust current or deferred taxes for those tax effects of the Act until a reasonable estimate can be determined).

[1] H.R. 1/Public Law 115-97, "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018."
[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."
[3] SEC Staff Accounting Bulletin No. 118.

On January 10, 2018, the FASB met to discuss a number of implementation issues that have arisen regarding the accounting under ASC 740 for certain aspects of the Act. More specifically, the FASB agreed to undertake a narrow-scope project with respect to certain tax amounts "stranded" in accumulated other comprehensive income (AOCI) as a result of the Act. On January 18, 2018, the FASB issued a proposed Accounting Standards Update[4] (ASU).

In addition, on January 10, 2018, the FASB staff announced plans to issue guidance stating that entities that are not SEC registrants may apply SAB 118 to financial statements. That guidance was issued on January 11, 2018.

Further, on January 10, 2018, the FASB staff presented to the Board its interpretations of ASC 740 and U.S. GAAP with respect to (1) discounting of the deemed repatriation transition tax and refundable alternative minimum tax (AMT) credit carryforwards, (2) global intangible low-taxed income (GILTI), and (3) the base erosion anti-abuse tax (BEAT). The FASB then directed its staff to draft a Q&A document to reflect the views expressed on those issues. The draft was circulated to the Emerging Issues Task Force (EITF) and discussed at the EITF's meeting on January 18, 2018. No changes to the FASB staff's interpretations were proposed, and the staff intends to issue a final Q&A document shortly.

This *Financial Reporting Alert* (FRA) contains responses to frequently asked questions (FAQs) about how an entity should account for the tax effects of the Act in accordance with ASC 740. While the answers to the FAQs reflect both our views and the views expressed by the FASB at its January 10, 2018, meeting, these views are subject to change on the basis of additional input received or further developments in practice. We also plan to frequently update this document to reflect developments as they occur and as additional questions surface.

In addition to edits made to reflect recent developments arising from activities of the FASB and its staff as outlined above, this FRA includes a number of additional FAQs that did not appear in the original January 3, 2018, FRA. Amended and added FAQs are marked as such in the question line.

Change in Corporate Tax Rate

The Act reduces the corporate tax rate to 21 percent, effective January 1, 2018, for all corporations. Because ASC 740-10-25-47 requires the effect of a change in tax laws or rates to be recognized as of the date of enactment, all corporations, regardless of their year-end, must adjust their DTAs and DTLs as of December 22, 2017. The effect of changes in tax laws or rates on DTAs or DTLs is allocated to continuing operations as a discrete item rather than through the annual effective tax rate (AETR).

1.1 For calendar-year-end entities, what is the impact of the change in the corporate tax rate on DTAs and DTLs that exist as of the enactment date?

DTAs and DTLs that exist as of the enactment date and are expected to reverse after the Act's effective date (January 1, 2018, for calendar-year-end entities) should be adjusted to the new statutory tax rate of 21 percent. Any DTAs and DTLs expected to reverse before the Act's effective date should not be adjusted to the new statutory tax rate.

1.2 If some deferred tax balances are attributable to items of pretax comprehensive income or loss other than continuing operations (e.g., discontinued operations, other comprehensive income, or items charged or credited directly to equity), should the adjustment for the effect of the tax rate change still be allocated to continuing operations? [Amended January 19, 2018]

Upcoming *Dbriefs* Webcast

Join us on January 22 at 1:00 p.m. ET for a *Dbriefs* special edition webcast, "U.S. Tax Reform: FASB Update and Accounting for Income Tax Matters."

[4] FASB Proposed Accounting Standards Update No. 218-210, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income.*

Yes. Under ASC 740-10-45-15, the tax effects of changes in tax laws or rates are allocated to income from continuing operations irrespective of the source of the income or loss to which the deferred tax item is related. In a manner consistent with ASC 740-10-30-26, the tax effects of items not included in continuing operations that arose before the enactment date are measured on the basis of the enacted rate at the time the transaction was recognized. (For more information, see Sections 3.65 and 3.66 of *A Roadmap to Accounting for Income Taxes*.)

At its January 10, 2018, meeting, the FASB decided to add a narrow-scope project to its agenda to issue an ASU that would require a one-time reclassification from AOCI to retained earnings of "stranded" tax effects related to the change in tax rates resulting from the Act. The amount of the reclassification would be equal to the difference between the amount initially charged or credited directly to other comprehensive income (OCI) at the previously enacted U.S. federal corporate income tax rate that remains in AOCI and the amount that would have been charged or credited directly to OCI using the newly enacted U.S. federal corporate income tax rate, excluding the effect of any valuation allowance previously charged to income from continuing operations. The reclassification would be required for fiscal years beginning after December 15, 2018, but companies could elect to early adopt the guidance upon issuance in financial statements that have not yet been issued or made available for issuance. If the proposed guidance is applied in a period after enactment, the effects would be applied retrospectively as of the date of enactment of the Act.

For example, assume that before the enactment date of the Act, an entity recognized a $1,000 loss in OCI in connection with a derivative used in cash flow hedging activities. No further changes in the fair value of the hedge occur after that date. The forecasted transactions will not occur until after the enactment date. Because there was no tax basis in the derivative, the entity also recognized a $350 DTA and recorded a corresponding entry to OCI. On the enactment date of the Act, the entity reduced the DTA by $140 and recognized a corresponding increase in income tax expense, equal to the temporary difference of $1,000 multiplied by 14 percent. Upon adopting the ASU, the entity would then recognize a one-time reclassification to move the effect of the rate reduction from AOCI to retained earnings. The entries are summarized in the table below.

	Derivative Liability	AOCI	Deferred Tax Asset	Net Income	Retained Earnings
Derivative loss	$ (1,000)	$ 1,000			
Related tax effect		(350)	350		
Reduction in statutory rate			(140)	140	140
Reclassification under proposed ASU		140			(140)
Final balance	$ (1,000)	$ 790	$ 210		—

Note that the first three entries would have been recorded on or before the enactment date and are not affected by the adoption of the ASU. The reclassification entry will only be recorded upon the adoption of the ASU but will be retrospectively applied to the period that includes the enactment date (if the ASU is not already early adopted within that period).

1.3 How should a reporting entity compute its temporary differences as of the enactment date when measuring its DTAs and DTLs? [Amended January 19, 2018]

A reporting entity should calculate temporary differences by comparing the relevant book and tax basis amounts as of the enactment date. To determine book basis amounts as of the

enactment date, the reporting entity should apply U.S. GAAP on a year-to-date basis up to the enactment date. For example:

- Any book basis accounts that must be remeasured at fair value under U.S. GAAP would be adjusted to fair value as of the enactment date (e.g., certain investments in securities or derivative assets or liabilities).
- Book balances that are subject to depreciation or amortization would be adjusted to reflect current period-to-date depreciation or amortization up to the enactment date.
- Book basis account balances such as pension and other postretirement assets and obligations for which remeasurement is required as of a particular date (and for which no events have occurred that otherwise would require an interim remeasurement) would not be remeasured as of the enactment date (i.e., no separate valuation of the benefit obligation is required as of the enactment date) for purposes of adjusting the temporary difference that will be measured to the new statutory tax rate as of December 22, 2017. For example, a calendar-year reporting entity that has a pension plan with an annual measurement date of December 31 would adjust its balance sheet accounts for the effects of current-year net periodic pension cost and other contribution and benefit payment activity through the date of enactment.
- Any book basis balances associated with share-based payment awards that are classified as liabilities would be remeasured (on the basis of fair value, calculated value, or intrinsic value, as applicable) as of the enactment date. In addition, for those share-based payment awards that ordinarily would result in future tax deductions, compensation cost would be determined on the basis of the year-to-date requisite service rendered up to the enactment date.

1.4 Given that the enactment date may be close to, but does not coincide with, the end of a reporting period, may an entity measure the effect by using temporary differences and the resulting deferred tax balances as of the end of the reporting period?

No. Subject to materiality, an entity should adjust DTAs and DTLs for the effect of a change in tax laws or rates as of the enactment date even if such date does not coincide with the end of a financial reporting period.

1.5 How should the tax effects of adjustments to book and tax bases up to the enactment date be allocated among the components of comprehensive income?

The tax effects of year-to-date activity *before* enactment would be allocated in accordance with the intraperiod tax allocation guidance in ASC 740-20.

1.6 Are the calculations for fiscal-year-end entities the same as those discussed in FAQ 1.1?

Not exactly. Given the mechanics of Internal Revenue Code (IRC) Section 15,[5] we believe that the change in tax rate resulting from the Act will be administratively effective for a fiscal-year-end entity at the beginning of the entity's fiscal year. Accordingly, in a manner consistent with the guidance in ASC 740-270-55-50 and 55-51, the applicable tax rates for deferred tax balances are as follows:

- For balances expected to reverse after the enactment date and within the current fiscal year, the applicable rate is the "blended tax rate" (see FAQ 1.7 below), which will be effective for the fiscal year.

[5] IRC Section 15, "Effect of Changes."

- For balances not expected to reverse within the current fiscal year, the applicable rate is the new statutory tax rate of 21 percent, which will be effective for the first fiscal year beginning after January 1, 2018.

1.7 What is meant by the "blended tax rate," and how is it calculated?

For the period that includes enactment, the blended tax rate should be determined in accordance with IRC Section 15 and therefore based on the applicable rates before and after the change and the number of days in the period within the taxable year before and after the effective date of the change in tax rate.

As illustrated in the table below, the domestic federal statutory tax rate (blended tax rate) for all non-calendar-year-end entities with the same fiscal year-end will be the same, regardless of income (or projected income used for interim reporting). It is assumed in the table that the entities' fiscal year-end is March 31, 2018, and the effective date of the new tax rate is January 1, 2018.

	Tax Rate	Days Under Tax Rate	Tax Ratio	Tentative Tax Rate
Effective rate before enactment (April 1, 2017, to December 31, 2017)	35%	275	75.34%	26.37%
Effective rate after enactment (January 1, 2018, to March 31, 2018)	21%	90	24.66%	5.18%
Domestic federal statutory tax rate (blended tax rate)		365		31.55%

1.8 Since a fiscal-year-end entity will also have to calculate an AETR for its current fiscal year, how should the change in tax rate be factored into its AETR (exclusive of any adjustment for permanent items) for interim periods ending after the enactment date?

In a manner consistent with the guidance in IRC Section 15 discussed above, such an entity should use its blended tax rate to calculate the U.S. federal tax expense/benefit to include in its AETR computation. The new AETR would then be applied to pretax income or loss for the year to date at the end of the interim period that includes the enactment date, and for all subsequent interim periods in the year.

1.9 What rate should a fiscal-year-end company use as the statutory tax rate when preparing rate reconciliation disclosures as required by ASC 740-10-50-11?

The entity should use the blended tax rate as explained in FAQ 1.7.

1.10 If the exception in ASC 740-20-45-7 is applicable in the annual period that includes the enactment date, should an entity consider the change in the corporate tax rate in applying the exception? [Added January 19, 2018]

Yes. An entity must consider taxable income expected in future years for measurement of a DTA related to the carryforward of a current-year loss from continuing operations. For example, assume that a calendar-year-end company with a full valuation allowance has a current-year $1,000 loss in continuing operations and a $100 gain reported in OCI related to an available-for-sale security that is in an overall gain position, resulting in a DTA and DTL of $210 and $21, respectively, as of December 31, 2017. A $21 tax benefit and $21 tax expense would be allocated to continuing operations and OCI, respectively. See Sections 7.07 and 7.21A of Deloitte's *A Roadmap to Accounting for Income Taxes* for more information.

Modification of Carryforwards and Certain Deductions

Modification of Net Operating Loss Carryforwards

The Act modifies aspects of current law regarding net operating loss (NOL) carryforwards. Under current law, NOLs generally have a carryback period of 2 years and a carryforward period of 20 years. For NOLs incurred in years subject to the new rules, the Act eliminates, with certain exceptions, the NOL carryback period and permits an indefinite carryforward period. The amount of the NOL deduction is limited to 80 percent of taxable income, which is computed without regard to the NOL deduction.

2.1 Should a taxable temporary difference associated with an indefinite-lived asset be considered a source of taxable income to support realization of an NOL with an unlimited carryforward period? What if a deductible temporary difference is expected to reverse into an NOL with an unlimited carryforward period?

A taxable temporary difference associated with an indefinite-lived asset is generally considered to be a source of taxable income to support realization of an NOL with an unlimited carryforward period. This would also generally be true for a deductible temporary difference that is scheduled to reverse into an NOL with an unlimited carryforward period. However, because the Act includes restrictions on the ability to use NOLs with unlimited carryforward periods (i.e., NOLs arising in years subject to the new rules are limited in use to 80 percent of taxable income), only 80 percent of the indefinite-lived taxable temporary difference would serve as a source of taxable income. See Section 4.27 of Deloitte's *A Roadmap to Accounting for Income Taxes* for more information.

Limitation on Business Interest

Under current law, IRC Section 163(j) limits the ability of certain corporations to deduct interest paid or accrued on indebtedness. In general, this limit applies to interest paid or accrued by certain corporations (when no U.S. federal income tax is imposed on the interest income) whose debt-to-equity ratio exceeds 1.5 to 1.0 and when net interest expense exceeds 50 percent of the adjusted taxable income.

The Act removes the debt-to-equity safe harbor, expands interest deductibility limitations, and generally limits the interest deduction on business interest to (1) business interest income plus (2) 30 percent of the taxpayer's adjusted taxable income.

2.2 When an entity develops an objective and verifiable estimate of future taxable income in its assessment of the realizability of its DTAs, can the entity adjust its historical operating results to factor in the effects of adjustments to IRC Section 163(j) resulting from the Act? [Added January 19, 2018]

Yes. An entity should consider the effects of the new IRC Section 163(j) limitation in a manner similar to nonrecurring items for which the entity makes an adjustment in its historical results. However, the ability to adjust historical operating results to obtain an objectively verifiable estimate of future taxable income does not change the fact that the entity would still need to consider such losses as part of its prior earnings history (i.e., the entity may not exclude such losses in determining whether it has cumulative losses in recent years).

For more information, see Sections 4.40 and 4.41 of Deloitte's *A Roadmap to Accounting for Income Taxes*.

Deemed Repatriation Transition Tax (IRC Section 965[6])

A U.S. shareholder of a specified foreign corporation (SFC)[7] must include in gross income, at the end of the SFC's last tax year beginning before January 1, 2018, the U.S. shareholder's pro rata share of certain of the SFC's undistributed and previously untaxed post-1986 foreign earnings and profits (E&P). The inclusion generally may be reduced by foreign E&P deficits that are properly allocable to the U.S. shareholder. In addition, the mandatory inclusion may be reduced by the pro rata share of deficits of another U.S. shareholder that is a member of the same affiliated group. A foreign corporation's E&P are taken into account only to the extent that they were accumulated during periods in which the corporation was an SFC (referred to below as a "foreign subsidiary"). The amount of E&P taken into account is the greater of the amounts determined as of November 2, 2017, or December 31, 2017, unreduced by dividends (other than dividends to other SFCs) during the SFC's last taxable year beginning before January 1, 2018. [Amended January 19, 2018]

The U.S. shareholder's income inclusion is offset by a deduction designed to generally result in an effective U.S. federal income tax rate of either 15.5 percent or 8 percent. The 15.5 percent rate applies to the extent that the SFCs hold cash and certain other assets (the U.S. shareholder's "aggregate foreign cash position"), and the 8 percent rate applies to the extent that the income inclusion exceeds the aggregate foreign cash position.

The Act permits a U.S. shareholder to elect to pay the net tax liability[8] interest free over a period of up to eight years.

3.1 Should an entity that is required to include post-1986 foreign earnings in its current-year taxable income but elects to pay the one-time deemed repatriation transition tax (under IRC Section 965) over a period of up to eight years classify the tax as a DTL or a current/noncurrent income tax payable?

In the period of enactment, a U.S. shareholder should record a current/noncurrent income tax payable for the transition tax due. ASC 210 provides general guidance on the classification of accounts in statements of financial position. An entity should classify as a current liability only those cash payments that management expects to make within the next 12 months to settle the transition tax. The installments that the entity expects to settle beyond the next 12 months should be classified as a noncurrent income tax payable.

3.2 If an entity elects to pay the one-time deemed repatriation transition tax over the eight-year period, should the income tax payable be discounted? [Amended January 19, 2018]

Although ASC 740-10-30-8 clearly prohibits discounting of DTAs and DTLs, it does not address income tax liabilities payable over an extended period. In the absence of explicit guidance in ASC 740, we believe that an entity would need to consider ASC 835-30. Specifically, we note the following:

- ASC 835-30 is generally applied to "exchange transactions" rather than nonreciprocal transactions.
- ASC 835-30-15-3(e) notes that the guidance in ASC 835-30 does not apply to "[t]ransactions where interest rates are affected by the tax attributes or legal restrictions prescribed by a governmental agency (for example, industrial revenue bonds, tax exempt obligations, government guaranteed obligations, income tax settlements)."

[6] IRC Section 965, "Temporary Dividends Received Deduction."

[7] An SFC includes all controlled foreign corporations and all other foreign corporations (other than passive foreign investment companies) in which at least one domestic corporation is a U.S. shareholder.

[8] Net tax liability under IRC Section 965 is the excess, if any, of the taxpayer's net income tax for the taxable year in which the IRC Section 965 inclusion amount is included over such taxpayer's net income tax for the taxable year, excluding (1) the IRC Section 965 amount and (2) any income or deduction properly attributable to a dividend received by such U.S. shareholder from any deferred foreign income corporation.

- Because the amount of the deemed repatriation transition tax is inherently subject to uncertain tax positions, measurement of the ultimate amount to be paid is potentially subject to future adjustment.

Accordingly, we do not believe that the deemed repatriation transition tax should be discounted.

On January 10, 2018, the FASB agreed with the view of the FASB staff that the deemed repatriation transition tax liability should not be discounted.

3.3 Depending on the year-ends of a U.S. entity and its foreign subsidiaries, the deemed repatriation transition tax may or may not be reported on the current-year tax return. If the deemed repatriation transition tax will not be reported on the current-year tax return, should the liability for the one-time deemed repatriation transition tax be limited to the amount that corresponds to the entity's outside basis difference in the foreign subsidiary, or should the entire amount be recorded? [Amended January 19, 2018]

Although we generally believe that the recognition of a liability related to a foreign subsidiary would be limited to the amount that corresponds to the entity's outside basis difference in the foreign subsidiary, we believe that it would be appropriate to record the entire amount of the deemed repatriation transition tax in the period of enactment given the unique circumstances presented in this FAQ (i.e., the amount due is calculated by reference to the greater of the E&P amounts determined as of November 2, 2017, or December 31, 2017 — that is, E&P related to past transactions — and will simply be payable in a subsequent year).

3.4 If the deemed repatriation transition tax will not be reported on the current-year tax return, should the entity classify the one-time deemed repatriation transition tax as a DTL or a noncurrent income tax payable?

On the basis of the unique nature of tax reform and the mandatory one-time deemed repatriation income inclusion, we believe that the deemed repatriation transition tax liability may be classified as a noncurrent income tax payable.

3.5 With the Act's establishment of a participation exemption system of taxation, does an entity still need to consider whether the outside basis differences in its foreign subsidiaries (and foreign corporate joint ventures that are essentially permanent in duration) are indefinitely reinvested?

Yes. Even under the new tax system, an entity may still be subject to income tax on its foreign investments (e.g., foreign exchange gains or losses on distributions, capital gains on sale of investment, foreign income taxes, and withholding taxes) and should consider whether it needs to record any deferred taxes on outside basis differences in foreign investments. In making this determination, an entity should consider its outside basis differences at each level in the organization chart, starting with the subsidiary at the lowest level in the chain.

3.6 If an entity changes its indefinite reinvestment assertion with respect to its investment in a foreign subsidiary (or foreign corporate joint venture that is essentially permanent in duration) because it now intends to distribute earnings subject to the deemed repatriation transition tax, may the entity change its historic accounting policy and approach for determining the DTL for withholding taxes that are within the scope of ASC 740?

Historically, we have accepted the following two approaches for determining whether a parent should recognize a DTL for withholding taxes that would be imposed by the local tax authority on a distribution:

- *Parent jurisdiction approach* — A parent[9] would apply ASC 740-10-55-24 by treating the withholding tax as a tax that the parent would incur upon the reversal of a taxable temporary difference in the parent's jurisdiction that is attributable to its investment in the foreign subsidiary. The parent would be unable to recognize a DTL when the financial reporting carrying value of the investment does not exceed the tax basis in the investment as determined by application of tax law in the parent's jurisdiction. However, if an outside basis difference does exist in the parent's investment in the foreign subsidiary, the parent would apply ASC 740-10-55-24 when measuring the DTL to be recognized.
- *Subsidiary jurisdiction approach* — An entity considers the perspective of the jurisdiction that is taxing the recipient (i.e., the local jurisdiction imposing the withholding tax) when determining whether the parent has a taxable temporary difference. From the perspective of the local jurisdiction, the parent has a financial reporting carrying amount in its investment in the distributing entity that is greater than its local tax basis (i.e., from the perspective of the local jurisdiction, the IRC Section 965(a) transition income inclusion that increased the tax basis is not relevant in the local jurisdiction). Therefore, there is an "outside" taxable temporary difference and, in accordance with ASC 740-10-55-24, the measurement of the DTL should reflect withholding taxes to be incurred when the taxable temporary difference reverses.

These approaches would continue to be appropriate for determining whether a parent should recognize a DTL for withholding taxes after the effective date of the tax law change. For more information about the two approaches, see Section 3.06 of Deloitte's *A Roadmap to Accounting for Income Taxes*.

Note that the tax effect of any change in the indefinite reinvestment assertion (e.g., a withholding tax DTL) would be considered an indirect effect of tax reform for purposes of the disclosure required under ASC 740-10-50-9(g).

3.7 Should an entity consider the one-time deemed repatriation income inclusion to be a source of income when analyzing the realization of DTAs in the year of the inclusion?

Yes. An entity should consider the one-time deemed repatriation income inclusion to be a source of taxable income when analyzing the realization of DTAs. The entity should verify that the one-time deemed repatriation income inclusion coincides with the timing of the deductions and other benefits associated with the DTAs.

For more information about sources of taxable income that may enable realization of a DTA, see Section 4.22 of Deloitte's *A Roadmap to Accounting for Income Taxes*.

3.8 If a company has the ability and intent to make an election under Revenue Procedure 2006-45 to change a CFC's tax year-end (i.e., to a one-month deferral year as described in Section 898(c)(2)), when should the impact of the change in the CFC's year-end be recognized for financial statement purposes? [Added January 19, 2018]

Generally speaking, an election made under Revenue Procedure 2006-45 would be considered an automatic change from one permissible method to another. Accordingly, the financial statement impact would be reflected in the period in which the entity has concluded that it qualifies for the change in accounting method and that it has the intent and ability to file the change.

[9] The "parent" in this context is the immediate owner of the investment.

For more information about when to recognize the impact of tax method changes, see Section 3.51 of Deloitte's *A Roadmap to Accounting for Income Taxes*.

3.9 What factors should an entity consider in measuring the one-time deemed repatriation transition tax? [Added January 19, 2018]

Typically, we would expect the one-time deemed repatriation transition tax to be based on the facts that exist as of the balance sheet date (e.g., E&P amounts, cash and other asset balances) or a prior date if required by law. However, in some instances, certain actions (or elections) that management expects to take (make) and for which no other impediments or regulatory hurdles to execution exist (i.e., the plans are within the entity's control) can be considered in the measurement of the tax liability. In such cases, an entity would need to use significant judgment and assess its individual facts and circumstances.

Global Intangible Low-Taxed Income

Although the Act generally eliminates U.S. federal income tax on dividends from foreign subsidiaries of domestic corporations, it creates a new requirement that certain income (i.e., GILTI) earned by controlled foreign corporations (CFCs) must be included currently in the gross income of the CFCs' U.S. shareholder. GILTI is the excess of the shareholder's "net CFC tested income" over the net deemed tangible income return (the "routine return"), which is defined as the excess of (1) 10 percent of the aggregate of the U.S. shareholder's pro rata share of the qualified business asset investment (QBAI) of each CFC with respect to which it is a U.S. shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income.

A deduction is permitted to a domestic corporation in an amount up to 50 percent of the sum of the GILTI inclusion and the amount treated as a dividend because the corporation has claimed a foreign tax credit (FTC) as a result of the inclusion of the GILTI amount in income ("IRC Section 78[10] gross-up"). If the sum of the GILTI inclusion (and related IRC Section 78 gross-up) and the corporation's foreign-derived intangible income (FDII) (see FAQ 5.1) exceeds the corporation's taxable income, the deductions for GILTI and for FDII are reduced by the excess. As a result, the GILTI deduction can be no more than 50 percent of the corporation's taxable income (and will be less if the corporation is also entitled to an FDII deduction).

4.1 Is a company required to record U.S. deferred taxes for investments in foreign subsidiaries and corporate joint ventures that are essentially permanent in duration (collectively, "foreign investments") and that are subject to the GILTI provision but otherwise indefinitely reinvested? [Amended January 19, 2018]

No. If a GILTI inclusion is not expected in future years, no U.S. deferred taxes would be recorded. However, even if a GILTI inclusion is expected in future years, U.S. deferred taxes would not be *required*.

On January 10, 2018, the FASB agreed with the views of the FASB staff that a company may either (1) elect to treat taxes due on future U.S. inclusions in taxable income under the GILTI provision as a current-period expense when incurred or (2) factor such amounts into the company's measurement of its deferred taxes (the deferred method). The FASB staff acknowledged that companies that elect to factor GILTI into the measurement of deferred taxes will face additional implementation issues but did not explain how those issues should be addressed.

[10] IRC Section 78, "Dividends Received From Certain Foreign Corporations by Domestic Corporations Choosing Foreign Tax Credit."

* * * * *

The remaining FAQs in this section reflect our current thinking with respect to addressing the aforementioned implementation issues applicable to companies that elect to factor GILTI amounts into their measurement of deferred taxes and record a provisional amount; however, other approaches may also exist, and our views are subject to change on the basis of additional input received or further developments in practice. In addition, when measuring deferred taxes under the GILTI provision, an entity will need to use significant judgment and completely understand the intricacies of the GILTI provision in the context of its own specific facts and circumstances.

4.2 If a company expects to have a U.S. inclusion in taxable income under the GILTI provision in future years, how should it determine whether to record a U.S. DTL related to the foreign investment? [Amended January 19, 2018]

Notwithstanding the potential for a taxable income inclusion, all CFCs have an actual outside tax basis for U.S. tax purposes, and may have an actual outside basis difference, under ASC 740-30-25-18. We believe that if the financial reporting basis in the investment exceeds the tax basis, the company should determine whether the outside basis difference (or a portion thereof) will reverse in a taxable manner through recognition of income as a result of the GILTI provision and, if so, should measure a U.S. DTL for the outside basis difference (or portion thereof). In making this determination, the company will need to "look through" the outside basis of the CFC to determine how the inside basis differences will reverse and whether such reversals will result in a GILTI inclusion. See Section 8.03A of Deloitte's *A Roadmap to Accounting for Income Taxes* for more details.

4.3 Given that the CFC's routine return is excluded from the GILTI inclusion, how should an entity measure the outside basis difference (or portion thereof) in foreign investments that will reverse as a result of a GILTI inclusion? [Amended January 19, 2018]

We believe that the portion of the basis difference that will reverse and represent a routine return is not a taxable temporary difference for which a DTL would be recorded in accordance with ASC 740-10-25-30. Accordingly, we believe that there could be three acceptable approaches to measuring the temporary difference related to an entity's outside basis difference (or portion thereof) in foreign investments that will reverse as a result of a GILTI inclusion. These approaches, each of which involves "looking through" to the underlying temporary differences within the CFC and factoring in the portion attributable to the routine return, would be similar to the approaches currently used to determine the amount of compensation that should be tax-effected under IRC Section 162(m).[11] The three approaches are as follows:

- *Incremental tax rate approach* — An entity would consider the taxable income related to reversing temporary differences to be the last dollars of taxable income (i.e., taxable income from reversing temporary differences would not qualify as part of the routine return unless future book income is expected to be less than the routine return). Under this approach, the outside basis difference that will reverse as a result of a GILTI inclusion will be equal to the reversing temporary difference reduced by any residual routine return after future book income is considered.
- *Actual tax rate approach* — An entity would not consider future book income when measuring the temporary difference related to its outside basis in foreign investments that is expected to reverse as a result of a GILTI inclusion. Rather, all assets and liabilities would be assumed to be recovered and settled, respectively, at the financial statement carrying value in accordance with ASC 740-10-25-20, resulting in "tested

[11] IRC Section 162(m), "Certain Excessive Employee Remuneration."

income" equal to the inside book/tax basis differences. A portion of the tested income may not result in a taxable inclusion because it represents a routine return. Therefore, that portion of the outside basis difference might not represent a taxable temporary difference. Under this approach, the outside basis difference that represents a taxable temporary difference that will reverse as a result of a GILTI inclusion will be the portion of the remaining outside basis difference related to the deemed net tested income (i.e., tested income equal to the inside book/tax basis differences less routine return).

- *Pro rata approach* — The routine return would be allocated on a pro rata basis between reversal of existing temporary differences and future income.

We believe that, in determining the amount of the future routine return, an entity should consider its existing QBAI and should not consider future book income that will be used to purchase additional QBAI.

The approach an entity selects would be an accounting policy election that, like all other such elections, would be applied consistently. However, we do not believe that an entity would be required to have the same policy for GILTI and IRC Section 162(m).

4.4 If substantially all of an entity's income will be taxable as a GILTI inclusion, would an acceptable alternative approach to measuring deferred taxes for an outside basis difference in a CFC be to measure deferred taxes "as if" the CFC were a branch? [Amended January 19, 2018]

Unlike a branch, and as noted above in FAQ 4.2, a CFC that will have substantially all of its income taxable in the United States as a result of a GILTI inclusion still has an outside tax basis that is relevant in certain instances, such as a sale or distribution. Accordingly, it would appear that measurement of deferred taxes should factor in the outside basis difference. However, if the outside tax basis and the aggregate inside tax basis are the same, application of the incremental approach, coupled with an approach that is not limited by ASC 740-30-25-9 as described in FAQ 4.5 below, may often produce substantially similar results. For example, application of "branch-like" accounting measurement principles may be acceptable in the measurement of the portion of a company's outside basis difference that corresponds to book to U.S. tax temporary differences and other "in country" deferred taxes. Further, even if the outside tax basis and the aggregate inside tax basis are not the same, application of the ASC 740 outside basis difference exceptions to any residual DTA (ASC 740-30-25-9) or DTL (ASC 740-30-25-18) might still produce similar results, aside from disclosure considerations, provided that the company ultimately reconciles its inside basis differences back to its overall outside basis difference.

For more information about accounting for foreign branch operations, see Section 3.51A of Deloitte's *A Roadmap to Accounting for Income Taxes*.

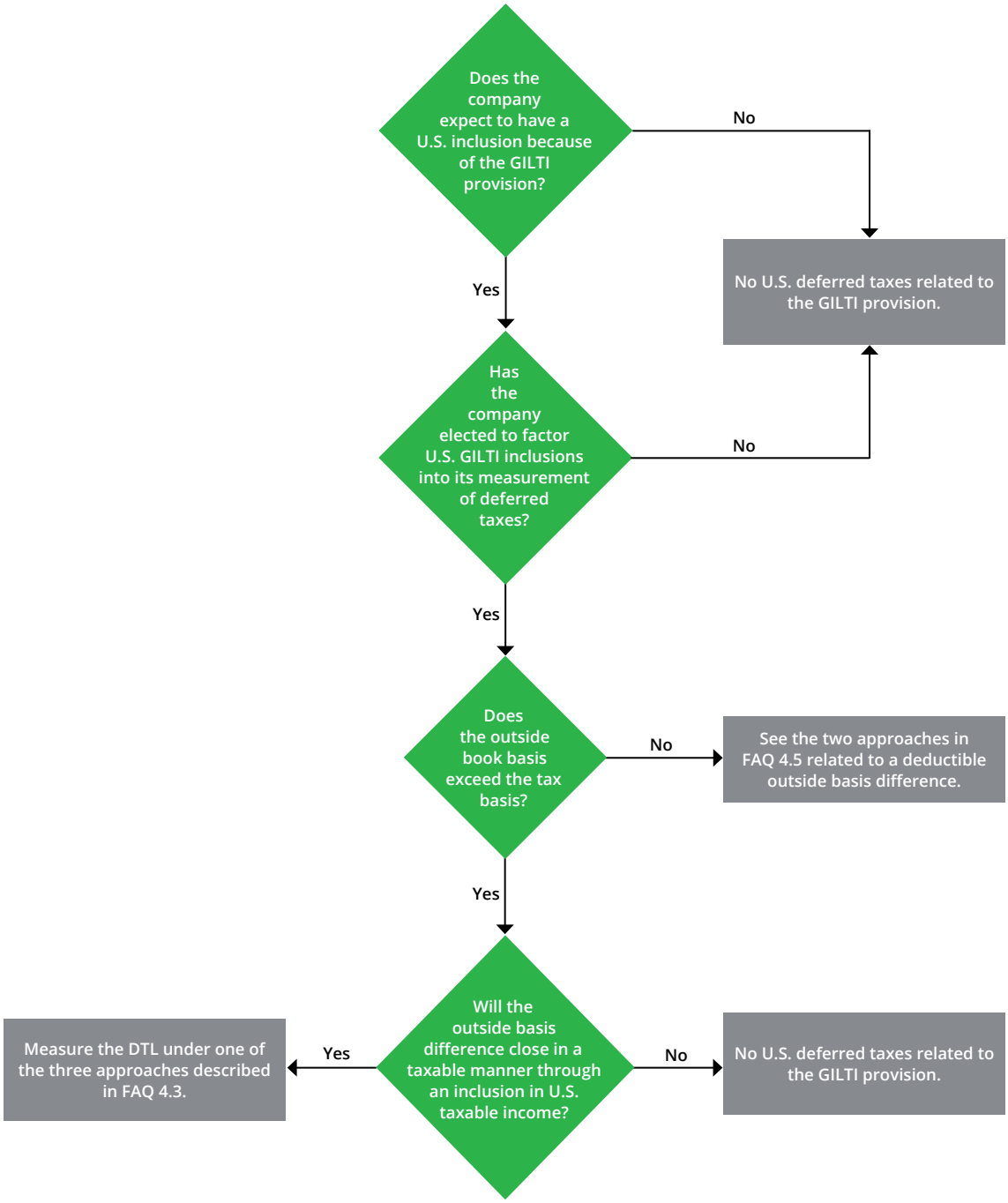
4.5 Is a company required to record a DTA related to an excess of tax basis over book basis in a foreign investment (i.e., a deductible outside basis difference), or does the exception in ASC 740-30-25-9 apply to a deductible outside basis difference in a foreign investment that is expected to have a U.S. inclusion as a result of the GILTI provision?

ASC 740-30-25-9 states that a DTA "shall be recognized for an excess of the tax basis over the amount for financial reporting of an investment in a subsidiary or corporate joint venture that is essentially permanent in duration only if it is apparent that the temporary difference will reverse in the foreseeable future." Because "reverse" has been interpreted to mean that the amount will actually result in a deduction on a tax return, a DTA has generally been recognized for a foreign investment only if the investment will be sold within one year or one business cycle. We currently believe that if a company does not intend to sell an investment that would result in an actual deduction on the company's tax return, the company would not be required

to record a DTA solely as a result of the enactment of the GILTI provision. If there is symmetry between the inside and outside basis difference in the foreign investment, recovery and settlement of the foreign investment's underlying assets and liabilities, respectively, at their financial reporting carrying value would result in a tax loss, which would not result in a tax deduction (or carryforward) on the U.S. tax return since the GILTI provision can result only in incremental U.S. taxable income and not a reduction to U.S. taxable income.

However, because the Act's GILTI provision creates a new category of Subpart F inclusions that may often cause a deductible outside basis difference to partly or wholly reverse and directly affect the GILTI inclusion, not recording a DTA in these circumstances may distort the financial statements. Therefore, we currently believe that recording a DTA may be an acceptable alternative approach if the underlying inside basis differences were expected to (1) reverse in a period in which the parent has a GILTI inclusion and (2) result in a reversal of the outside basis difference.

The decision tree on the next page illustrates our current thinking regarding the process for determining the deferred tax accounting for outside basis differences in foreign investments as a result of the GILTI provision.



For more information, see Sections 8.02, 8.03, and 8.03A of Deloitte's *A Roadmap to Accounting for Income Taxes*.

4.6 Is a company required to record a DTL if the excess of the financial reporting carrying value over the outside tax basis in a foreign investment exceeds the aggregate inside basis differences?

It depends. The company would assess whether the residual outside basis difference represented a taxable temporary difference and, if so, whether such basis difference was indefinitely reinvested. See FAQ 3.5.

4.7 Should the GILTI deduction and FTCs be considered in the measurement of a DTL related to an outside basis difference in a CFC that is expected to reverse as a result of a U.S. inclusion due to the GILTI provision? [Added January 19, 2018]

ASC 740-10-55-24 indicates that the computation of a DTL for an outside basis difference related to undistributed earnings should reflect any dividends received deductions (DRDs) or FTCs.

An entity must carefully consider all applicable provisions in the tax law when determining the amount of the FTC, since the amount of the foreign taxes that will be creditable and realizable may be difficult to determine and subject to limitations (e.g., an 80 percent limitation, limitations as a result of expense allocations, and a limitation on utilization as a result of not having a carryforward or carryback period). For example, a local country DTL that will reverse in the same year(s) in which an outside basis difference reverses as a result of a U.S. inclusion due to the GILTI provision may be creditable against the U.S. tax from the GILTI provision in that year but would be subject to the 80 percent limitation. In addition, DTAs related to U.S. assets and liabilities that reverse in the same year as the reversal of the outside basis difference might further limit the FTC as a result of the expense allocation limitations. Future FTCs and expense allocation limitations directly related to future book income generally should not be included in the measurement of the DTL until such income is recognized (i.e., such FTCs and expense allocation limitations should be limited to those directly tied to existing temporary differences).

ASC 740-10-25-37 states that the "tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return." In form, the GILTI deduction operates and is considered a special deduction like the others discussed in ASC 740-10-25-37 and, accordingly, could be accounted for as such. In substance, however, because of the immediate interaction between the U.S. inclusion due to the GILTI provision and the GILTI deduction and because the DTL is related to an outside basis difference, it may be acceptable to view the GILTI deduction as a DRD. We believe that if an entity treats the GILTI deduction as a DRD to reduce the DTL, it would be appropriate to also consider all limitations on the FTCs. That is, the GILTI deduction should not be anticipated to better reflect the actual future U.S. tax cost of the reversing outside basis difference while at the same time ignoring the expense allocation impact on the FTC, which may have a counterbalancing effect on the future U.S. tax cost.

As noted above, however, the GILTI deduction is "up to," rather than "guaranteed" to be, 50 percent and could be reduced by the taxable income limitation, which is applied on a combined basis with the FDII deduction (see FAQ 5.1). An entity should carefully consider this limitation if the GILTI deduction is factored into the measurement of the DTL. When the taxable income limitation and expense allocation limitations are not expected to have a significant impact, we believe it may be acceptable to factor the GILTI deduction into the measurement of the DTL. In making this determination, an entity would need to consider its individual facts and circumstances and apply significant judgment. If, however, the limitations are expected to apply and be significant, and given the interaction of such items with projections of future income, we believe that the GILTI deduction may be more appropriately accounted for as a special deduction and the impact of the expense allocations related to future book expenses would be reflected in the period in which the expenses arise and limit the FTC.

4.8 If an entity elects to factor taxes due on future U.S. GILTI inclusions in taxable income into the entity's measurement of its deferred taxes, upon adoption of ASU 2016-16[12] and the establishment of a DTA for previously unrecognized tax basis in the buyer's jurisdiction, how should any corresponding change in the measurement of deferred taxes attributable to GILTI be recognized? [Added January 19, 2018]

Entities are required to adopt ASU 2016-16 on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the year of adoption. ASC 250-10-45-8 requires entities to include the direct effects of a change in accounting principle, *including any related income tax effects*, when applying that principle retrospectively. Although ASU 2016-16 will be applied on a modified retrospective basis, we believe that a similar concept would apply in this situation. Therefore, the corresponding change in the measurement of deferred taxes attributable to GILTI would be considered a direct effect and, accordingly, would be recognized as an adjustment directly to retained earnings as well.

4.9 Does SAB 118 apply to the selection of an accounting policy for GILTI such that an entity could use the measurement period of one year to make that decision? [Added January 19, 2018]

This question is currently unresolved.

SAB 118 does not explicitly refer to accounting policy choices. The primary focus of the SAB is on what to do when "an entity does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting under ASC Topic 740." In context, "information" appears to refer only to the underlying data that need to be gathered, prepared, and analyzed.

However, the lack of information to which the SAB refers could make it difficult to adopt an accounting policy that best depicts an entity's facts and circumstances. The interpretive response to Question 6 of SAB Topic 6.G.2.b[13] states that "[e]ach registrant must justify a change in accounting method on the basis that the method is preferable under the circumstances of that registrant." Accordingly, some have suggested that an entity should not be required to make a decision on a GILTI accounting policy until it has reasonable estimates of the alternatives and can consider how those alternatives would best portray its individual facts and circumstances.

Regardless of how the broader issue described above is resolved, we believe that a company may be able to defer adoption of an accounting policy to a later quarter within the SAB 118 measurement period on the basis of immateriality. Under ASC 250 the initial adoption of an accounting principle for events or transactions that previously were immaterial in their effect is not considered a change in accounting principle and therefore is not subject to an assessment of preferability. For example, a company might initially apply a particular accounting method but then adopt a different method before the transactions become material. That adoption is not considered to be subject to preferability because neither the historical accounting nor the cumulative effect to transition to the new method has a material impact on the financial statements for any affected period.

With respect to GILTI, there may be situations in which the cumulative difference at the end of each period during the one-year measurement period of SAB 118 between the provisional accounting and the accounting ultimately selected is immaterial because of the SAB 118 guidance that postpones any accounting until amounts are reasonable estimable. For example, if as of December 31, 2017, an entity does not have the information available, prepared, or analyzed (including computations) in reasonable detail to make reasonable

[12] FASB Accounting Standards Update No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*.
[13] SEC Staff Accounting Bulletin Topic 6.G.2.b, "Reporting Requirements for Accounting Changes."

estimates of any of the deferred tax effects under the deferred method, no accounting entry would be required under either accounting policy. However, an accounting policy would need to be finalized in the period in which the entity is first able to make reasonable estimates if the difference between the method used to date and the final method adopted is material. Any changes to the policy thereafter would be subject to preferability under ASC 250.

One caveat to this approach is that SAB 118 requires provisional accounting for aspects that are reasonably estimable. An entity might already know the temporary differences in the foreign jurisdictions since ASC 740 would have already required their calculation; however, now that the foreign entity may be subject to future U.S. GILTI inclusions, the entity would be required under the deferred method to compute temporary differences on the basis of U.S. tax rather than foreign tax provisions. As individual "book to U.S. tax" temporary differences that will reverse in a taxable manner through recognition of income as a result of the GILTI provision become reasonably estimable, recognition of the corresponding deferred tax consequences would be required under SAB 118 and the deferred method, and the recognition of those consequences could then affect the materiality considerations described above.

We will update this FAQ when more information becomes available.

Foreign Derived Intangible Income

The Act allows a domestic corporation an immediate deduction in U.S. taxable income for a portion of its foreign derived intangible income (FDII). The amount of the deduction depends, in part, on U.S. taxable income. The percentage of income that can be deducted is reduced in taxable years beginning after December 31, 2025.

5.1 How should companies account for the FDII deduction? [Amended January 19, 2018]

We believe that these deductions are analogous to the special deductions cited in ASC 740-10-25-37 and should be accounted for as such.

For more information, see Section 4.17 of Deloitte's *A Roadmap to Accounting for Income Taxes*.

Base Erosion Anti-Abuse Tax

For tax years beginning after December 31, 2017, a corporation is potentially subject to tax under the BEAT provision if the controlled group of which it is a part has sufficient gross receipts and derives a sufficient level of "base erosion tax benefits." Under the BEAT, a corporation must pay a base erosion minimum tax amount (BEMTA) in addition to its regular tax liability after credits. The BEMTA is generally equal to the excess of (1) a fixed percentage of a corporation's modified taxable income (taxable income determined without regard to any base erosion tax benefit related to any base erosion payment, and without regard to a portion of its NOL deduction) over (2) its regular tax liability (reduced by certain credits). The fixed percentage is generally 5 percent for taxable years beginning in 2018, 10 percent for years beginning after 2018 and before 2026, and 12.5 percent for years after 2025. However, the fixed percentage is 1 percentage point higher for banks and securities dealers (i.e., 6, 11, and 13.5 percent, respectively).

6.1 What tax rate should companies that are subject to the BEAT provisions use when measuring temporary differences? [Amended January 19, 2018]

We believe that the BEAT system can be analogized to an AMT system. ASC 740 notes that when alternate tax systems like the AMT exist, deferred taxes should still be measured at the regular tax rate. Because the BEAT provisions are designed to be an "incremental tax," an

entity can never pay less than its statutory tax rate of 21 percent. Like AMT preference items, related-party payments made in the year of the BEMTA are generally the BEMTA's driving factor. The AMT system and the BEAT system were both designed to limit the tax benefit of such "preference items." Further, as was the case under the AMT system, an entity may not know whether it will always be subject to the BEAT tax, and we believe that most (if not all) taxpayers will ultimately take measures to reduce their BEMTA exposure and therefore ultimately pay taxes at or as close to the regular rate as possible. Accordingly, while there is no credit under the Act such as the one that existed under the AMT regime, we believe that the similarities between the two systems are sufficient to allow BEAT taxpayers to apply the existing AMT guidance in ASC 740 and measure deferred taxes at the 21 percent statutory tax rate. (See ASC 740-10-30-8 through 30-12 and ASC 740-10-55-31 through 55-33.)

On January 10, 2018, the FASB agreed with the views of the FASB staff that companies should measure deferred taxes without regard to BEAT (i.e., should continue to measure deferred taxes at the regular tax rate), with any payment of incremental BEAT reflected as a period expense.

Corporate AMT

The corporate AMT has been repealed for tax years beginning after December 31, 2017. Taxpayers with AMT credit carryforwards that have not yet been used may claim a refund in future years for those credits even though no income tax liability exists.[14] Companies can continue using AMT credits to offset any regular income tax liability in years 2018 through 2020, with 50 percent of remaining AMT credits refunded in each of the 2018, 2019, and 2020 tax years and all remaining credits refunded in tax year 2021.

7.1 If a valuation allowance has been recorded on the DTA for AMT credit carryforwards, should the valuation allowance be released?

Yes. Since the AMT credit will now be fully refundable regardless of whether there is a future income tax liability before AMT credits, the benefit of the AMT credit will be realized. Therefore, any valuation allowance should be released, and an income tax benefit should be recognized.

7.2 Now that existing AMT credit carryovers are refundable, how should an entity present the AMT credits in the balance sheet?

Because an entity may either apply an AMT credit carryforward against its future income tax liability or receive a refund if it never has taxable income, we would accept either presentation as long as it is accompanied by appropriate disclosure.

7.3 If the amount is presented as a receivable, and given that it will be collected over a period of longer than 12 months, should the amount be discounted? [Amended January 19, 2018]

No. As discussed in FAQ 3.2, ASC 740 prohibits discounting, but only in the context of DTAs and DTLs. Accordingly, in the absence of explicit guidance in ASC 740, we believe that ASC 835-30 would need to be considered, and in accordance with our conclusion above regarding the deemed repatriation transition tax, we do not believe that the amount, even if presented as a receivable, should be discounted.

On January 10, 2018, the FASB agreed with the views of the FASB staff that, in a manner similar to the Board's conclusion regarding the one-time deemed repatriation transition tax, refundable AMT carryforward credits should not be discounted.

[14] Note that taxpayers should consider whether other limitations (e.g., IRC Section 383, "Special Limitations on Certain Excess Credits, Etc.") apply to their ability to claim a refund of AMT.

Non–ASC 740 Topics Affected by Tax Reform

Non-GAAP Financial Measures

8.1 May companies adjust their non-GAAP financial measures related to the impact of tax reform?

Non-GAAP financial measures are commonly used, since many registrants assert that such measures are meaningful and provide valuable insight into the information that management considers important in running the business. While many non-GAAP financial measures are expressed on a pretax basis (e.g., EBITDA), others are expressed on a post-tax basis (e.g., adjusted net income, adjusted EPS). For example, registrants may seek to adjust post-tax non-GAAP measures related to the impact of tax reform.

Registrants may also elect to make non-GAAP adjustments related to discrete amounts that affect income from, for example, (1) the adjustment of deferred taxes upon the change in corporate tax rates or (2) the recognition of incremental tax expense related to foreign earnings previously considered to be indefinitely reinvested abroad and not subject to U.S. taxation. If such adjustments are not misleading as described in Section 100 of the SEC's May 2016 Compliance and Disclosure Interpretations (C&DIs), they may be permissible depending on the registrant's specific facts and circumstances.

Some registrants may also consider adjustments that attempt to depict a "normalized" tax rate between comparable periods to enhance comparability of periods before and after tax reform. For example, a registrant might use a non-GAAP presentation to apply a lower tax rate to a period before enactment as if the new rates were in effect at that time (e.g., applying a post-reform effective tax rate to prior-year pretax earnings to create comparability to 2018 net income). In deciding whether to present such a measure, a registrant should evaluate whether the measure could be misleading as described in the SEC's C&DIs, including whether it could be considered to be an "individually tailored" accounting principle as described in C&DI Question 100.04.

For more information, see Section 4.3 of Deloitte's *A Roadmap to Non-GAAP Financial Measures*.

Form 8-K Filing Requirements and Considerations

8.2 Will the Act trigger any Form 8-K filing requirements or other Form 8-K considerations?

For certain taxpayers, there may be a material reduction in DTAs and a corresponding charge to net income as a result of the Act. Registrants have questioned whether this would be considered a material impairment, which would trigger the requirement to file a Form 8-K under Item 2.06.[15] The SEC recently issued C&DI Question 110.02, which clarifies that reduction of a DTA as a result of the rate change would not be considered an impairment. C&DI Question 110.02 also acknowledges that the Act may affect an entity's assessment of whether its DTAs will be realized and notes that if the measurement date approach prescribed by SAB 118 is applied, the entity may still disclose the impairment in its next periodic report in accordance with Item 2.06 of Form 8-K.

Note that notwithstanding the above, a registrant may decide on the basis of its specific facts and circumstances to file a Form 8-K under another item (e.g., Item 8.01[16]) to disclose the Act's material effects.

[15] SEC Form 8-K, Item 2.06, "Material Impairments."
[16] SEC Form 8-K, Item 8.01, "Other Events."

Compensation and Share-Based Payment Awards

Changes to IRC Section 162(m)

IRC Section 162(m) limits the tax deductibility of certain types of compensation paid to the CEO as well as a company's four other highest paid officers (referred to collectively as the "covered employees"). Specifically, only the first $1 million in compensation, whether cash or stock-based, paid to a covered employee is deductible for tax purposes in a given year. Compensation that is performance-based has not historically been subject to this limitation.

The Act modifies IRC Section 162(m) by (1) expanding which employees are considered covered employees by including the chief financial officer, (2) providing that if an individual is a covered employee for a taxable year beginning after December 31, 2016, the individual remains a covered employee for all future years, and (3) removing the exceptions for commissions and performance-based compensation. These changes do not apply to compensation stemming from contracts entered into on or before November 2, 2017, unless such contracts were materially modified on or after that date. Compensation agreements entered into and share-based payment awards granted after this date will be subject to the revised terms of IRC Section 162(m).

8.3 Do the changes to IRC Section 162(m) affect the accounting for deferred taxes related to share-based payment awards issued to covered employees?

Yes. The DTA recorded for share-based payment awards granted after November 2, 2017, could be less than what would have been recorded under prior law. For example, since the Act eliminates the exclusion of performance-based compensation, deferred taxes may be recorded only on awards granted after November 2, 2017, to the extent that performance-based compensation will not be limited.

We generally do not expect DTAs related to share-based payment awards that arose on or before November 2, 2017, to be affected by the Act, but companies are encouraged to consult with their accounting and tax advisers if questions arise.

8.4 Do the changes to IRC Section 162(m) affect the accounting policy used to account for deferred taxes in cases in which it is expected that some or all compensation paid to an employee will be limited by IRC Section 162(m)?

No. We believe that there are three approaches commonly applied in practice regarding the accounting for deferred taxes in cases in which compensation is expected to be limited by IRC Section 162(m). These approaches are as follows:

- *Deductible compensation is allocated to cash compensation first* — A DTA would not be recorded for stock-based compensation if cash compensation is expected to exceed the limit.
- *Deductible compensation is allocated to earliest compensation recognized for financial statement purposes* — Because stock-based compensation is typically expensed over a multiple-year vesting period but deductible when fully vested or exercised, and cash-based compensation is generally deductible in the period it is expensed for financial statement purposes, stock-based compensation is generally considered the earliest compensation recognized for financial statement purposes, and a DTA for stock-based compensation would be recorded up to the deductible limit.
- *Limitation is allocated pro rata between stock-based compensation and cash compensation* — A partial DTA may result on the basis of the expected ratio of stock-based compensation to cash compensation.

The choice of which approach to apply is a policy election that should be applied consistently. While the Act modifies IRC Section 162(m), we believe that the above approaches remain acceptable. Accordingly, companies should continue to apply the accounting policy they have previously elected.

8.5 If an entity modifies a compensation agreement, must it comply with the Act's updated IRC Section 162(m) limitations?

It depends. The Act contains explicit wording indicating that material modifications made to a compensation agreement on or after November 2, 2017, will cause the agreement to become subject to the updated requirements of IRC Section 162(m). Judgment may be required in the determination of whether a modification is material. Further, if a modified compensation agreement is related to a share-based payment award, companies will need to consider whether the modification guidance in ASC 718-20 should be applied.

Modifications made before November 2, 2017, may also result in a tax consequence. While modifications made before November 2, 2017, will not cause compensation to be subject to the revised requirements in IRC Section 162(m), the language in IRC Section 162(m) that existed before the Act's revisions indicates that as a result of any modification to a performance-based award, the award will become subject to the legacy IRC Section 162(m) limitations on deductibility.

Companies should be mindful of these potential outcomes when deciding how future compensation agreements will be structured or modified.

Awards With Performance Conditions

8.6 For share-based payment awards with performance conditions that are based on financial statement metrics, should a probability assessment be performed on the enactment date?

Yes. Financial statement metrics may change as a result of the Act, which may affect the probability that certain performance conditions will be met. Accordingly, performance conditions that are based on financial statement metrics should be reassessed. For example, compensation cost recognized for a share-based payment award with a performance condition tied to earnings and whose vesting was probable before the enactment date would be reversed if it is no longer probable that the award will vest as of the enactment date (see FAQ 1.3). However, in performing the probability assessment, entities should consider whether an award's existing terms require an adjustment to performance targets as a result of "one-time" or unusual events, which might be the case with tax law changes.

Implications of Individual Statutory Rate Changes

An entity may "net-share settle" its share-based payment awards to meet its statutory tax withholding obligation related to the awards. If the entity has adopted ASU 2016-09,[17] ASC 718 specifies that such provision does not, by itself, result in liability classification for the rewards as long as (1) the entity has a statutory obligation to withhold taxes on the employee's behalf and (2) the amount withheld does not exceed the maximum statutory tax rates in the employee's applicable jurisdiction(s). In circumstances in which the amount withheld exceeds the *maximum* statutory tax rate, ASC 718 requires the entity to classify the awards as liabilities. If the entity has not adopted ASU 2016-09, the amount withheld cannot exceed the *minimum* statutory requirement.

Effective January 1, 2018, the Act lowers individual tax rates. On January 11, 2018, the IRS published updated withholding tables and guidance, including withholding on supplemental

[17] FASB Accounting Standards Update No. 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*.

income, and instructed entities to use the 2018 withholding tables as soon as possible but not later than February 15, 2018. Before implementing the 2018 withholding tables, an entity is instructed to continue to use the tables and rates in effect before enactment (i.e., the 2017 withholding tables).

8.6A Does the change in individual tax rates affect the statutory tax rates used in an entity's assessment of the amount that can be withheld when share-based payment awards are net-share settled? [Added January 19, 2018]

Yes. When an entity net-share settles its share-based payment awards to meet its statutory tax withholding obligation, such withholdings should be decreased to reflect the reduction in tax rates in effect on January 1, 2018 (e.g., from 39.6 percent to 37 percent). Accordingly, entities should implement the updated 2018 withholding tables as soon as possible to reduce, and thereby align with the Act, tax rates for awards that are net-share settled on or after January 1, 2018.

Certain Hedge Accounting Strategies

8.7 Does the change in tax law affect an entity's hedging strategies?

If an entity is hedging foreign currency risk on an after-tax basis, as allowed under ASC 815-20-25-3(b)(2)(vi), any change in tax rates applicable to the hedging instrument could disrupt the balance of any related hedging relationship.

For example, assume that Entity ABC's functional currency is the U.S. dollar (USD). Entity ABC has a subsidiary whose functional currency is the euro (EUR), and ABC has a USD/EUR forward contract designated as a hedge of EUR 65 million of its net investment in the foreign subsidiary. The forward contract has a notional amount of EUR 100 million because ABC had a tax rate of 35 percent, and it had designated that it was hedging on an after-tax basis.

Now assume that ABC's tax rate changes to 21 percent as a result of a change in tax law. When the tax law becomes effective, the changes in fair value of the derivative on an after-tax basis will be based on 79 percent of the notional amount of the forward (i.e., EUR 79 million), compared with the designated hedged item, which is a EUR 65 million net investment in a foreign subsidiary. Entity ABC is now overhedged.

An entity should consider how this affects assessments of hedge effectiveness and measurements of ineffectiveness. In addition, it should consider whether it wants to dedesignate the existing hedging relationships, rebalance any existing hedges, and designate new hedging relationships.

Leveraged Leases

8.8 What is the Act's effect on the accounting treatment for leveraged leases?

When a change in income tax rates is enacted, an entity should recalculate leveraged leases from inception and record any differences in current-period earnings. In accordance with ASC 840-30-35-41, the entity would record the effect of the tax rate change on a leveraged lease "in the first accounting period ending on or after the date on which the legislation effecting a rate change becomes law."

8.8A Is a lessor required to recalculate the effective tax rate in a leveraged lease arrangement on the basis of the revised cash flows that result from the change in corporate tax rates and use that rate to record the tax effects of leveraged lease income allocated to future periods (after tax reform)? [Added January 19, 2018]

Yes. Recalculating the effective tax rate in the leveraged lease is consistent with ASC 840-30. Because the income or loss from the arrangement will be taxed or benefited, for U.S. federal

income tax purposes, at a 35 percent rate for a portion of the life of the arrangement and a 21 percent rate for the remainder, the effective tax rate in the lease will most likely not equal the lessor's statutory income tax rate. Therefore, the tax effect of pretax leveraged lease income allocated to future periods will most likely not equal pretax leveraged lease income multiplied by the lessor's statutory rate.

Fair Value and Hypothetical Liquidation at Book Value Considerations

8.9 What income tax rate should an entity use when performing fair value measurements as of December 31, 2017?

When tax rates are an input in a fair value measurement (e.g., when the income approach is used on an after-tax basis), an entity should generally use the same assumption a market participant would use about the income tax rate that will be in effect when the projected cash flows are received. That rate is typically the statutory tax rate unless there is substantial evidence that another tax rate should be used. For additional information, see 820-10-35 (Q&A 44A), *Income Tax Rate Used in Valuation Techniques*, in Deloitte's *FASB Accounting Standards Codification Manual* (available to subscribers of the Deloitte Accounting Research Tool (DART)).

8.10 Should a company that applies the hypothetical liquidation at book value (HLBV) for an equity method investment or the allocation of earnings to a noncontrolling interest consider the effects of enacted changes in tax rates before the date the enacted changes become effective?

No. Unlike a fair value measurement, the HLBV method is an approach to allocate earnings on the basis of how an investee (or subsidiary) would allocate current-period earnings to an equity method investor (or noncontrolling interest holder) **if it were to liquidate** at a particular point in time (i.e., as of a balance sheet date). Therefore, if an investee (or subsidiary) were to liquidate as of a balance sheet date before tax reform is effective (e.g., December 31, 2017, for calendar-year-end entities), the tax rates applied in the determination of the liquidation waterfall would not take into account new enacted rates that are not yet effective. Once the enacted rates become effective, a company applying the HLBV method will need to carefully consider the allocation provisions in contracts to determine the impact that those new rates have on the application of HLBV.

8.11 How should a company assess impairment of equity method investments in pass-through entities? [Added January 19, 2018]

Some equity method investments are in pass-through entities in which a significant portion of the benefits received by an investor is related to tax credits and other tax benefits (e.g., accelerated pass-through tax losses). In many cases (e.g., pass-through entities that generate solar and wind credits), the equity method investor applies HLBV in recognizing earnings. Although we believe that the impact of tax reform should not be reflected in HLBV before the effective rates affect the contractual waterfall in liquidation (see FAQ 8.10), an equity method investor must consider whether tax reform results in an other-than-temporary impairment (OTTI) under ASC 323. In accordance with FAQ 8.9, the future impact of the change in tax rates could result in a change to a market participant's view of the fair value of the investment. An entity should consider all facts and circumstances in performing an analysis of OTTI; however, the expected impact of applying HLBV in future periods is not necessarily an indication of an impairment of the investment.

Investments in Qualified Affordable Housing Projects

Investors in qualified affordable housing projects (QAHPs) also invest in pass-through entities primarily for the tax credits and other tax benefits. If certain criteria are met, the investor may apply the proportional amortization method (PAM) under ASC 323-740, which results

in proportional amortization of the investment balance in each period on the basis of the proportion of the total estimated tax benefit allocated to the entity in that period rather than the application of the equity method. The calculation of the proportional amortization frequently includes the total estimated other tax benefits[18] expected to be received by the investor over the life of the investment. The criteria that must be met for an investor to apply PAM must be reevaluated upon the occurrence of either a change in the nature of the investment or a change in the relationship with the investee that could cause the entity to no longer meet the conditions. Given that the Act changes corporate tax rates, the tax benefits to be received by entities holding QAHP investments may be affected.

8.12 Is an investor in a QAHP that accounts for its investment by using the PAM required to reevaluate the conditions for applying PAM as a result of the change in corporate tax rate? [Added January 19, 2018]

No. Although a change in tax rates may affect whether the criteria in ASC 323-740-25-1 are met after the initial investment, we do not believe that the change in tax rate represents either a change in the nature of the investment or a change in the relationship with the investee, as those terms are contemplated in ASC 323-740-25-1C. Therefore, an entity is not required to reassess whether it is still appropriate to apply PAM solely because of the change in tax rates.

8.13 If an investor is not using the practical expedient to amortize its QAHP investment, how does the change in corporate tax rate affect amortization? [Added January 19, 2018]

When the total expected tax benefit (tax credits and other tax benefits received) changes, amortization of the investment must be revised to ensure that cumulative amortization over the life of the investment equals the initial carrying amount (less any residual value). The change in corporate tax rate will generally reduce the benefit of "other" tax benefits (i.e., tax benefits other than credits) to be allocated to a QAHP investor in the future (i.e., the pass-through losses in the future will now benefit the investor at a 21 percent, instead of a 35 percent, tax rate). If an investor has not elected to use the practical expedient, the proportion of benefits already allocated to the investor will increase in relation to the total expected tax credits and other tax benefits. As a result, we believe that there are two acceptable approaches for adjusting amortization.

Under the first approach, the investor would record a cumulative catch-up adjustment to the carrying amount of the investment on the basis of the amount of tax credits and other tax benefits that have been allocated to the investor in relation to the revised amount of total expected tax benefits. This approach is consistent with the guidance in ASC 323-740, which requires that the initial cost of the investment be amortized in proportion to the tax credits and other benefits that have been allocated to the investor.

Under the second approach, the investor would adjust amortization prospectively. This treatment is consistent with accounting for a change in estimate that does not affect the carrying amount of an asset or liability but alters the subsequent accounting for existing or future assets or liabilities under ASC 250.

An investor should consider whether it has, in effect, made a policy election in prior periods when adjusting amortization to take into account changes in expected tax benefits due to factors other than changes in tax rates. If so, using a different approach to account for the change in tax rate would be a change in accounting principle that would need to be assessed for preferability.

[18] In accordance with ASC 323-740-35-4, "as a practical expedient, an investor is permitted to amortize the initial cost of the investment in proportion to only the tax credits . . . if the investor reasonably expects that doing so would produce a measurement that is substantially similar to the measurement that would result." If the practical expedient was applied, the change in effective tax rates may not affect the calculation of proportional amortization.

8.14 Is an investor required to assess its QAHP investments for impairment as a result of the change in the corporate tax rate? [Added January 19, 2018]

If the investor concludes that the change in corporate tax rate indicates that it is more likely than not that the carrying amount of the investment will not be realized, the investor would be required to assess its QAHP investments for impairment. This may be the case, for example, if a significant portion of the investor's yield relied on "other" tax benefits whose value declined as a result of the rate change. We believe that when this assessment is performed, the carrying amount of the investment, after any cumulative catch-up is considered (see FAQ 8.13), would be compared with the undiscounted amount of the remaining expected tax credits and other tax benefits in the evaluation of whether it is more likely than not the carrying amount will not be realized.

8.15 In the measurement of an impairment of a QAHP investment, should future tax benefits be discounted? [Added January 19, 2018]

Yes. As stated in ASC 323-740-35-6, the "impairment loss shall be measured as the amount by which the carrying amount of an investment exceeds its fair value." Fair value should take into account discounting of the future tax benefits expected to be received.

8.16 If an impairment of a QAHP investment is recorded, should it be recorded in pretax income (loss) or as a component of income tax expense? [Added January 19, 2018]

ASC 323-740 does not specify where in the income statement an impairment charge related to a QAHP investment should be recorded. Under the proportional amortization method, the amortization of the cost of the investment is netted against the tax benefits received within the income tax expense line. An impairment is a recognition of the fact that the unamortized cost of acquiring the benefits exceeds the remaining expected benefits, but it does not change the nature of the initial investment as an investment in tax credits and other tax benefits. Accordingly, we believe that the impairment would be recorded as a component of income tax expense.

Goodwill Impairment

8.17 What income tax rate should an entity use in testing goodwill for impairment when the testing date is before December 22, 2017? [Added January 19, 2018]

Even though goodwill impairment tests are generally performed after the designated goodwill impairment testing date but before the financial statements are issued, an entity should test goodwill for impairment by using facts and circumstances that existed as of the testing date. Therefore, the information used for a test before December 22, 2017, should be limited to information that was available as of that date.

8.18 What impact, if any, does the enactment of the Act have on an entity's assessment of goodwill recoverability? [Added January 19, 2018]

Goodwill is tested for impairment annually and between annual tests when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. While enactment of a new tax law is not one of the examples of events or changes in circumstances listed in ASC 350-20-35-3C, those examples are not all-inclusive. An entity should consider its specific facts and circumstances in determining whether, as a result of enactment of the Act, it might become more likely than not that the fair value of one or more of the entity's reporting units is less than the carrying amount of the reporting unit(s). For example, if a reporting unit includes a significant DTL, enactment of the Act could result in a reduction of the DTL, thereby increasing the carrying value of the reporting unit. However, the enactment of the Act could also result in an increase in the

fair value of the reporting unit. An entity should exercise judgment in determining whether enactment of the Act represents a triggering event.

Separate-Company Financial Statements

9.1 In applying the separate-return approach to allocate income taxes to the separate financial statements of a member of a U.S. consolidated tax return group, how should a company account for provisions of the Act that are calculated on a consolidated tax return basis (e.g., the deemed repatriation transition tax, GILTI, BEAT)? [Added January 19, 2018]

The member should record the tax expense attributable to the various provisions of the Act as if it had not been a member of the U.S. consolidated tax return group. However, depending on the facts and circumstances, it may be appropriate to apply related-party and affiliated group rules that are relevant regardless of whether an entity makes an election to file a consolidated tax return.

For more information on the separate-return approach, see Section 4.49 of Deloitte's *A Roadmap to Accounting for Income Taxes*.

Disclosure Considerations

10.1 What forward-looking disclosures should registrants consider in Management's Discussion and Analysis (MD&A) about the impact of tax reform? [Added January 19, 2018]

Material amounts recorded in the current year related to tax reform would typically be discussed and analyzed as part of a registrant's MD&A. In addition, SEC Regulation S-K, Item 303,[19] requires SEC registrants to disclose in their MD&A any known trends, events, or uncertainties that are reasonably likely to have a material effect on their liquidity, capital resources, or results of operations. Therefore, registrants should consider disclosing in MD&A, to the extent such disclosures are material, the impact of the changes in tax law on future periods in addition to the current period. Such disclosures may include:

- The impact of changes in the effective tax rate on future results of operations.
- The impact of other new provisions (e.g., GILTI, FDII, BEAT) on future results of operations.
- The existence and nature of uncertainties related to those aspects of the Act for which the registrant either (1) recorded provisional amounts or (2) was unable to record a provisional amount because the registrant did not have the necessary information available, prepared, or analyzed to complete its accounting for the change in tax law.
- The implications of paying the required one-time deemed repatriation transition tax on liquidity and capital resources.
- Potential changes in the determination of indefinitely reinvested foreign earnings and the impact of additional cash that may become available for domestic operations.
- The impact that changes in tax rates or other impacts of tax reform could have on contractual agreements, such as debt covenants.

Registrants that provide forward-looking earnings guidance will also need to consider the impact of tax reform on such guidance.

[19] SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

10.2 What incremental disclosures are required when an entity adopts a measurement period approach as permitted by SAB 118? [Added January 19, 2018]

In addition to the disclosures required by ASC 740, SAB 118 requires companies to disclose "information about the material financial reporting impacts of the Act for which the accounting under [ASC 740 as of the reporting date] is incomplete." These disclosures include:

> (a) Qualitative disclosures of the income tax effects of the Act for which the accounting is incomplete;
>
> (b) Disclosures of items reported as provisional amounts;
>
> (c) Disclosures of existing current or deferred tax amounts for which the income tax effects of the Act have not been completed;
>
> (d) The reason why the initial accounting is incomplete;
>
> (e) The additional information that is needed to be obtained, prepared, or analyzed in order to complete the accounting requirements under ASC Topic 740;
>
> (f) The nature and amount of any measurement period adjustments recognized during the reporting period;
>
> (g) The effect of measurement period adjustments on the effective tax rate; and
>
> (h) When the accounting for the income tax effects of the Act has been completed.

We would expect items (a) through (e), as well as item (h), to be included in a company's disclosures in the first financial statements issued that include the period in which the Act was enacted (e.g., financial statements for the year ended December 31, 2017, for calendar-year companies). Items (f) and (g) will be relevant in subsequent periods to the extent that a company records adjustments during the measurement period, and items (a) through (e) and (h) should be updated in each reporting period until the company has completed its accounting for the income tax effects of the Act.

The examples below illustrate elements that may apply to a particular entity's compliance with the incremental disclosure requirements of SAB 118. However, the examples are not all-inclusive and do not take into account any other disclosure requirements in ASC 740. See Chapter 6 of Deloitte's *A Roadmap to Accounting for Income Taxes* for additional information regarding disclosures required by ASC 740.

Examples

[Optional disclosures depending on applicability]

[Simple description of Tax Act] On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (6) creating the base erosion anti-abuse tax (BEAT), a new minimum tax; (7) creating a new limitation on deductible interest expense; and (8) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

OR

Examples (continued)

[Simple description of Tax Act applicable to a fiscal year company] On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that will affect our fiscal year ending September 30, 2018, including, but not limited to, (1) reducing the U.S. federal corporate tax rate, (2) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years, and (3) bonus depreciation that will allow for full expensing of qualified property. The Tax Act reduces the federal corporate tax rate to 21 percent in the fiscal year ending September 30, 2018. Section 15 of the Internal Revenue Code stipulates that our fiscal year ending September 30, 2018, will have a blended corporate tax rate of 24.53 percent, which is based on the applicable tax rates before and after the Tax Act and the number of days in the year.

OR

[Detailed description of Tax Act distinguishing elements applicable to 2017 and those applicable to 2018: On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that will affect 2017, including, but not limited to, (1) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years and (2) bonus depreciation that will allow for full expensing of qualified property.

The Tax Act also establishes new tax laws that will affect 2018, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate; (2) elimination of the corporate alternative minimum tax (AMT); (3) the creation of the base erosion anti-abuse tax (BEAT), a new minimum tax; (4) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (5) a new provision designed to tax global intangible low-taxed income (GILTI), which allows for the possibility of using foreign tax credits (FTCs) and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (6) a new limitation on deductible interest expense; (7) the repeal of the domestic production activity deduction; (8) limitations on the deductibility of certain executive compensation; (9) limitations on the use of FTCs to reduce the U.S. income tax liability; and (10) limitations on net operating losses (NOLs) generated after December 31, 2017, to 80 percent of taxable income.]

[Description of SAB 118] The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

[Initial recording of impact of Tax Act] In connection with our initial analysis of the impact of the Tax Act, we have recorded a discrete net tax expense [or benefit] of $XX in the period ending December 31, 2017. This net expense [or benefit] primarily consists of a net expense [or benefit] for the corporate rate reduction of $XX and a net expense for the transition tax of $XX. For various reasons that are discussed more fully below, we have not completed our accounting for the income tax effects of certain elements of the Tax Act. If we were able to make reasonable estimates of the effects of elements for which our analysis is not yet complete, we recorded provisional adjustments. If we were not yet able to make reasonable estimates of the impact of certain elements, we have not recorded any adjustments related to those elements and have continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before the Tax Act.

Examples (continued)

[Our accounting for the following elements of the Tax Act is complete.

Reduction of U.S. federal corporate tax rate: The Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, we have recorded a decrease related to DTAs and DTLs of $XX and $XX, respectively, with a corresponding net adjustment to deferred income tax expense (or benefit) of $XX for the year ended December 31, 2017.

Insert additional elements for items the company may also consider complete.]

AND/OR

[Our accounting for the following elements of the Tax Act is incomplete. However, we were able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:

[*Reduction of US federal corporate tax rate:* The Tax Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. For certain of our DTAs and DTLs, we have recorded a provisional decrease of $XX and $XX, respectively, with a corresponding net adjustment to deferred income tax expense [or deferred tax benefit] of $XX for the year ended December 31, 2017. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, our calculation of deemed repatriation of deferred foreign income and the state tax effect of adjustments made to federal temporary differences.]

Deemed Repatriation Transition Tax: The Deemed Repatriation Transition Tax (Transition Tax) is a tax on previously untaxed accumulated and current earnings and profits (E&P) of certain of our foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We are able to make a reasonable estimate of the Transition Tax and recorded a provisional Transition Tax obligation of $XX. However, we are continuing to gather additional information to more precisely compute the amount of the Transition Tax.]

Valuation allowances: The company must assess whether its valuation allowance analyses are affected by various aspects of the Tax Act (e.g., deemed repatriation of deferred foreign income, GILTI inclusions, new categories of FTCs). Since, as discussed herein, the company has recorded provisional amounts related to certain portions of the Tax Act, any corresponding determination of the need for or change in a valuation allowance is also provisional.]

[*Cost recovery*: While we have not yet completed all of the computations necessary or completed an inventory of our 2017 expenditures that qualify for immediate expensing, we have recorded a provisional benefit of $XX based on our current intent to fully expense all qualifying expenditures. This resulted in a decrease of approximately $XX to our current income tax payable and a corresponding increase in our DTLs of approximately $XX (after considering the effects of the reduction in income tax rates).]

AND/OR

[Our accounting for the following elements of the Tax Act is incomplete, and we were not yet able to make reasonable estimates of the effects. Therefore, no provisional adjustments were recorded.

Examples (continued)

[*Global intangible low taxed income (GILTI)*: The Tax Act creates a new requirement that certain income (i.e., GILTI) earned by controlled foreign corporations (CFCs) must be included currently in the gross income of the CFCs' U.S. shareholder. GILTI is the excess of the shareholder's "net CFC tested income" over the net deemed tangible income return, which is currently defined as the excess of (1) 10 percent of the aggregate of the U.S. shareholder's pro rata share of the qualified business asset investment of each CFC with respect to which it is a U.S. shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income.

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). We selected the deferred method. Our calculation of the deferred balance with respect to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on not only our current structure and estimated future results of global operations but also our intent and ability to modify our structure and/or our business, we are not yet able to reasonably estimate the effect of this provision of the Tax Act. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements.

OR

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). Our selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on not only our current structure and estimated future results of global operations but also our intent and ability to modify our structure and/or our business, we are not yet able to reasonably estimate the effect of this provision of the Tax Act. Therefore, we have not made any adjustments related to potential GILTI tax in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI.][20]

[*Valuation allowances*: The company must assess whether valuation allowances assessments are affected by various aspects of the Tax Act (e.g., deemed repatriation of deferred foreign income, GILTI inclusions, new categories of FTCs). Since, as discussed herein, the company has recorded no amounts related to certain portions of the Tax Act, any corresponding determination of the need for or change in a valuation allowance has not been completed and no changes to valuation allowances as a result of the Tax Act have been recorded.]

IFRS Considerations

11.1 May an entity that reports under IFRSs apply the guidance in SAB 118? [Added January 19, 2018]

As indicated in footnote 6 of SAB 118, the SEC will allow a foreign private issuer (FPI) reporting under IFRSs to apply the guidance in the SAB when accounting for the effects of the Act.

However, we do not believe that non-FPIs reporting under IFRSs may apply the guidance in SAB 118 because SABs are not authoritative guidance under IFRSs. Nevertheless, we support the preliminary view of many stakeholders that "SAB 118-like" accounting may be achieved for at least those provisions of the Act for which reliable estimates can be made by

[20] See FAQ 4.9 for additional information.

applying existing IFRS guidance. For example, although an entity may need to use judgment in accounting for certain aspects of the Act, if a reliable estimate can be made, the entity should recognize such amounts and, if necessary, adjust those estimates over time as more information becomes available and provide accompanying disclosures. It is uncertain at this time, however, whether current IFRS guidance supports accounting similar to that under SAB 118, which permits entities to exclude provisional amounts "for those specific income tax effects for which a reasonable estimate cannot be determined." In addition, entities should consider providing appropriate disclosures on the basis of their specific situation.

While the answer to this FAQ reflects our views at this time, we understand that IFRS stakeholders are continuing to meet with their regulators, auditing firms, and other oversight bodies to determine whether and, if so, how entities that report under IFRSs may navigate the challenges associated with applying existing IFRS guidance to the requirements in the Act. Accordingly, our views are subject to change on the basis of possible additional guidance or further developments in practice.