

## US tax reform: A guide to income tax accounting considerations

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### Overview of recent developments

On 15 December 2017, the United States (US) House and Senate conferees to the *Tax Cuts and Jobs Act* (H.R. 1) signed, and released, a conference agreement that is expected to be considered by the full House and Senate. Assuming it passes Congress, President Trump will sign the bill before year-end. The enactment of H.R. 1 would be the first major overhaul of the federal income tax code in more than 30 years and could become the Trump Administration's most significant legislative achievement.

From a financial reporting perspective, the enactment of H.R. 1 would require companies, under Accounting Standards Codification (ASC) 740, *Income Taxes*, to recognize the effects of changes in tax laws and rates on deferred tax assets and liabilities and the retroactive effects of changes in tax laws (including the one-time transition tax discussed later) in the period in which the new legislation is enacted. The enactment date in the US is the date the bill becomes law, which is when the President signs the bill. Under US Generally Accepted Accounting Principles (GAAP), these financial statement effects of changes in tax law are recorded as a discrete item and part of tax expense or benefit in continuing operations, regardless of the category of income or loss to which the deferred taxes relate. Under International Financial Reporting Standards (IFRS), the tax effects related to deferred taxes must be backwards traced to the component of income to which they relate.

While stressing the importance of timely financial reporting at the 2017 AICPA Conference on Current Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) Developments, the SEC staff acknowledged the challenges companies will face incorporating the effects of tax reform by their financial reporting deadlines. The SEC staff said it will consider the need for action on its part and welcomed input from companies and practitioners in determining a framework for granting some form of relief from the immediate accounting required upon enactment. At this time, a final decision concerning relief in the required accounting has not been announced.

## What will tax accounting for reform entail?

### **The remeasurement of deferred tax assets and liabilities & other impacts to deferred taxes**

The *Tax Cuts and Jobs Act* (TCJA) would permanently reduce the maximum corporate income tax rate from 35% to 21% effective for tax years beginning after 31 December 2017, and contains other provisions that would affect the determination of deferred tax assets and liabilities at 31 December 2017. The lower corporate income tax rate means the future benefits of existing deferred tax assets would need to be computed at the new tax rate, which would result in lower deferred tax assets and increased income tax expense in the period of enactment. The corporate income tax rate reduction would also lower the expected future cost of existing deferred tax liabilities decreasing income tax expense in the period of enactment.

If the rate change is enacted before year-end, calendar year-end companies may determine the effects using year-end 2017 temporary difference balances if the temporary differences are expected to approximate the company's deferred tax balances as of the enactment date. Fiscal year-end companies would need to determine temporary differences reversing before and after the new 21% rate becomes fully effective to recompute their deferred tax assets and liabilities in the period of enactment. Fiscal year-end companies will have an added complexity due to tax rules stipulating that the effective date of the tax rate change will be deemed the first day after the effective date stipulated in the legislation, which as drafted translates to 1 January 2018. Thus, fiscal year-end companies will need to determine the appropriate blended rate to apply mid-year based on their respective year ends.

Entities with fiscal year-end dates that do not fall on or near the enactment date would need to estimate temporary differences as of the enactment date. For public companies with fiscal year-end dates, and others subject to periodic reporting requirements, estimating temporary differences as of the most recent quarter often would be adequate, with appropriate adjustments for material unusual or infrequent transactions between the enactment date and quarter end. For companies that do not prepare interim financial statements, calculating the effect of the change would require additional effort. For those companies, the effect of reversals of beginning deferred tax balances for the period through the enactment date would have to be considered, as well as the deferred tax effects of originating temporary differences.

Companies would need to remeasure existing deferred tax assets and liabilities and, under US GAAP, record the change in the period of enactment as a component of income tax expense from continuing operations. For companies with valuation allowances against deferred tax assets impacted by the rate change, the amount of the change in the valuation allowance would also be recorded as a tax expense or benefit in continuing operations.

### **Backward tracing of tax effects**

Under US GAAP, the effect of changes in income tax laws on deferred taxes initially recorded as part of shareholder's equity or other comprehensive income are recorded as a component of tax expense or benefit related to continuing operations. Similarly, the effects of tax law changes on deferred tax assets and liabilities related to prior-year items reported in discontinued operations or initially recorded in connection with a prior business combination are reflected in tax expense or benefit from continuing operations in the period the tax law is enacted. This is consistent with Accounting Standards Codification (ASC) 740's general prohibition on backward tracing (i.e., an entity wouldn't consider where the previous tax effects were allocated in the financial statements). IFRS does not have this same prohibition on backwards tracing, so an entity will record the changes to the component where the item arose.

### **Effects of change in tax laws or rates subsequent to a business combination**

Tax rate changes, or any deferred tax adjustments for the new tax legislation, following a purchase business combination should be reflected in continuing operations in the period in which the change in tax laws or rate is enacted.

This treatment would apply regardless of how soon after an acquisition the new law is enacted, whether the negotiating parties contemplated the effects of the new tax law, or if the change in tax laws or rates were retroactive.

### Impact of change in corporate tax rate on prepaid taxes attributable to intra-entity transactions

Prepaid (accrued) taxes arising from intra-entity transactions differ from deferred taxes under ASC 740. Generally, deferred taxes are subject to remeasurement if tax rates change as previously discussed. Because prepaid (accrued) taxes on intra-entity transactions are attributable to taxes paid (incurred) on prior transactions, however, the reversal of those amounts would generally not be subject to the new tax laws or rates; as such, they would generally not be subject to the remeasurement provisions of ASC 740-10-45-15.

The following table lists some key takeaways to consider in the remeasurement of deferred tax assets and liabilities:

Business provision	Income tax accounting considerations
<b>Reduction in corporate tax rate</b>	
<ul style="list-style-type: none"> <li>▶ Reduces 35% corporate rate to 21% beginning 1 January 2018, with no graduated rate structure</li> </ul>	<ul style="list-style-type: none"> <li>▶ The impact of a change in tax rate on deferred tax assets and liabilities is recognized as a component of income tax expense from continuing operations in the period of enactment.</li> <li>▶ Adjustments to deferred tax balances related to the enacted change in tax rate should be included in income from continuing operations, regardless of whether the deferred tax balances originated from charges or credits to another category of income (e.g., discontinued operations or other comprehensive income). Because of the general ASC 740 prohibition against backward tracing, “dangling” debits or credits may exist in other comprehensive income after accounting for enactment.</li> <li>▶ As referenced in ASC 740-10-55-20, state tax temporary differences affect the calculation of federal taxes. Federal deferred tax effects of state deferred taxes and unrecognized tax benefits related to state taxes should be remeasured.</li> </ul>
<b>Dividends received reduction (DRD)</b>	
<ul style="list-style-type: none"> <li>▶ Lowers 80% dividends received deduction (DRD) to 65%</li> <li>▶ Lowers 70% DRD to 50%</li> <li>▶ Applies to tax years beginning after 31 December 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ Outside basis differences may exist in domestic corporations and equity method investees. If the taxable temporary differences, or a portion thereof, relating to outside basis differences reflect any related DRDs, the measurement of the deferred tax liability should reflect the new DRD rules.</li> </ul>
<b>Repeal of Corporate Alternative Minimum Tax (AMT)</b>	
<ul style="list-style-type: none"> <li>▶ Repeals Corporate AMT law</li> <li>▶ Refunds previously paid AMT amounts</li> <li>▶ Repeals Internal Revenue Code<sup>1</sup> Section 168(k)(4) (i.e., the election to accelerate AMT credits in lieu of claiming bonus depreciation)</li> <li>▶ Effective for tax years beginning after 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ For companies with existing deferred tax assets for prior AMT credit carryforwards, the final bill would provide the entity a means of realizing the deferred tax asset without generating future income that is subject to tax. The benefit associated with the reversal of valuation allowances against existing AMT credit carryforwards would be recognized discretely in the period in which the change in judgment occurs.</li> <li>▶ Companies should evaluate whether currently recorded AMT credit carryforwards should be reclassified to a current or long-term receivable after the enactment date.</li> </ul>

<b>Expensing</b>	
<ul style="list-style-type: none"> <li>▶ Allows 100% expensing of cost of qualified property acquired and placed in service after 27 September 2017 and before 1 January 2023 (with an additional year for certain qualified property with a longer production period, as well as certain aircraft)</li> <li>▶ Phases down after 2022, with 80% expensing for property placed in service during 2023; 60% for property placed in service during 2024; 40% for property placed in service during 2025; 20% for property placed in service during 2026 and 0% for property placed in service during 2027</li> <li>▶ Does not apply to property used by a regulated public utility company</li> <li>▶ Maintains the general depreciation system recovery period for real property with a recovery period of 39 years for nonresidential real property and 27.5 years for residential rental property</li> <li>▶ Changes the alternative depreciation system (ADS) recovery period for residential rental property from 40 years to 30 years and retains the 40-year ADS recovery period for nonresidential real property</li> <li>▶ Eliminates the separate definitions of qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property and, instead, adds a general 15-year recovery period for qualified improvement property and a 20-year ADS recovery period for such property</li> <li>▶ Limits like-kind exchange (LKE) deferral to real property, effective for LKEs completed after 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies should consider the implications of accelerated capital expensing on deferred tax balances as of the period of enactment, as well as the impact on prior assessments made with respect to the realizability of deferred tax assets (e.g., net operating loss (NOL) carryforwards or tax credit carryforwards). By accelerating income tax deductions, bonus depreciation may give rise to net operating losses (NOLs) and may also create taxable temporary differences that may be considered a source of income for purposes of assessing deferred tax assets for realizability.</li> <li>▶ Companies will need to update their federal and state tax depreciation systems and processes for additional bonus depreciation in 2017 and for future state tax legislation decoupling or conforming to the federal code.</li> <li>▶ An entity may find it necessary to schedule the reversals of temporary differences related to depreciable assets.</li> <li>▶ Companies should identify which states will automatically conform by statute to the new federal cost recovery provisions for capital expenditures and consider the impact on current and deferred state taxes.</li> <li>▶ Companies engaging in nonmonetary exchange transactions (e.g., LKEs) for non-real property after December 31, 2017, may no longer be able to defer the tax on the asset disposal and, therefore, may have new temporary differences to the extent the exchange is not measured at fair value for book purposes.</li> </ul>
<b>Net operating losses</b>	
<ul style="list-style-type: none"> <li>▶ Limits deduction to 80% of taxpayer's taxable income (determined without regard to the NOL deduction) for losses arising in tax years beginning after 2017</li> <li>▶ Allows NOLs to be carried forward indefinitely for losses arising in tax years ending after 2017</li> <li>▶ Repeals the two-year carryback and special carryback provisions for losses arising in tax years ending after 2017 (with limited exceptions)</li> </ul>	<ul style="list-style-type: none"> <li>▶ A limitation on the amount of taxable income that can be offset with NOL carryforwards may cause an entity to be unable to realize the deferred tax asset despite sufficient taxable temporary differences in the carryforward period.</li> <li>▶ Carryback is still permitted for losses arising in tax years ending on or before 2017. If a company plans to carry back an existing NOL (assuming it did not already make a timely irrevocable election to forgo a carryback), it should consider whether the carryback will result in the displacement of previously utilized tax credits that will require a valuation allowance.</li> </ul>

<b>Interest limitation</b>	
<ul style="list-style-type: none"> <li>▶ Limits net interest expense deductions to 30% of earnings before interest, taxes, depreciation and amortization through 2021 and of earnings before interest and taxes thereafter</li> <li>▶ Effective for tax years beginning after 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ Going forward, companies with interest limited under the new proposal will have to assess the need for a valuation allowance on any resulting deferred tax assets for interest carried forward. Deferred tax assets are not realizable (in accordance with ASC 740) simply because they can be carried forward indefinitely. Instead, the deferred tax asset is realizable only to the extent it can be sustained through the existence of sufficient taxable income of the appropriate character within the carryback or carryforward period available under the tax law (i.e., the four sources of taxable income).</li> <li>▶ Companies with attributes under existing Section 163(j) will have to evaluate the impact of any transition rules, which are currently unclear.</li> </ul>
<b>Section 451 revenue recognition</b>	
<ul style="list-style-type: none"> <li>▶ Requires an accrual-method taxpayer to recognize income that is subject to the all-events test no later than the tax year in which the income is taken into account on the taxpayer's financial statements (except for income from mortgage servicing rights)</li> <li>▶ Codifies current deferral method of accounting for advance payments for goods and services provided by IRS under Revenue Procedure 2004-34, allowing taxpayers to defer inclusion of income associated with certain advance payments to end of tax year following tax year of receipt if such income is deferred for financial statement purposes</li> <li>▶ Effective for tax years beginning after 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ Automatic changes to book revenue recognition methods upon enactment may create new deferred balances, which will need to be assessed, as well as a potential deferred tax balance for a resulting Section 481 adjustment.</li> <li>▶ Changes in taxable temporary differences as a result of the application of the new accounting method rules in new Section 451(b) may result in a change in the reversal pattern of temporary differences. Additionally, a change to revenue recognition may result in a change to the expectations of future taxable income (i.e., recognition of revenue likely to be accelerated in income for many taxpayers).</li> <li>▶ If new tax legislation is enacted before the adoption of ASC 606, changes to deferred balances as a result of the adoption of ASC 606 would need to be considered separately and after accounting for the enactment of the new tax legislation as part of the cumulative effect of adopting ASC 606.</li> </ul>

## **Reform of business-related deductions and credits may broaden the base and create new permanent differences**

The TCJA would broaden the corporate income tax base by repealing certain business-related deductions and limiting other business-related deductions. These changes could result in changes to the company's effective tax rates. Under ASC 740, companies must: (1) record the impact of a rate or law change on income taxes currently payable or refundable for the current year after the effective dates prescribed in the statutes; and (2) reflect the impact of that change in the computation of their annual effective tax rate, beginning in the first interim period that includes the enactment date of the new legislation. If the effective date is later than the enactment date, companies should include the impact of the change on the estimate of the payable or receivable for the current year in the calculation of their estimated annual effective tax rate, beginning on the effective date.

Applying this to the TCJA, a public entity with a fiscal year other than a calendar year would account during interim periods for the repeal of permanent benefit items through an adjustment to the annual effective tax rate calculation in the same way that the change will be applied to the entity's taxable income for the year. The revised annual effective tax rate would then apply to pretax income for the year-to-date period, at the end of the current interim period.

The following chart lists some of the key takeaways to consider when evaluating the impact of the proposals to the tax base:

Business provision	Income tax accounting considerations
<b>Section 162(m) limitation</b>	
<ul style="list-style-type: none"> <li>▶ Expands definition of publicly traded companies that are subject to Section 162(m)</li> <li>▶ Expands definition of covered employee to include: CFO as a covered employee, as well as CEO and the three most highly compensated officers for the tax year</li> <li>▶ Once a covered employee, continue to be a covered employee</li> <li>▶ Repeals exception for performance-based compensation and commissions</li> <li>▶ Applies transition rule to compensation paid pursuant to a plan under a written binding contract that is in effect on November 2, 2017, even if the employee was not actually a participant in the plan on that date</li> <li>▶ Effective for tax years beginning after 31 December 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies should consider whether all of their deferred tax assets for equity-based awards meet the transition grandfathering provisions. In addition, companies will need to consider the impact of the expansion of the Section 162(m) limitation on their annual effective tax rate.</li> </ul>
<b>Non-deductibility of certain fines and penalties</b>	
<ul style="list-style-type: none"> <li>▶ Effective for amounts paid or incurred after date of enactment</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies should consider adjusting their estimated annual effective tax rate to eliminate the tax benefits repealed in the interim period that the change is effective.</li> </ul>
<b>Section 199 domestic production deduction</b>	
<ul style="list-style-type: none"> <li>▶ Repeals Section 199 deduction for regular corporations for tax years beginning after 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ An entity estimating future taxable income should exclude the Section 199 deduction effect in projecting taxable income after the effective date in determining the need for a valuation allowance for an entity's existing deferred tax assets.</li> <li>▶ Companies should consider providing, if material, early-warning disclosures to help financial statement users understand the change in the historical effective tax rate.</li> </ul>

<b>Entertainment expenses &amp; fringe benefits</b>	
<ul style="list-style-type: none"> <li>▶ Repeals 50% deduction for entertainment, amusement or recreation activities, or facilities (including membership dues), even if directly related to active conduct of taxpayers trade or business</li> <li>▶ Repeals deduction for qualified transportation fringe benefits or for any reimbursement of employee commuting costs (except if necessary for employee safety)</li> <li>▶ Reduces deduction to 50% for meals provided at an employer-provided eating facility for tax years after 2018 and before 2026</li> <li>▶ Disallows employer deductions for meals provided for the convenience of the employer or at an employer-operated eating facility</li> <li>▶ Generally effective for amounts paid or incurred after 31 December 2017</li> <li>▶ For elimination of deduction for meals provided for the convenience of the employer, effective 1 January 2026</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies, especially those with large sales forces or that incur significant meal and entertainment (M&amp;E) expenses, should review the general ledger accounts used to capture their M&amp;E expenses for any potential new permanent differences.</li> <li>▶ Non-calendar-year-end reporting entities should reflect changes to their permanent differences attributable to M&amp;E in tax currently payable or refundable on estimated ordinary income for the current fiscal year.</li> </ul>

## International tax provisions and impact on outside basis differences

The TCJA's major changes to the US international tax system include implementing a territorial tax system, imposing a one-time transition tax on accumulated foreign earnings, and imposing anti-deferral and anti-base erosion rules. Companies that had not provided deferred taxes on unremitted earnings of foreign subsidiaries under the exception in ASC 740-30-25-18(a) for earnings that would not be remitted for the foreseeable future will now have a one-time transition tax for the mandatory income inclusion on unremitted post-1986 deferred foreign earnings of specified foreign corporations. Existing NOL and foreign tax credit carryforwards could be used to offset the transition tax. The final bill, however, includes certain limits on a company's use of foreign tax credits in the future, including any excess credits generated from the mandatory income inclusion of previously deferred foreign earnings. Companies would be required to include in income from continuing operations in the current year the tax impact of the mandatory inclusion of the greater of accumulated post-1986 deferred foreign income determined as of either 2 November 2017 or 31 December 2017, regardless of whether the associated earnings are actually repatriated to the United States.

Although the transition tax would apply to post-1986 accumulated earnings and profits (E&P) of certain non-US investees that were previously tax deferred, it does not necessarily eliminate the tax consequences on remaining book and tax basis differences. For example, companies will still need to determine if there are additional US tax consequences associated with their outside book-tax basis differences in foreign subsidiaries for potential future capital gains on a disposition of stock in a foreign subsidiary, future foreign exchange gains and losses, withholding taxes or non-US corporate income taxes on a remittance, state income taxes or inclusions under Subpart F. Additionally, companies would need to consider the effect on the balance sheet classification of the transition tax.

Companies should also evaluate the state tax effects of the mandatory inclusion of post-1986 accumulated E&P and whether: (1) a full dividends received deduction is available; (2) the mandatory inclusion would be treated as business or nonbusiness income; and (3) the expected apportionment factor would apply.

The following chart lists some key takeaways to consider when evaluating the impact of the final bill's international provisions:

Business provision	Income tax accounting considerations
<b>Dividends received by domestic corporations from certain foreign corporations</b>	
<ul style="list-style-type: none"> <li>▶ Exempts 100% of the foreign-source portion of dividends received by a US corporation from a foreign corporation (other than a passive foreign investment company that is not also a controlled foreign corporation (CFC)) in which the US corporation owns at least a 10% stake</li> <li>▶ Denies foreign tax credit or deduction for any foreign taxes paid or accrued with respect to a qualifying dividend</li> <li>▶ Denies 100% deduction for "hybrid dividends"</li> <li>▶ Applies to distributions made after 31 December 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies will need to carefully analyze the 10% ownership and holding period requirements contained in the final bill for applicability of the new DRD rules, and will still need to analyze and declare their intentions with respect to whether investments in foreign subsidiaries are indefinitely reinvested.</li> </ul>
<b>Transition tax</b>	
<ul style="list-style-type: none"> <li>▶ Imposes one-time transition tax on US 10%-shareholder's pro rata share of foreign corporation's post-1986 tax-deferred earnings, at the rate of either 15.5% (for accumulated earnings held in cash, cash equivalents or certain other short-term assets) or 8% (for accumulated earnings invested in illiquid assets (e.g., property, plant and equipment))</li> <li>▶ Defines foreign corporation's post-1986 tax-deferred earnings as the greater of earnings as of 2 November 2017 or 31 December 2017</li> <li>▶ Allows US shareholder to elect to pay transition tax over eight years or less, with larger payments due in the last three years</li> <li>▶ Allows taxpayers to elect not to use any carryover losses to reduce their transition tax liability</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies would record the transition tax liability in the period of enactment. Because a US shareholder could elect to pay the transition tax over eight years or less, companies should consider the impact on the balance sheet classification between current and non-current taxes payable.</li> <li>▶ Companies should validate US tax attributes such as earnings and profits accumulated after 1986, previously taxed income and foreign tax credit pools.</li> </ul>
<b>Foreign tax credits</b>	
<ul style="list-style-type: none"> <li>▶ Repeals Section 902 indirect foreign tax credits</li> <li>▶ Requires determination of Section 960 credit on current-year basis</li> <li>▶ Imposes new limitations on foreign branch and global-intangible low-taxed income</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies should reassess the realizability of their foreign tax credit carryforwards based on the new foreign tax credit limitations and future sources of income and record a valuation allowance accordingly.</li> </ul>

<b>Global intangible low-taxed income (GILTI)</b>	
<ul style="list-style-type: none"> <li>▶ Requires a US shareholder of one or more CFCs to include its GILTI amount in gross income in a manner similar to a Subpart F inclusion</li> <li>▶ Generally defines a US shareholder's GILTI inclusion as equaling the excess, if any, of (i) its aggregate pro rata shares of certain net items of its CFCs over (ii) 10% of its aggregate pro rata shares of its CFCs' bases in certain tangible property</li> <li>▶ Allows a domestic corporation to credit against the US tax on its GILTI inclusion 80% of certain foreign income taxes that are paid by CFCs and properly attributable to GILTI items</li> <li>▶ Aggregates all CFCs for purposes of the computation</li> <li>▶ Establishes 10.5% as the highest effective tax rate on GILTI for domestic corporations for tax years beginning after 31 December 2017 and before 1 January 2026</li> </ul>	<ul style="list-style-type: none"> <li>▶ Companies may need to assess the impact of the anti-deferral on the outside basis differences of CFCs to the extent underlying deferred tax items will create Subpart F income that cannot be controlled under a permanent investment reassertion. Additional details regarding these provisions will be needed to determine the applicability of this proposal to outside basis differences.</li> </ul>
<b>Base erosion and anti-abuse tax (BEAT)</b>	
<ul style="list-style-type: none"> <li>▶ Requires applicable taxpayer to pay a tax equal to the base erosion minimum tax amount, which means the excess of 10% (5% for one tax year for base erosion payments paid or accrued in tax years beginning after 31 December 2017) of the modified taxable income over an amount equal to the regular tax liability reduced (but not below zero) by the excess (if any) of an adjusted amount of credits allowed</li> <li>▶ Increases rate from 10% to 12.5% for tax years beginning after 31 December 2025</li> <li>▶ Applies to a base erosion payment, which generally means any amount paid or accrued by a taxpayer to a foreign related party with respect to which a deduction is allowed, including any amount paid or accrued for property of a character subject to the allowance of depreciation or amortization</li> <li>▶ Applies to base erosion payments paid or accrued in tax years beginning after 31 December 2017</li> </ul>	<ul style="list-style-type: none"> <li>▶ US corporations making base erosion payments to foreign related parties that will be subject to the BEAT tax should consider the impact on their provision and whether there may or may not be deferred tax implications.</li> </ul>

### Financial statement presentation and disclosure

ASC 740 requires companies to disclose the effect of adjustments to deferred tax amounts for enacted changes in tax laws or rates. In addition, companies that will be reporting the effects of the TCJA for the first time in an interim period will need to disclose the effect of the change in their estimated annual effective tax rate. Companies also need to carefully consider how other aspects of the TCJA, such as the one-time transition tax, may affect each of the income tax disclosures required under ASC 740. When the effects of the tax law changes are or will be material to a registrant, it should consider the disclosure implications of the tax reform in preparing its Management's Discussion and Analysis (MD&A), including its discussions of results of operations, and liquidity and capital resources.

## Implications

The enactment of the TCJA would significantly impact organizations effective tax rates, income tax account balances and disclosures. Companies should develop a project plan to prioritize the final bill's business provisions and scope out tasks and responsibilities. That includes cross-functional communication among all the relevant parts of the organization to make sure its systems and processes are appropriately designed to collect the information necessary to transition if and when the bill becomes law and to calculate the company's income tax provision.

Internal controls also need to be re-visited to make sure that the accounting implications of the transition and future tax provision calculations are accurately recorded in the financial statements. Key areas to consider are calculating the one-time transition tax, tracking outside basis differences after enactment, assessing the realizability of deferred tax assets and carryforwards, and calculating any minimum taxes.

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## Endnote

1. All "Section" references are to the Internal Revenue Code of 1986, and the regulations promulgated thereunder.

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