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2018 Tax Cuts and Jobs Act Statutory Impact

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Agenda

- Relevant Corporate Provisions
- 2017 Impact to STAT Filers
- Financial Accounting & Presentation

Relevant Corporate Provisions

Applicable Corporate Tax Rate

- Effective Jan. 1, 2018 = 21%
- Affects 12/31/17 deferred position
- Current tax should be calculated at 34% or 35%
- Deferred tax calculation
  - EOY inventory should be calculated at 21%
- Tax accounting for fixed assets
  - Bonus depreciation = 100% if placed in service 9/27/17 or after

Impact to NOLs

- NOLs arising in tax years Jan. 1, 2018 and →
  - No change to rules for NOLS existing pre-2018
- C Corporation & Life Insurance Company rules
  - No carryback, indefinite carryforward
  - Can only offset up to 80% of taxable income
- P&C Company rules
  - No change from "old" rules
  - 2 year carryback, 20 year carryforward, 100% offset
- Consolidated group rules?
  - Until further guidance, apply rules of the parent

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2017 Impact to STAT Filers

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File STAT? Watch for these…

- Components of taxes incurred to disclose
  - Current tax incurred, including PY true-up
- SSAP101 Admissibility
  - 11.a. for P&C companies
    - If subsidiary of C corp parent, applies only for cap loss carrybacks
    - If standalone tax filer, 11.a. applies as per usual
  - 11.a. for Life companies
    - Applies only for cap loss carrybacks
  - 11.b. affected by decreased future corporate rate
  - Tax planning strategies employed?
- Tax sharing agreements

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Financial Accounting & Presentation

Capital and Surplus, beginning of year	$ 43,674,184	$ 42,320,341
Net Income	4,777,682	3,202,468
Change in net unrealized capital gains, net of tax	430,414	256,863
Change in net deferred income tax	63,054	(255,450)
Change in nonadmitted assets	(209,048)	665,380
Net subscriber returns	(3,450,856)	(2,515,418)
Change in capital and surplus	1,611,246	1,353,843
Capital and Surplus, end of year	$ 45,285,430	$ 43,674,184

Change in DTA w/tax differential (exclude URL/URG)

Change in admissibility

Change in tax differential on URL/URG including tax differential

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Notes to the financial statements: Rate Reconciliation. Not required but still need a description of the reconciliation items.

- Example 1 – Description of reconciling items: The provisions for federal income taxes incurred is different from that which would be obtained by applying the federal income tax rate to statutory income before taxes. The significant items causing this difference relate to tax exempt interest deduction, dividends received deduction and enacted tax rate change from 34% to 21% beginning in 2018. The impact of the enacted rate on the deferred tax asset is $(305,955).

Example 2 – Rate Reconciliation

	Amount	Tax Effect
Provision computed at statutory rate	140,446	34.00%
Permanent Differences	(21,683)	-5.25%
PY True Up (to Deferred)	-	0.00%
PY True Up (to Current)	-	0.00%
Change in Non-admitted Assets	-	0.00%
Impact of Legislative Tax Rate Change	(303,955)	-73.58%
Credit Utilization	-	0.00%
Change in deferred income taxes	301,802	73.06%
Change in Valuation Allowance	-	0.00%
Other	-	0.00%
Totals	116,610	28.23%

	2017
Federal and foreign income taxes incurred	116,555
Current taxes on realized capital gains	55
Total statutory income taxes	116,610

Statutory Footnote

For the deferred ta note, you will need to add wording for the new rate and Act. Example:

> Deferred federal income taxes arise from temporary differences between the valuation of assets and liabilities as determined for financial reporting purposes and federal income tax purposes and are measured at enacted tax rates. As of December 31, 2016 the Company measured its deferred tax items at an effective rate of 34%. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Act) was signed into law. Among other things, the Act reduced the Company's corporate federal tax rate to a flat 21%. As a result, the Company's deferred tax items are measured at an effective tax rate of 21% as of December 31, 2017. The amount of the gross deferred tax asset calculated is then reduced for any valuation allowance and an admissibility test. The admissibility test is based on the realization threshold table and other limitations. The Company also admitted deferred tax assets that can be used to offset against deferred tax liabilities.

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Final Thoughts

- Loss discounting transition rules
  - Requires revaluation of the 2017 discount
  - Amortize the difference over 8 years
  - IRS has not yet issued discount factors to calculate
  - Should you estimate?

- SEC issued Staff Accounting Bulletin 118
  - Generally, make estimates about the impact of tax reform
  - What if sufficient info is not available to estimate?
  - If you cannot make a reasonable estimate, then make no estimate!

Final Thoughts

- AMT Credits
  - AMT is repealed as of January 1, 2018
  - Credits become refundable as of December 31, 2017
  - Report in 2017 either as DTA or as recoverable

- Valuation Allowance
  - Consider all effects of tax reform when setting
  - 21%, AMT repeal, elimination of deductions, etc
  - Effects future taxable income, ability to realize benefits

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