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SEC Effects of Tax Reform

AUDIT, PUBLIC COMPANIES, TAX REFORM
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On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (SAB 118) in response to the passage of the Tax Cuts and Jobs Act (Act), which describes three scenarios associated with a company's status of accounting for income tax reform: (1) a company is complete with its accounting in regards to the effects of tax reform, (2) a company is able to reasonably estimate the effects of tax reform, which is recorded as a provisional amount, or (3) a company is not able to reasonably estimate the effect of tax reform and continues to apply the provisions of tax laws that were effective immediately prior to tax reform being enacted.

In some instances, an entity may not necessarily have the information available, prepared or analyzed for income tax effects in order to determine the reasonable estimate related to provisional amounts. For these instances, there are no expectations related to including these provisional amounts in the company's financial statements, since a reasonable estimate cannot be determined. These financial statements would instead reflect the income tax effects of the Act in which the accounting under ASC 740 is complete. The company would report any provisional amounts for the specific income tax effect that is incomplete but a reasonable estimate could be determined. Once a reasonable estimate is able to be determined, it should be included in the financial statements in the first reporting period in which the company was able to determine the reasonable estimate.

A company's measurement period begins in the reporting period that includes the Act's enactment date and ends once the company has obtained, prepared and analyzed all the information needed to complete the requirements under ASC 740. For reporting purposes, any provisional amounts or adjustments to provisional amounts should be included in income from continuing operations as an adjustment to tax expense/benefit in the reporting period the amounts are determined.

Entities should include the following financial statement disclosures to provide information about the material financial reporting impact of the Act if the accounting under ASC 740 is incomplete, whether or not a reasonable estimate can be made:

- Qualitative disclosures of the areas for which the accounting is complete;
- Items recorded as provisional amounts;
- Current or deferred tax amounts for which the income tax effects have not been completed;
- Reasons for the incomplete accounting;
- Additional information or analysis that still needs to occur as well as other

information that would be relevant why the issuer was not able to complete the accounting;

- Nature and amount of adjustments on the effective tax rate; and
- When the accounting for the income tax effects is completed.

In summary, the SEC staff, having recognized in advance the complexity of the new law and the effort that would be necessary to compute the impact on financial statements, has provided a year from inception to fully complete the analysis. If you have questions about the SEC and tax reform, contact us.

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