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Accounting & Auditing Update

Effect of U.S. Tax Reform on an Entity's Accounting for Income Taxes

By Robert M. Rollmann, CPA, CGMA, Partner

As you are no doubt aware, earlier this month the Senate passed its version of tax reform legislation. The House of Representatives previously passed its version of tax reform, and the two now need to be reconciled before tax reform can be enacted. The Senate and House versions of the proposed legislation each include significant reductions in the current corporate tax rates which, if enacted, will result in corporations having to re-measure their deferred tax assets and liabilities using the lower rates expected to be in effect when the temporary differences are estimated to reverse.

The Key: Date of Enactment

US GAAP guidance (ASC 740-10-25-47 and 48) states that the effect of a change in tax laws or rates shall:

- be recognized at the date of enactment, and
- that the tax effect of a retroactive change in enacted tax rates on current and deferred tax assets and liabilities shall be determined at the date of enactment using temporary differences and currently taxable income existing as of the date of enactment.

Consequently, the relationship of the enactment date of any final legislation to the date of an entity's financial statements will determine when the effect of changes in tax rates are recognized in an entity's financial statements. A simple example follows to demonstrate the importance of the enactment date.

Illustration

Assume that final tax legislation is enacted on December 31, 2017, is effective January 1, 2018, and reduces the corporate tax rate from 35% to 25%. (***Note:*** The enactment date is the date that the President signs the bill.) Under this scenario:

- An entity with a year-end of December 31, 2017 would recognize the effect of the lower rates in calculating deferred taxes in its December 31, 2017 financial statements.
- An entity with a year-end of November 30, 2017 would recognize the effect of the lower rates in calculating deferred taxes in its interim and annual financial statements for periods ending on or after December 31, 2017.

Contact Us

Should you have any questions regarding this matter, please feel free to reach out to your PKF O'Connor Davies partner or contact Robert Rollmann. CPA, CGMA, Partner at rrollmann@pkfod.com or 914.421.5605.

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