

Interpretation of the Emerging Accounting Issues Working Group

INT 01-19: Measurement of Deferred Tax Assets Associated with Nonadmitted Assets

ISSUE NULLIFIED BY SSAP NO. 101

INT 01-19 Dates Discussed

March 26, 2001; June 11, 2001

INT 01-19 References

SSAP No. 10—Income Taxes (SSAP No. 10)

INT 01-19 Issue

1. An entity may have certain assets, such as property and equipment and prepaid commissions, which are nonadmitted assets for statutory reporting purposes, but have a tax basis that is expected to result in future tax deductions.
2. The accounting issue is how should an entity measure the deferred taxes for the future tax effects associated with nonadmitted assets?
3. For example, assume the following information:

An entity has Furniture, Fixtures and Equipment (FFE) with an original cost of \$1,000, accumulated depreciation for book purposes of \$200, and accumulated depreciation for tax purposes of \$400. Statutory surplus is \$10,000. Also assume an effective tax rate of 35%.

Alternative I – Measure DTAs/(DTLs) before nonadmitted assets:

	Statutory			DTA
	Before Nonadmitted	Tax	Difference	(DTLs)
Original cost	\$1,000	\$1,000		
Accumulated Depreciation	200	400		
Basis	\$ 800	\$ 600	\$200	(70)

The effect of Alternative I is to reduce statutory surplus by \$870. That is, \$800 for FFE and \$70 for the deferred tax liability as a result of calculating deferred taxes prior to nonadmitted assets.

Alternative II – Measure DTAs/(DTLs) after nonadmitted assets:

	Statutory			DTA (DTLs)
	After Nonadmitted	Tax	Difference	
Original cost	\$ -0-	\$1,000		
Accumulated Depreciation	-0-	400		
Basis	\$ -0-	\$ 600	\$600	\$210

The effect of Alternative II is to reduce surplus by \$590 (\$800 decrease for nonadmitted asset and \$210 increase for DTA), provided the resulting DTA meets the admissibility test in paragraph 10 of SSAP No. 10.

INT 01-19 Discussion

4. The working group reached a consensus that a reporting entity's balance sheet shall include DTAs resulting from the expected future tax consequences of temporary differences generated by statutory accounting practices, as defined in paragraph 11 of FASB Statement No. 109, *Accounting for Income Taxes*. DTAs are computed using a "balance sheet" approach whereby differences between statutory and tax basis balance sheets are treated as temporary differences. Nonadmitted assets with a tax basis create temporary differences as discussed in paragraph 6.b. of SSAP No. 10. The future tax benefits associated with nonadmitted assets embody the three characteristics of an asset as described in FASB Concepts Statement 6. That is, 1) they represent future economic benefit that contribute to future economic cash flow; 2) the enterprise can obtain and control others' access to it; and 3) the transaction or event giving rise to the entity's right to control it has occurred. These characteristics are the characteristics of assets as also reflected in *SSAP No. 4—Assets and Nonadmitted Assets*. Accordingly, a DTA for a nonadmitted asset should be calculated under the "balance sheet" approach, Alternative II, using enacted rates applied to the difference between the statutory basis after the asset is nonadmitted and the tax basis of that asset. The resulting DTA is then subject to the admissibility tests included in SSAP No. 10.

INT 01-19 Status

5. No further discussion planned.