





















**Appendix B – Accounting for Non-Transferable State Tax Credits**

On 7/1/X1 LJW Insurance Company purchased non-transferable state tax credits for a cost of \$100,000. The state tax credits are redeemable for \$110,000, are not transferable and expire on, April 15, 20x2. LJW expects to utilize the tax credits before expiration in their state of domicile in the amount of \$110,000.

<u>7/1/x1</u>	<u>State tax credits</u>	<u>100,000</u>	
	<u>    Cash</u>		<u>100,000</u>
	<u>To record the purchase of the tax credits</u>		
<u>9/30/x1</u>	<u>Premium tax expense</u>	<u>200,000</u>	
	<u>    Premium taxes payable to domiciliary state</u>		<u>200,000</u>
	<u>To record premium tax expense and accrue the liability.</u>		
<u>3/15/x2</u>	<u>Premium tax payable</u>	<u>110,000</u>	
	<u>    Other Income</u>		<u>10,000</u>
	<u>    State tax credits</u>		<u>100,000</u>
	<u>To record the use of premium tax credits in excess of cost and recognize a gain on premium tax credits in other income. (The additional \$90,000 of premium taxes payable would still be due.)</u>		