

**Statutory Accounting Principles (E) Working Group
Maintenance Agenda Submission Form
Form A**

Issue: *Clarification of Accounting Guidance for Recognition of Tax Credits*

Check (applicable entity):

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Description of Issue:

On March 16, 2024, the Statutory Accounting Principles (E) Working Group adopted, as final, agenda item 2022-14 which exposed revisions to *SSAP No. 34—Investment Income Due and Accrued*, *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, *SSAP No. 93—Low-Income Housing Tax Credit Property Investments*, and *SSAP No. 94R—Transferable and Non-Transferable State Tax Credits* to expand and amend statutory guidance to include all tax credit investments regardless of structure and type of state or federal tax credit program, and all state and federal purchased tax credits.

After adoption of agenda item 2022-14, NAIC staff received questions from public accounting firms on the accounting guidance and example journal entries provided in the new guidance. It was noted that the SSAP No. 94R accounting guidance appeared inconsistent with the journal entry examples and the guidance in SSAP No. 93 for recognizing allocated tax credits was confusing when compared to the journal entry examples. Both interested parties and NAIC staff agreed that the journal entries reflect the proper accounting for both the recognition and utilization of tax credits, as such revisions have been drafted to revise the accounting guidance to match the journal entry examples more accurately.

It was also noted that a sentence in SSAP No. 48 was accidentally not updated as part of the New Market Tax Credit project. Updates to this sentence are proposed below.

Existing Authoritative Literature:

SSAP No. 93—Low-Income Housing Tax Credit Property Investments (Superseded 1/1/2025)
SSAP No. 94R—Transferable and Non-Transferable State Tax Credits (Superseded 1/1/2025)

SSAP No. 93—Investments in Tax Credit Structures (Effective 1/1/2025)
SSAP No. 94—State and Federal Tax Credits (Effective 1/1/2025)

Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):

None

Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:

None

Convergence with International Financial Reporting Standards (IFRS): None

Staff Recommendation:

NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and expose revisions to *SSAP No. 93—Investments in Tax Credit Structures*, *SSAP No. 94—State and Federal Tax Credit*, and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*, to be effective as of January 1, 2025.

Staff Review Completed by: William Oden – June 2024

Status:

On August 13, 2024, the Statutory Accounting Principles (E) Working Group exposed revisions to *SSAP No. 93—Investments in Tax Credit Structures*, *SSAP No. 94—State and Federal Tax Credit*, and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies*.

Drafting Note: The SSAP guidance shown below includes the revisions adopted in agenda item 2022-14, which are effective 1/1/2025.

Proposed Revisions to SSAP No. 93:

14. Tax credits and other tax benefits, not to include amortization of the investment, shall be reflected as follows:

- a. Tax credits shall be recognized in the period that they are allocated to the reporting entity for tax purposes:
 - i. ~~Federal tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to federal taxes in accordance with SSAP No. 101—Income Taxes. Federal tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported as a deferred tax asset (DTA) in accordance with SSAP No. 101. If utilized in the same year allocated, federal tax credits shall be recognized and reported as a reduction to federal income tax liabilities and federal income tax expense. If the allocated tax credits are not utilized in the year allocated, they shall be reported as a deferred tax asset (DTA) and change in DTA in accordance with SSAP No. 101—Income Taxes.~~ Federal tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to federal taxes in accordance with SSAP No. 101—Income Taxes. Federal tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported as a deferred tax asset (DTA) in accordance with SSAP No. 101. If utilized in the same year allocated, federal tax credits shall be recognized and reported as a reduction to federal income tax liabilities and federal income tax expense. If the allocated tax credits are not utilized in the year allocated, they shall be reported as a deferred tax asset (DTA) and change in DTA in accordance with SSAP No. 101—Income Taxes.
 - ii. ~~State tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other than invested assets (not to be reported net). If utilized in the same year allocated, state tax credits shall be recognized and reported as a reduction to the related state tax liability and state premium tax or state income tax, whichever is applicable. If the allocated tax credits are not utilized in the year allocated, they shall be reported gross of the related state tax liability in the category of other-than-invested assets (not to be reported net).~~ State tax credits that can be utilized in the year allocated shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax reporting year in which the credit is utilized. State tax credits that cannot be utilized in the year allocated and are carried forward to a future tax year shall be reported gross of any related state tax liabilities and reported in the category of other than invested assets (not to be reported net). If utilized in the same year allocated, state tax credits shall be recognized and reported as a reduction to the related state tax liability and state premium tax or state income tax, whichever is applicable. If the allocated tax credits are not utilized in the year allocated, they shall be reported gross of the related state tax liability in the category of other-than-invested assets (not to be reported net).
 - iii. ~~Use-Utilization of tax credits in settlement of tax liabilities carried forward in a future period shall be reflected as an offset to net of the corresponding income or premium tax liability in the tax-reporting year-period in which the tax credit is utilized.~~ Use-Utilization of tax credits in settlement of tax liabilities carried forward in a future period shall be reflected as an offset to net of the corresponding income or premium tax liability in the tax-reporting year-period in which the tax credit is utilized.
 - iv. Tax credits allocated from tax credit investments, as defined within this SSAP, and held by reporting entities meet the definition of assets as specified in SSAP No. 4 and are admitted assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits is subject to SSAP No. 101.
- b. Federal tax benefits other than tax credits (e.g., tax benefits from investment depreciation) shall be recognized in the year allocated pursuant to SSAP No. 101. When utilized, the federal tax benefits are recognized as a component of income tax expense.

- c. State tax benefits other than tax credits shall be recognized in the year allocated gross of any related state tax liabilities pursuant to SSAP No. 101. When utilized, the state tax benefits are recognized as a component of taxes, licenses, and fees.

Proposed Revisions to SSAP No. 94R:

9. Tax credits shall be recognized in the period that they are purchased or allocated to the reporting entity for tax purposes:

- a. ~~Federal tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to federal taxes in accordance with SSAP No. 101—Income Taxes.~~ Federal tax credits ~~that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall~~ are to be recognized and reported as a deferred tax asset (DTA) in accordance with SSAP No. 101—Income Taxes ~~SSAP No. 101.~~
- b. ~~State tax credits that can be utilized in the year allocated or purchased shall be reported in the income statement as an offset to state premium tax or state income tax, whichever is applicable, in the tax reporting year in which the credit is utilized.~~ State tax credits ~~that cannot be utilized in the year allocated or purchased and are carried forward to a future tax year shall~~ are to be recognized reported gross of any related state tax liabilities ~~and reported~~ in the category of other-than-invested-assets (not to be reported net).

10. Use/Utilization of ~~carried forward~~ tax credits in settlement tax liabilities ~~in a future period~~ shall be reflected ~~as an offset to net of~~ the corresponding income or premium tax liability in the ~~tax reporting year~~ year period in which the tax credit is utilized.

Proposed Revisions to SSAP No. 48:

1. This statement establishes statutory accounting principles for investments in any joint ventures, partnerships, and limited liability companies, including investments in certified capital companies (CAPCO) per *INT 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)*, whether or not it is considered to be controlled by or affiliated with the reporting entity. Single real estate property investments that are wholly-owned by an LLC that is directly and wholly-owned by the reporting entity, and that meet the criteria established in *SSAP No. 40R—Real Estate Investments*, are excluded from this statement. This statement does not address the accounting for investments in joint ventures, partnerships, and limited liability companies that invest in tax credit programs and are in the scope of *SSAP No. 93—Investments in Tax Credit Structures*. However, investments in joint ventures, partnerships, and limited liability companies which allocate tax credits but ~~certain state Low Income Housing Tax Credit Property Investments that~~ do not fall within the scope of SSAP No. 93 are covered by the requirements of this statement.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group adopted the exposed revisions to *SSAP No. 93—Investments in Tax Credit Structures*, *SSAP No. 94—State and Federal Tax Credit*, and *SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies* as shown above, as clarifying edits to the previously-adopted tax credit guidance.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2024/11-17-24FallNationalMeeting/Adoptions/24-18-ClarificationstoNMTCPProject.docx>