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

Issue: ASU 2019-12, Simplifying the Accounting for Income Taxes

Check (applicable entity):

	P/C	Life	Health
Modification of existing SSAP	☒	☒	☒
New Issue or SSAP	☐	☐	☐
Interpretation	☐	☐	☐

Description of Issue: In December 2019, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes* (the ASU) to reduce complexity in income tax accounting standards. The ASU removes several exceptions to calculating and assessing income taxes and tax deferrals. The ASU also simplifies the guidance for franchise (non-income based) taxes, goodwill tax basis step-ups, allocation of deferred tax to subsidiaries, reflection of changes to tax law in the interim period calculation of the effective tax rate, and other minor improvements.

NAIC staff noted that only the revisions to ASC 740-270-25-5 need to be considered for incorporation as the guidance in this ASC was originally sourced from Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting, paragraph 20 which was adopted by reference within *SSAP No. 101—Income Taxes*.

> *ASC 740-270-25-5 as amended by ASU 2019-12:*
> The tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be reflected ~~after the effective dates prescribed in the statutes~~ in the computation of the annual effective tax rate beginning ~~no earlier than~~ in the first interim period that includes the enactment date of the new legislation. The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate. The tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year.

Existing Authoritative Literature:

SSAP No. 101—Income Taxes:
Current Income Taxes

4. State taxes (including premium, income and franchise taxes) shall be computed in accordance with SSAP No. 5 and shall be limited to (a) taxes due as a result of the current year's taxable basis calculated in accordance with state laws and regulations and (b) amounts incurred or received during the current year relating to prior periods, to the extent not previously provided as such amounts are deemed to be changes in accounting estimates. Property and casualty insurance companies shall report state taxes as other underwriting expenses under the caption "Taxes, licenses, and fees." Life and accident and health insurance companies shall report such amounts as general expenses under the caption "Insurance taxes, licenses, and fees, excluding federal income taxes." Other health entities shall report such amounts as general administration expenses under the caption "Taxes, licenses, and fees." State tax recoverables that are reasonably expected to be recovered in a subsequent accounting period are admitted assets. State taxes are reasonably expected to be recovered if the refund is attributable to overpayment of estimated tax payments, errors, carrybacks, or items for which the reporting entity has authority to recover under a state regulation or statute.

Interim Periods

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20. Income taxes incurred in interim periods shall be computed using an estimated annual effective current tax rate for the annual period in accordance with the methodology described in paragraphs 19 and 20 of *Accounting Principles Board Opinion No. 28, Interim Financial Reporting*. Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If a reporting entity is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.

APB Opinion No. 28, Interim Financial Reporting – (The guidance now shown within ASC 740-270-25-5 is underlined for easier reference)

Income Tax Provisions

19. In reporting interim financial information, income tax provisions should be determined under the procedures set forth in APB Opinion No. 23 and FASB Statement No. 109, Accounting for Income Taxes. At the end of each interim period the company should make its best estimate of the effective tax rate expected to be applicable for the full fiscal year. The rate so determined should be used in providing for income taxes on a current year-to-date basis. The effective tax rate should reflect anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates, and other available tax planning alternatives. However, in arriving at this effective tax rate no effect should be included for the tax related to significant unusual or extraordinary items that will be separately reported or reported net of their related tax effect in reports for the interim period or for the fiscal year.

20. The tax effects of losses that arise in the early portion of a fiscal year should be recognized only when the tax benefits are expected to be (a) realized during the year or (b) recognizable as a deferred tax asset at the end of the year in accordance with the provisions of Statement 109. An established seasonal pattern of loss in early interim periods offset by income in later interim periods should constitute evidence that realization is more likely than not, unless other evidence indicates the established seasonal pattern will not prevail. The tax effects of losses incurred in early interim periods may be recognized in a later interim period of a fiscal year if their realization, although initially uncertain, later becomes more likely than not. When the tax effects of losses that arise in the early portions of a fiscal year are not recognized in that interim period, no tax provision should be made for income that arises in later interim periods until the tax effects of the previous interim losses are utilized. iii3 The tax effect of a valuation allowance expected to be necessary for a deferred tax asset at the end of the year for originating deductible temporary differences and carryforwards during the year should be included in the effective tax rate. The effect of a change in the beginning-of-the-year balance of a valuation allowance as a result of a change in judgment about the realizability of the related deferred tax asset in future years shall not be apportioned among interim periods through an adjustment of the effective tax rate but shall be recognized in the interim period in which the change occurs. <u>The effects of new tax legislation shall not be recognized prior to enactment. The tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be reflected after the effective dates prescribed in the statutes in the computation of the annual effective tax rate beginning no earlier than the first interim period that includes the enactment date of the new legislation. The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate. The tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year.</u>

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 recommend that the Working Group move this item to the active listing of the maintenance agenda categorized as a SAP clarification and expose revisions, to adopt with modification ASU 2019-12, Simplifying the Accounting for Income Taxes in *SSAP No. 101—Income Taxes*. NAIC staff noted that paragraphs 19 and 20 of APB No. 28 were included in SSAP No. 101 by reference rather than through direct incorporation. For clarity and ease of use, NAIC staff also recommend fully incorporating existing guidance in APB 28, paragraph 19 and prior APB paragraph 20 as modified by the ASU 2019-12 into SSAP No. 101.

NAIC staff noted that most of the ASU provides clarification on topics not applicable to statutory accounting. For example, statutory accounting does not have a consolidation concept as all insurers report individually and state taxes (which would include franchise taxes) are not deferred within statutory accounting. Additionally, the example problems revised by the ASU are not part of SSAP No. 101.

The only ASU revisions recommended for adoption are those to ASC 740-270-25-5. This paragraph was created in the Codification by carrying over *Accounting Principles Board Opinion (APB) No. 28, Interim Financial Reporting*, paragraph 20, which was previously adopted for statutory accounting purposes into SSAP No. 101.

Staff Review Completed by:
NAIC Staff – William Oden, May 2025

Recommended Revisions:
SSAP No. 101—Income Taxes:
Interim Periods

20. Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If a reporting entity is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported. Income taxes incurred in interim periods shall be computed using an estimated annual effective current tax rate for the annual period in accordance with the methodology described below:~~in paragraphs 19 and 20 of Accounting Principles Board Opinion No. 28, Interim Financial Reporting.~~ Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If a reporting entity is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.

[DRAFTING NOTE: The following (paragraphs 20a-b and footnotes 1 & 2) are from APB No. 28, paragraph 19 and 20, previously adopted by reference.]

a. In reporting interim financial information, income tax provisions should be determined under the procedures set forth in Accounting Principles Board Opinion (APB) Opinion No. 23 and FAS 109 as modified and adopted for statutory accounting purposes. At the end of each interim period, the company should make its best estimate of the effective tax rate expected to be applicable for the full fiscal year. The rate so determined should be used in providing for income taxes on a current year-to-date basis. The effective tax rate should reflect anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates, and other available tax planning alternatives. However, in arriving at this effective tax rate, no effect should be included for the tax related to significant unusual or extraordinary items that will be separately reported or reported net of their related tax effect in reports for the interim period or for the fiscal year.[1]

b. The tax effects of losses that arise in the early portion of a fiscal year should be recognized only when the tax benefits are expected to be: a) realized during the year; or b) recognizable as a deferred tax asset at the end of the year in accordance with the provisions of FAS 109. An established seasonal pattern of loss in early interim periods offset by income in later interim periods should constitute evidence that realization is more likely than not unless other evidence indicates the established seasonal pattern will not prevail. The tax effects of losses incurred in early interim periods may be recognized in a later interim period of a fiscal year if their realization, although initially uncertain, later becomes more likely than not. When the tax effects of losses that arise in the early portions of a fiscal year are not recognized in that interim period, no tax provision should be made for income that arises in later interim periods until the tax effects of the previous interim losses are utilized.[2] The tax effect of a valuation allowance expected to be necessary for a deferred tax asset at the end of the year for originating deductible temporary differences and carryforwards during the year should be included in the effective tax rate. The effect of a change in the beginning-of-the-year balance of a valuation allowance as a result of a change in judgment about the realizability of the related deferred tax asset in future years shall not be apportioned among interim periods through an adjustment of the effective tax rate but shall be recognized in the interim period in which the change occurs. The effects of new tax legislation shall not be recognized prior to enactment. The tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be reflected in the computation of the annual effective tax rate beginning in the first interim period that includes the enactment date of the new legislation. The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate. The tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year.

33. The following lists Accounting Principles Board Opinions that are adopted or rejected by this statement:

a. *Accounting Principles Board Opinion No. 2, Accounting for the "Investment Credit,"* paragraphs 9-15 are adopted with modification to utilize the cost reduction method only and rejects all other paragraphs;

[1] Disclosure should be made of the reasons for significant variations in the customary relationship between income tax expense and pretax accounting income, if they are not otherwise apparent from the financial statements or from the nature of the entity's business (refer to FAS 109, paragraph 47).

[2] The tax benefits of interim losses accounted for in this manner would not be reported as extraordinary items in the results of operations of the interim period.

b. *Accounting Principles Board Opinion No. 4 (Amending No. 2), Accounting for the "Investment Credit,"* is rejected in its entirety;

c. *Accounting Principles Board Opinion No. 10, Omnibus Opinion—1966,* paragraph 6 is adopted;

d. *Accounting Principles Board Opinion No. 23, Accounting for Income Taxes—Special Areas,* paragraphs 1-3, 5-9, 12-13, and 15-18 are adopted, and paragraphs 19-25, and 31-33 are rejected;

e. *Accounting Principles Board Opinion No. 28, Interim Financial Reporting,* paragraphs 19 and 20 are adopted and all other paragraphs rejected. In xxx, 2025, APB No. 28, paragraph 19, was fully incorporated into the statement, and paragraph 20 was incorporated into the statement with the amendments from ASU 2019-12 *Simplifying the Accounting for Income Taxes*.

~~e.~~f. *ASU 2019-12, Simplifying the Accounting for Income Taxes* modifications which relate to APB No. 28, paragraph 20 (shown in ASC 740-270-25-5), are adopted. All other paragraphs in ASU 2019-12 are rejected.

SSAP No. 101, Exhibit A – Implementation Questions And Answers

11. Q – How are current and deferred income taxes to be accounted for in interim periods? [Paragraphs 12.d. and 20]

11.1 A – In setting forth the methodology for the computation of current income taxes (income taxes incurred) in interim periods, insurers should refer to paragraphs 20 and 21 which detail the guidance adopted from APB No. 28 into statutory accounting.~~paragraph 20 states:~~

~~20. Income taxes incurred in interim periods shall be computed using an estimated annual effective current tax rate for the annual period in accordance with the methodology described in paragraphs 19 and 20 of *Accounting Principles Board Opinion No. 28, Interim Financial Reporting*. Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on estimates and are subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If an insurer is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.~~

Status:
On August 11, 2025, the Statutory Accounting Principles (E) Working Group exposed revisions to SSAP No. 101, as illustrated above, to adopt with modification *ASU 2019-12 Simplifying the Accounting for Income Taxes*.

On December 9, 2025, the Statutory Accounting Principles (E) Working Group adopted revisions to SSAP No. 101, as illustrated above, to adopt with modification *ASU 2019-12 Simplifying the Accounting for Income Taxes* and fully incorporate paragraphs 19 and 20 of APB No. 28.

https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/National Meetings/A. National Meeting Materials/2025/12-9-25 Fall National Meeting/Adoptions/25-18 - ASU 2019-12 Simplifying the Accounting for Income Taxes.docx

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