# Statements of Statutory Accounting Principles No. 94 - Revised

# State and Federal Tax Credits

## Status

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| --- | --- |
| Type of Issue  | Common Area |
| Issued  | June 12, 2006; Substantively revised December 7, 2011. Conceptually revised XXXX. |
| Effective Date  | December 31, 2006; Substantive revisions detailed in Issue Paper No. 145 effective December 31, 2011; New SAP concept revisions detailed in Issue Paper No. XXX effective XXX. |
| Affects  | No other pronouncements |
| Affected by  | No other pronouncements |
| Interpreted by  | No other pronouncements |
| Relevant Appendix A Guidance  | None |

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## SCOPE OF STATEMENT

1. This statement establishes statutory accounting principles for state and federal tax credits that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).
2. Investments in tax credits as discussed in *SSAP No. 93R—Investments in Tax Credit Structures*, which involve investments in projects or programs that generate general business federal tax credits or state tax credits, are not within the scope of this statement. However, the tax credits received from tax credit investments are within the scope of this statement.
3. Investments in a CAPCO (Certified Capital Company), organized as a partnership or an LLC, which is a company, authorized by state statute that borrows from investors, in order to make venture capital investments in “qualified” businesses, are not within the scope of this statement. Although associated with tax credits, the insurance company is paid principal and interest on its investment with the CAPCO. Depending upon the terms of the CAPCO offering, principal and interest payments to the investors will come from the CAPCO and/or the state. The CAPCO will make cash payments directly to the investors while the state will make payments in the form of premium or income tax credits. Investments in a CAPCO shall be accounted for in accordance with *Interpretation (INT) 06-02: Accounting and Reporting for Investments in a Certified Capital Company (CAPCO)* and specific statutory accounting guidance addressing CAPCOs.

## SUMMARY CONCLUSION

1. Both state and federal governments have enacted laws that create programs by which tax credits are granted to entities under certain specified conditions. The terms of these tax credits vary based on the issuing jurisdiction and from program to program.
2. For the purposes of this statement, “tax credits” must be issued by either a federal or state governmental entity and must be refundable[[1]](#footnote-2) or can be applied against income tax or premium tax in accordance with permitted IRS or state tax provisions. Tax credits which may be sold or otherwise transferred to another entity are referred to as “transferable tax credits” whereas all other tax credits are referred to as “non-transferable.”
3. When a reporting entity purchases a transferable tax credit from another entity, the transaction does not result in a continuing investment in a business entity (i.e., limited partnership). Direct payment elections are non-revocable and supersede the transferability of tax credits, as such, once the election has been made the tax credit would be considered a non-transferable tax credit.

### Accounting

1. All tax credits within the scope of the statement must be recognized in the period they are allocated to or purchased by the reporting entity for tax purposes and must be recorded at face value upon receipt. Tax credits acquired at a premium or discount to their face value must record the gain/loss as follows:
	1. Tax credits acquired at a discount must defer the gain as a miscellaneous liability upon receipt of the tax credit.
	2. Tax credits acquired at a premium must realize the loss within the income statement upon receipt of the tax credit.
2. Deferred gains on tax credits are deferred until the value of the tax credits utilized exceeds the initial acquisition cost of the state tax credits, or until the tax credits are transferred to other entities or the direct payment election is utilized and the payment(s) or refund exceed the initial acquisition cost.
3. Tax credits shall be recognized in the period that they are purchased or allocated to the reporting entity for tax purposes:
	1. 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 be reported net of deferred tax asset (DTA) in accordance with SSAP No. 101.
	2. 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 be reported gross of any related state tax liabilities and reported in the category of other-than-invested-assets (not reported net).
4. Use of carried forward tax credits in a future period shall be reflected as an offset to the corresponding income or premiums tax in the tax reporting year in which the tax credit is utilized.
5. Gains and losses on tax credits are reflected in other income when realized.

### Admittance

1. Tax credits as defined within this SSAP held by reporting entities meet the definition of assets as specified in *SSAP No. 4—Assets and Nonadmitted Assets* and are admissible assets to the extent that they comply with the requirements of this statement. The admissibility of tax credits are subject to SSAP No. 101.

### Impairment

1. An impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to recover the book adjusted carrying value of the tax credits. Tax credits should be evaluated for impairment at each reporting date.
2. When there is a decline in the realizability of a tax credit owned by the reporting entity that is other than temporary, the asset shall be written down to the expected realizable amount and the amount of the write down shall be accounted for as a realized loss. The expected realizable value is the new cost basis.
3. The new cost basis shall not be changed for subsequent recoveries in realizability.

### Disclosures

1. The following disclosures shall be made in the financial statements. For purposes of this disclosure, total unused tax credits represent the entire tax credits available:
2. Carrying value of tax credits, disaggregated by transferable and non-transferable, gross of any related tax liabilities by jurisdiction and in total.
3. Total unused tax credits by jurisdiction, disaggregated by transferable and non-transferable.
4. Method of estimating utilization of remaining tax credits or other projected recovery of the current carrying value.
5. Impairment amount recognized in the reporting period, if any.
6. Identify tax credits by transferable and non-transferable classifications and identify the admitted and nonadmitted portions of each classification.

### Effective Date and Transition

1. This statement is effective for reporting periods ending on or after December 31, 2006. Early adoption is permitted. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with SSAP No. 3. Substantive revisions to 1) revising the title; 2) incorporating the criteria for non-transferable state tax credits as described in paragraphs 7 and 8; 3) adding a disclosure; and 4) updating terminology throughout the document as appropriate, are effective for reporting periods ending on or after December 31, 2011.
2. In XXX, 20XX, new SAP concept revisions, as detailed in Issue Paper No. XXX, were adopted. These revisions, effective XXX, 20XX, expanded the scope of SSAP No. 94R to include all state and federal tax credits and provide new guidance on the accounting, recognition, and reporting for state and federal tax credits. As of the effective date, reporting entities shall prospectively modify the recognition, accounting, and reporting of tax credits within the scope of this statement to reflect the guidance in the conceptual revisions. For unutilized tax credits which were carried forward from prior to the effective date:
	1. Federal tax credits in other-than-invested assets are to be transferred and reported net of deferred tax asset (DTA) in accordance with SSAP No. 101.
	2. Tax credits previously recorded at acquisition cost should be adjusted to reflect the face value of the acquired tax credits with the corresponding loss immediately recognized or the gain deferred.

## references

### Relevant Issue Papers

1. Issue Paper No. 126—Accounting for Transferable State Tax Credits
2. Issue Paper No. 145—Accounting for Transferable and Non-Transferable State Tax Credits
3. Issue Paper No. XXX—XXX

## EXHIBIT A – Accounting for Transferable Tax Credits

On 1/1/X1 SAM Insurance Company purchased transferable state tax credits for a cost of $100,000. The transferable state tax credits are redeemable for $160,000 and expire at the end of 12/31/X4. SAM initially expects to utilize the tax credits before expiration in their state of domicile in the amount of $40,000 per year. In year X4, SAM sells the remaining $30,000 in transferable state tax credits for $20,000.

|  |  |  |  |
| --- | --- | --- | --- |
| 1/1/x1 | Transferable state tax credits | 160,000 |  |
|  |  Deferred gains on acquired tax credits |  | 60,000 |
|  |  Cash |  | 100,000 |
|  | *To record the purchase of the tax credits*  |
|  |  |  |  |
|  |  |  |  |
| 6/30/x1 | Premium tax expense  | 40,000 |  |
|  |  Premium taxes payable to domiciliary state  |  | 40,000 |
|  | *To record premium tax expense and accrue the liability in Year 1.* |
|  |  |  |  |
| 10/1/x1 | Premium tax payable  | 40,000 |  |
|  |  Transferable state tax credits |  | 40,000 |
|  | *To record the use of tax credits in Year 1. The reporting entity expects to be able to utilize remaining tax credits before expiration.*  |
|  |  |  |  |
| 6/30/x2 | Premium tax expense  | 60,000 |  |
|  |  Premium taxes payable to domiciliary state  |  | 60,000 |
|  | *To record premium tax expense and accrue the liability in Year 2.*  |
|  |  |  |  |
| 9/30/x2 | Premium tax payable  | 60,000 |  |
|  |  Transferable state tax credits |  | 60,000 |
|  | *To record the use of taxes credits in Year 2. The reporting entity expects to be able to utilize remaining tax credits before expiration.* |
|  |  |  |  |
| 6/30/x3 | Premium tax expense  | 30,000 |  |
|  |  Premium taxes payable to domiciliary state  |  | 30,000 |
|  | *To record premium tax expense and accrue the liability in Year 3.*  |
|  |  |  |  |
| 9/30/x3 | Premium tax payable | 30,000 |  |
|  |  Transferable state tax credits |  | 30,000 |
|  | Deferred gains on acquired tax credits | 30,000 |  |
|  |  Other income |  | 30,000 |
|  | *To record the use of premium tax credits in excess of cost and recognize a gain on premium tax credits in other income. The Company intends to sell the remaining tax credits in year 4.*  |
|  |  |  |  |
| 6/30/x4 | Cash  | 20,000 |  |
|  | Other income | 10,000 |  |
|  |  Transferable state tax credits |  | 30,000 |
|  | Deferred gains on acquired tax credits | 30,000 |  |
|  |  Other income |  | 30,000 |
|  | *To record the sale of the remaining tax credits.* |  |  |

## EXHIBIT B – Accounting for NON-Transferable Tax Credits

On 7/1/X1 LJW Insurance Company purchased non-transferable federal tax credits for a cost of $100,000. The federal tax credits are redeemable for $110,000 and expire on, April 15, 20x2. LJW expects to utilize the tax credits before expiration in the amount of $110,000.

|  |  |  |  |
| --- | --- | --- | --- |
| 7/1/x1 | Federal tax credits | 110,000 |  |
|  |  Deferred gains on acquired tax credits |  | 10,000 |
|  |  Cash |  | 100,000 |
|  | *To record the purchase of the tax credits*  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| 9/30/x1 | Premium tax expense  | 200,000 |  |
|  |  Premium taxes payable to domiciliary state  |  | 200,000 |
|  | *To record premium tax expense and accrue the liability.* |
|  |  |  |  |
| 3/15/x2 | Premium tax payable  | 110,000 |  |
|  | Deferred gains on acquired tax credits | 10,000 |  |
|  |  Other Income |  | 10,000 |
|  |  Federal tax credits |  | 110,000 |
|  | *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.)* |

1. Direct payment tax credits are synonymous with refundable tax credits, as such the terms are used interchangeably within this statement. [↑](#footnote-ref-2)