Client Update
SEC Provides Guidance on Accounting Impacts of the Tax Cuts and Jobs Act

Comprehensive changes to the U.S. federal tax code under the Tax Cuts and Jobs Act (the "Tax Act") will require public reporting companies to grapple with the application of certain existing accounting guidance and requirements to their financial statements for the reporting period that includes the enactment date of the Tax Act (December 22, 2017). In response to questions from market participants and in recognition of challenges that public reporting companies may face, the Staff of the Securities and Exchange Commission issued interpretive guidance intended to facilitate the timely public disclosure of the accounting impacts of the Tax Act.

STAFF ACCOUNTING BULLETIN ("SAB") NO. 118

SAB 118 clarifies the application of ASC Topic 740 if a registrant is unable to complete the accounting for certain income tax effects of the Tax Act prior to the issuance of the registrant's financial statements for the period that includes the enactment date of the Tax Act. ASC Topic 740 addresses, among other things (i) the recognition under U.S. GAAP of taxes payable or refundable for the current year, (ii) the recognition of deferred tax liabilities and deferred tax assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns and (iii) the accounting for income taxes upon a change in tax laws or tax rates.

SAB 118 helpfully addresses three circumstances relating to the accounting for the tax effects of the Tax Act under ASC Topic 740:

- **If the accounting is complete by the issuance date of financial statements that include the reporting period in which the Tax Act was enacted**, then the relevant tax effects must be reflected in those financial statements.
- **If the accounting is incomplete but the registrant can reasonably estimate the relevant tax effects**, then provisional amounts for the identified tax effects must be reflected in the registrant's financial statements for the first reporting period during the SAB 118 "measurement period" in which the registrant is able to determine the reasonable estimate.

- **If the accounting is incomplete and the registrant cannot reasonably estimate the relevant tax effects**, then the registrant (i) would not report provisional amounts and would instead continue to apply ASC Topic 740 based on tax law provisions in effect immediately prior to enactment of the Tax Act and (ii) would reflect provisional amounts in financial statements issued for subsequent reporting periods that fall within the SAB 118 measurement period beginning with the first reporting period in which a reasonable estimate can be determined.

The SAB 118 measurement period begins in the reporting period that includes the enactment date of the Tax Act and ends on the earlier of (i) when a registrant has obtained, prepared and analyzed the information necessary to complete the accounting requirements under ASC Topic 740 and (ii) December 22, 2018. Provisional amounts or adjustments to provisional amounts identified during the SAB 118 measurement period should be included in income from continuing operations as an adjustment to tax expense or benefit in the reporting period the amounts are determined.

Registrants reporting certain income tax effects of the Tax Act under a measurement period approach should include the following disclosures about the material financial reporting impacts of the Tax Act for which the accounting under ASC Topic 740 is incomplete:

- Qualitative disclosures of the income tax effects of the Tax Act for which the accounting is incomplete;
- Disclosures of items reported as provisional amounts;
- Disclosures of existing current or deferred tax amounts for which the income tax effects of the Tax Act have not been completed;
- The reason why the initial accounting is incomplete;
- The additional information that is needed to be obtained, prepared or analyzed in order to complete the accounting requirements under ASC Topic 740;
- The nature and amount of any measurement period adjustments recognized during the reporting period;
- The effect of measurement period adjustments on the effective tax rate; and
- When the accounting for the income tax effects of the Tax Act has been completed.

The guidance also makes clear that the Staff would not object to a foreign private issuer reporting under International Financial Reporting Standards applying a measurement period solely for purposes of accounting for the impact of the Tax Act under International Accounting Standard 12, Income Taxes.

STAFF COMPLIANCE AND DISCLOSURE INTERPRETATION ("C&DI") 110.02

Item 2.06 of Form 8-K requires current disclosure if a registrant's board of directors, a committee of the board or one or more authorized officer(s) of the registrant conclude that a material charge for impairment to one or more of the registrant's assets is required under GAAP applicable to the registrant. Under C&DI 110.02, the re-measurement of a deferred tax asset to reflect the impact of a change in tax rate or tax laws is not an impairment under ASC Topic 740. Further, registrants employing the SAB 118 measurement period approach that conclude that a material asset impairment has occurred due to changes resulting from the enactment of the Tax Act may, instead of filing a Form 8-K, disclose the impairment, or a provisional amount with respect to that possible impairment, in its next periodic report in reliance on the Instruction to Item 2.06.

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Please do not hesitate to contact us with any questions.

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