Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-6-2018
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NEW TAX LAW: ACCOUNTING AND REPORTING IMPLICATIONS

Summary: The banking agencies are issuing the attached Interagency Statement to provide guidance to institutions on certain accounting and reporting implications of the new tax law, which was enacted on December 22, 2017. In accordance with U.S. generally accepted accounting principles (GAAP), the changes enacted in the new tax law are relevant to the preparation of financial statements and regulatory reports (e.g., the Consolidated Reports of Condition and Income or Call Report) for December 31, 2017.

Statement of Applicability to Institutions With Total Assets Under $1 Billion: This Financial Institution Letter applies to all FDIC-supervised banks and savings associations, including community institutions.

Distribution:
FDIC-Supervised Banks (Commercial and Savings) and FDIC-Supervised Savings Associations

Suggested Routing:
Chief Financial Officer
Chief Accounting Officer
Call Report Preparer

Related Topics:
Consolidated Reports of Condition and Income
Capital Adequacy of FDIC-Supervised Institutions, 12 CFR Part 324 (Regulatory Capital Rules)

Attachment:
Interagency Statement on Accounting and Reporting Implications of the New Tax Law

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Note:
FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's website at https://www.fdic.gov/news/news/financial/2018/

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Paper copies may be obtained via the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (877-275-3342 or 703-562-2200).

Highlights:

- Under U.S. GAAP, the effect of changes in tax laws or rates is recognized in income tax expense in the period in which the legislation is enacted.
- For Call Report purposes as of December 31, 2017, an institution's deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are to be remeasured at the enacted tax rates expected to apply when these assets and liabilities are expected to be realized or settled.
- Because the impact of the remeasurement of the deferred tax effects of items reported in accumulated other comprehensive income (AOCI) is recorded through income tax expense, this creates a disproportionate tax effect in AOCI as the recorded DTA or DTL related to an item reported in AOCI no longer equals the tax effect included in AOCI for that item. On January 10, 2018, the Financial Accounting Standards Board (FASB) approved issuing a proposal to allow reclassification of this disproportionate tax effect from AOCI to retained earnings. Institutions may apply the FASB's proposed reclassification guidance for Call Report purposes as of December 31, 2017.
- An institution may consider its net operating loss (NOL) carryback potential when determining the amount of temporary difference DTAs, if any, subject to the deduction thresholds in the regulatory capital rules for purposes of calculating and reporting its regulatory capital as of December 31, 2017 (and through the end of its last tax year beginning on or before that date).
- For tax years beginning on or after January 1, 2018, the new tax law generally removes the ability to use NOL carrybacks to recover taxes paid in prior tax years. As a result, all temporary difference DTAs will be subject to the deduction thresholds for regulatory capital purposes in such tax years.
- Institutions are expected to use all available information to make a good faith effort to reasonably estimate the effects of the new tax law when preparing their December 31, 2017, and subsequent regulatory reports. Institutions may use the measurement period approach described in documents recently issued by the Securities and Exchange Commission and the FASB when preparing these regulatory reports.