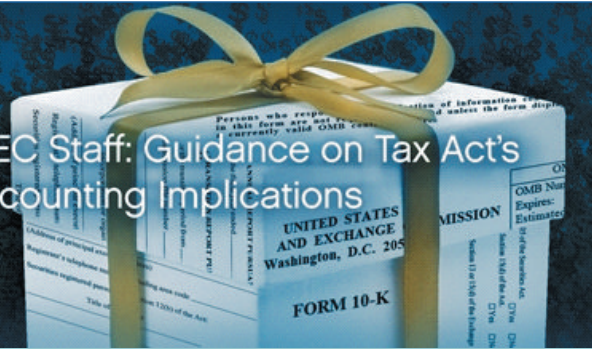


A Gift from SEC Staff: Guidance on Tax Act's Form 10-K Accounting Implications



IN SHORT

The Situation: SEC Staff has provided guidance regarding accounting and disclosure issues arising from the Tax Cut and Jobs Act.

The Result: The guidance addresses situations in which ASC Topic 740 accounting cannot be completed prior to the date on which financial statements are issued, as well as other accounting issues introduced by the Act's implementation.

Looking Ahead: The guidance will assist companies in meeting reporting and disclosure requirements that were unclear after passage of the Act.

On December 22, 2017, the Staff of the U.S. Securities and Exchange Commission provided helpful guidance regarding accounting and disclosure issues arising from the Tax Cut and Jobs Act ("Act"), which became law on that same date. The guidance significantly alleviates anticipated burdens relating to the accounting implications of the Act.

Staff Accounting Bulletin No. 118

The SEC's Office of the Chief Accountant issued [Staff Accounting Bulletin No. 118](#) ("SAB 118"), which addresses circumstances in which reporting companies have not completed their accounting related to certain income tax effects of the Act under Financial Accounting Standards Board Accounting Standards Codification Topic 740, *Income Taxes* ("ASC Topic 740") by the time financial statements for the fiscal period that includes the December 22, 2017, enactment date are issued.

For calendar-year companies, the guidance provided in SAB 118 would apply to the upcoming Form 10-K for the year ended December 31, 2017. SAB 118 clarifies the Staff's views regarding the application of ASC Topic 740 when companies do not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting under ASC Topic 740 because of the effects of the Act.

Under SAB 118, if the accounting under ASC Topic 740 for the income tax effects of the Act *is complete* by the time a company issues its financial statements, those effects must be reflected in the financial statements. If, however, accounting for certain income tax effects of the Act is *not complete* by the time the financial statements are issued, SAB 118 recommends the following:

- If the company can determine reasonable estimates of the income tax effects, the company should include those reasonable estimates in its financial statements. The reasonable estimates should be reported as provisional amounts during a "measurement period," described below.
- If the company does not have the necessary information available, prepared, or analyzed for certain income tax effects to determine reasonable estimates to be included as provisional amounts, the company should apply ASC Topic 740 based on prior tax law (i.e., without giving effect to changes resulting from the Act). The company should not adjust its current or deferred taxes until reasonable estimates can be determined over the measurement period.

The measurement period begins with the reporting period that includes the Act's December 22, 2017, enactment date (the fourth quarter for calendar-year companies) and ends when the company has completed its ASC Topic 740 assessment. Under no circumstance should the measurement period exceed one year.

During the measurement period, companies should provide financial statement disclosure relating to material financial reporting impacts of the Act for which the accounting under ASC Topic 740 is incomplete. This should include:

- Qualitative disclosures of the income tax effects of the 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 Act have not been completed;
- The reason why the accounting is incomplete;



During the measurement period, companies should provide financial statement disclosure relating to material financial reporting impacts of the Act for

- The additional information needed 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 Act has been completed.

which the accounting under ASC Topic 740 is incomplete.



Form 8-K and CDI 110.02

In addition, the SEC's Division of Corporation Finance issued [Compliance and Disclosure Interpretation 110.02](#) ("CDI 110.02"), which clarifies that re-measurement of a deferred tax asset to incorporate the effect of the new tax rates under the Act would not constitute an "impairment" of the deferred tax asset that would trigger a filing obligation under Item 2.06 of Form 8-K.

Further, CDI 110.02 clarifies that a company employing the "measurement period" contemplated by SAB 118 that otherwise concludes an impairment has occurred as a result of the Act (for example, because a deferred tax asset will not be realized) may also avoid a filing obligation under Item 2.06 of Form 8-K filing. It may do so by relying on the instruction to Item 2.06 that states that no filing is required if the conclusion that an impairment has occurred is made in connection with the preparation, review, or audit of financial statements required to be included in the next periodic report.

Disclosure regarding the impairment, or a provisional amount with respect to a possible impairment, may be included in the next periodic report that is filed on a timely basis.

TWO KEY TAKEAWAYS

1. Staff Accounting Bulletin No. 118 addresses circumstances in which accounting required by ASC Topic 740 cannot be completed prior to the date on which financial statement are issued.
2. Compliance and Disclosure Interpretation 110.02 clarifies that new tax rates would not constitute an "impairment" to deferred tax assets that would trigger a filing obligation under Item 2.06 of Form 8-K.

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