



# Texas Insurance Industry Update

Tax Update 2022





# Learning Objectives

1. Potential Tax Hot Topics for 2022
2. Tax perspective from within the company
3. Tax perspective from external auditors

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# Deferred Tax Asset/Liability (B/S)



# A. Valuation Allowance

## 1. Valuation allowance required when all or a some portion of DTA will not be realized

### Rules:

- Realizability based on whether more-likely-than-not asset will be realized (MLTN probability level > 50%)
  - Partial or full valuation allowance may be required – valuation allowance equal to amount needed to reduce deferred tax asset to MLTN to be realized
  - Realization depends on sufficient income of right character, jurisdiction and timing.



## B. Admissibility

### 1. SSAP 101 Paragraph 11b requirements

Rules:

- Guardrail based on current period ACL / RBC ratio
- 2021 and later NOL's have 80% limitation that should be considered in determining DTA's expected to be realized
- With and without analysis, reversal assumptions

### 2. SSAP 101 requires that income character be considered

Rules:

- Capital DTL's can offset ordinary DTA's, however, capital DTA's cannot offset ordinary DTA's



## C. Entry for Valuation Allowance

### 1. Valuation allowance on “regular” DTA

Rule: For GAAP, record as deferred tax expense. For STAT, record to surplus.

### 2. Valuation allowance on DTA previously established through OCI (GAAP issue only)

Rule: For GAAP, record as deferred tax expense



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# Current Income Tax Provision (I/S)



# A. Investments

## 1. Wash sale

Rule: Loss on the sale of stock or securities in which you acquired a “substantially identical” investment 30 days before or after the sale date are disallowed

## 2. Stay cognizant of Impairment adjustments

Rule: For STAT/GAAP, impairments are recorded in the income statement

## 3. Treatment of unrealized gains and losses under ASU 2016-01

Rule: GAAP basis unrealized gains and losses on equity securities run through income statement





# A. Investments (continued)

## 4. Abnormal losses

Rule: Capital losses to meet insurance obligations can be deducted

## 5. Market discount

Rule: Tax allows deferral of market discount

## 6. Increase in BA type investments generating K-1's

Rule: Tax treatment of BA investments should follow K-1 reporting



## B. Loss Reserves

### 1. Loss reserve discounting approach

Rule: Reserves should be discounted by accident year and by line of business based on IRS prescribed discount factors



## C. Depreciation

### 1. Tax planning with bonus depreciation

Rule: 2022 is the last year of the favorable 100% bonus depreciation.

### 2. IRC 179 depreciation

Rule: Assets can still be fully depreciated under IRC 179 up to \$1m



## D. TCJA change to R&E

1. Just when you thought you had TCJA all dealt with, R&E has a different treatment starting 2022

Rule: Amounts paid or incurred in tax years beginning after December 31, 2021 for research and experimental expenditures must be amortized over 5 years or longer



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Current Income Tax Payable/Receivable (B/S)



# A. NOL's and TSA's

## 1. 2017 and prior losses

Rule: Back 2 years back and forward 20 years for all companies other than life companies. For life companies, 3 years back and 15 forward. No utilization limitation for any company.

## 2. 2018 – 2020 losses

Rule: Back 5 years and unlimited carryforward for all companies other than P&C with no limitation on carryback and 80% limitation on carryforward. For P&C, its back 5 years, and 20 carryforward with no utilization limitation.



## A. NOL's and TSA's (continued)

### 3. 2021 losses

Rule: All companies except P&C insurance companies are no carryback and unlimited carryforward with 80% limitation. P&C insurance companies retain the old rule of 2 year carryback and 20 year carryforward with no limitation.

### 4. Tax sharing agreements should be reviewed in light of changes in NOL's carryback and carryforward rules



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# Miscellaneous





# A. Other Tax Issues

1. State filing requirements when hiring remote employees located throughout the US
2. Inflation Reduction Act
3. Impact of recent election results
4. IRC 163(j)



Questions?

