TAX REFORM AND ASC 740:
5 THINGS YOU NEED TO KNOW

Income tax accounting (ASC 740) is complex enough. Thanks to tax reform, the complexity around ASC 740 has increased exponentially, and every single provision in the new law has reporting implications. **When it comes to ASC 740, here are 5 things you need to know:**

1. Tax reform impacts all companies, regardless of size, industry or ownership structure.

Because the new law was enacted before December 31, 2017, companies were required to include the tax effects of reform in their financial statements for the period through December 31, 2017. If they haven't already, companies will need to revalue deferred tax assets and liabilities at the new corporate tax rate. Assessing all ASC 740 implications as well as the overall impact of the reform can create a significant burden on businesses. Throughout 2018, companies need to continue to true-up provisional amounts originally recorded relating to the enactment period tax effects. In addition, companies have had to turn their attention to the provisions of the Act that were effective on January 1, 2018.

2. Tax reform calculations are more complex for fiscal filers.

For fiscal year filers, recalculations might be more challenging due to the blended rate application in fiscal 2018 tax years. And while state-specific guidance is gradually being released, the measurement of state deferred income taxes could be affected by the change in federal tax rate. Businesses—both fiscal and calendar-year filers—have up to 12 months from the enactment date to complete the accounting for the income tax effects triggered by tax reform relating to the enactment date provisions. ASU 2018-05 (AKA SAB 118) does not apply to the provisions that became effective after the date of enactment. The impact of these provisions must be continually estimated on an interim basis and included in a company's annual effective tax rate.

3. Tax reform requires more robust financial statement disclosures.

Companies are required to provide comprehensive disclosures in their financial statements that discuss the ways in which tax reform will impact their business. Companies must review every provision, assess the impact of the new law, and adequately disclose the impact of the provisions in their financial statements. Even if a company has yet to determine the full impact of reform, that, too, should be disclosed in the financial statements. View the full alert.

4. Tax reform will impact every company's total tax liability.

From lowering the corporate and individual income rates and limiting executive compensation deductions, to new rules for pass-throughs, unique state and local tax implications, and the shift to a territorial tax system, tax reform impacts are vast, complex, and unique for every company and industry. Companies must conduct holistic analyses and modeling to determine how the new law impacts each company's total tax liability, and must assess the impact of provisions that were effective on January 1, 2018, including GILTI, BEAT, FDII, and more. All of these provisions must be considered in forecasting a company's effective tax rate for 2018.

5. Tax process automation will ease the burden of changes brought about by reform.

Companies need to reexamine their overall provision, compliance and planning processes and put efficiencies in place to account for impending changes related to ASC 740 and to mitigate risk. Given the additional complexity around financial reporting brought about by tax reform, now is the time to automate. With all of the reform-related changes, automation enables businesses to optimize their business processes and streamline the host of changes to accounting methods and financial reporting, capture newly required and relevant tax data, and decrease the likelihood of calculation errors. Learn more.

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For additional information on the implications of tax reform on companies, visit **www.bdo.com/tax-reform** or contact a BDO tax professional.

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