2017 Tax Act

• Common Title: Tax Cuts and Jobs Act ("TCJA")
• Official Title: An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018
• Title stripped in “Byrd Bath” under budget reconciliation rules
• Pub. L. No. 115-97
Corporate Provisions

• 21 percent corporate rate
  • Effective for taxable years beginning after December 31, 2017.
  • Affects the calculation of deferred tax assets as of 4th quarter 2017 for both GAAP (ASC 740) and STAT (SSAP 101) purposes.

• Net Operating Loss Limitation
  • Repeal of two year carryback
  • Indefinite carryforward
  • Offset 80 percent of federal taxable income (down from 100 percent of regular tax liability)
Corporate Provisions

• Repeal of corporate AMT
  • Prior year minimum tax credit eligible to offset regular tax liability for any tax year.
  • For tax years beginning after 2017 and before 2022, the prior year minimum tax credit is refundable in an amount equal to 50 percent (100 percent for tax years beginning in 2021) of the excess of the credit for the tax year over the amount of the credit allowable for the year against regular tax liability.

• Pass-through qualified income deduction
Health Insurance

• Reduction of individual mandate penalty to zero
  • Maintains mandate but eliminates penalty
  • Zero penalty rate used to satisfy budget reconciliation rules
  • Eliminates the minimum tax preference

• Reduction of floor for medical deductions to 7.5 percent
  • Provides 2 year reduction from the increased 10 percent floor
  • Effective for tax years 2017 and 2018
  • Threshold returns to 10 percent in 2019
Life Insurance

• Loss Reserve Discounting
  • 92.81% of reserve required by the NAIC at the time the reserve is determined

• Deferred Acquisition Costs
  • Increased capitalization periods and percentages

• Proration Percentage for Dividends Received Deduction
  • Company share 70 percent/policyholders’ share is 30 percent

• Repeal Special NOL Rules
  • Repeal 3 back/15 forward; carryforward only; 80% taxable income limit

• Repeal of Small Company Election

• Life Settlement Reporting
Property Casualty

• Loss Reserve Discounting
  • Revenue Effect estimated $13.2 billion over 10 years
  • 60-month corporate bond yield replaces applicable federal rate;
  • Extends loss payment to 24 years;
  • Eliminate individual company experience election
  • Greatest impact of change on long tails lines such as workers compensation
Property Casualty

• Net Operating Loss
  • Maintain current law treatment; 2-year carryback/20-year carryforward; 100 percent of taxable income
  • NOL carryback important to address cyclical nature of P&C
• Proration
  • Replace fixed 15% with rate tied to highest corporate tax rate; 5.25% divided by corporate rate; 25% for 2018
  • Revenue Effect estimated $2.1 billion over 10 years
International

• Base Erosion and Anti-Abuse Tax ("BEAT")
  • 10 percent minimum tax
  • Not creditable
  • Return premiums, and premiums and other consideration arising out of indemnity reinsurance of life insurance companies and premiums paid for reinsurance of other insurance companies are specifically included in the definition of the base erosion payment.
  • Open questions regarding treatment of claims payments or ceding commissions
International

• Global Intangible Low-Taxed Income ("GILTI")
  • New IRC §951A subjecting a 10% U.S. shareholder of a controlled foreign corporation to current taxation on its “global intangible low-taxed income”
  • GILTI rate is 10.5 percent through 2025, increases to 13.25 percent thereafter.
  • Limits the use of the foreign tax credit to 80 percent.
Pass-Through Entities

• New deduction equal to 20 percent of “qualified business income”
  • Available to most pass-through businesses except "specified service trade or business" when the income exceeds threshold levels of $157,500 for single filers and $315,000 for joint filers.
  • Specified service trade or business is identified by reference to Internal Revenue Code Section 1202(e)(3)(A)
  • Agent groups and insurance companies are seeking clarification from Treasury and the Internal Revenue Service that insurance agent commission income will not be classified as specified trade or business income.