

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 07-03: EITF 06-3: How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation) (EITF 06-3)

ISSUE NULLIFIED BY SSAP NO. 35R

INT 07-03 Dates Discussed

June 2, 2007; September 29, 2007

INT 07-03 References

SSAP No. 35R—Guaranty Fund and Other Assessments (SSAP No. 35R)

INT 07-03 Issue

1. EITF 06-3 discusses the correct accounting treatment of taxes charged to a customer but collected and remitted by a reporting entity.

2. Per EITF 06-3, paragraph 1:

Taxes are assessed by various governmental authorities on many different types of transactions. These taxes range from sales taxes that are applied to a broad class of transactions involving a wide range of goods and services to excise taxes that are applied only to specific types of transactions or items. The characteristics of how these different types of taxes are calculated, remitted to the governmental authority, and administered are numerous and varied and, therefore, it is difficult to summarize them into simple discernible models. Questions have arisen as to the income statement presentation of these types of taxes.

3. Per EITF 06-3, paragraph 2, the issues are:

Issue 1 Whether the scope of this Issue should include (a) all nondiscretionary amounts assessed by governmental authorities; (b) all nondiscretionary amounts assessed by governmental authorities in connection with a transaction with a customer; (c) only sales, use, and value added taxes; or

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excise taxes. The scope of this Issue excludes tax schemes that are based on gross receipts and taxes that are imposed during the inventory procurement process.

4. The Task Force reached a consensus on Issue 2 that the presentation of taxes within the scope of Issue 1 on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed pursuant to Opinion 22. An entity is not required to reevaluate its existing policies related to taxes assessed by a governmental authority as a result of this consensus. In addition, for any such taxes that are reported on a gross basis, an entity should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis.
5. The types of taxes, assessments or charges referred to in EITF 06-3 generally fall into one of three categories in the insurance industry:
 - a) Those in which the ultimate liability for the charge falls with the policyholder and the reporting entity merely acts in a fiduciary capacity to collect and remit the charge to the governmental authority,
 - b) Those in which the ultimate liability for the charge falls with the reporting entity, but the entity is allowed to recoup from the policyholder all or part of the charge, and
 - c) Those in which the charge falls in category a or b, and in addition the governmental authority allows the entity to assess the policyholder an administrative fee as compensation for collection.
6. Some of these charges and assessments are discussed in SSAP No. 35R, but current guidance appears to be silent for certain others. As such, the Working Group reached a consensus to adopt the consensus issued in EITF 06-3 with the following modifications:
 - a) For charges which are the ultimate responsibility of the policyholder – follow existing guidance in SSAP No. 35R, paragraph 12, and pass these charges and recoveries through the balance sheet with no impact to the statement of operations. SSAP No. 35R, paragraph 12 states:
 10. In certain circumstances, a reporting entity acts as an agent for certain state or federal agencies in the collection and remittance of fees or assessments. In these circumstances, the liability for fees and assessments rests with the policyholder rather than with the reporting entity. The reporting entity's obligation is to collect and subsequently remit the fee or assessment. When both the following conditions are met, an assessment shall not be reported in the statement of operations of a reporting entity:
 - a. The assessment is reflected as a separately identifiable item on the billing to the policyholder; and
 - b. Remittance of the assessment by the reporting entity to the state or federal agency is contingent upon collection from the insured.
 - b) For charges which are the ultimate responsibility of the reporting entity and may be recovered all or in part – apply gross or net reporting in the statement of operations as appropriate based on the nature of the charge and recovery. For example, charges which are considered in rate development or for which the

recovery is classified as premium should be reported gross, charges for which recovery is considered a reduction of the expense should be reported net; and

- c) For collection or administrative fees – report such fees as revenue in the statement of operations as “Finance and Service Charges Not Included in Premiums” or “Aggregate Write-Ins for Miscellaneous Income”.

INT 07-03 Status

- 7. No further discussion is planned.