tax credit to receive the accounting treatment described in this issue paper. When a reporting entity purchases a transferable state tax credit from another entity, the transaction does not result in a continuing investment in a business entity (i.e. limited partnership).

6. Subject to adoption of a Statement of Statutory Accounting Principles (SSAP) on this topic, transferable state tax credits held by reporting entities will meet the definition of assets as specified in and will be admissible assets to the extent that they comply with the requirements of the SSAP.

**Acquisition**

7. Transferable state tax credits are recorded at cost at the date of acquisition.

**Balance Sheet Treatment**

8. Transferable state tax credits expected to be realized are initially recorded at cost.

9. Transferable state tax credits shall be established gross of any related state tax liabilities and reported in the category of other-than-invested assets (not reported net).

10. As transferable state tax credits are redeemed, the carrying value of the tax credits is reduced dollar for dollar by the amount of transferable state tax credits applied toward the reporting entity's applicable state tax liability.

**Income Statement Treatment**

11. Gains on transferable state tax credits are deferred until the value of the transferable state tax credits utilized exceeds the cost of the transferable state tax credits or until the transferable state tax credits are sold to other entities and the payment received is greater than the book value.

12. Losses on transferable state tax credits are recognized when known.

13. Gains and losses on transferable state tax credits are reflected in other income.

**Impairment**

14. An impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to recover the carrying amount of the transferable state tax credits. Transferable state tax credits should be evaluated for impairment at each reporting date.

15. When there is a decline in the realizability of a transferable state tax credit owned by the reporting entity that is other than temporary, the asset shall be written down to the expected realizable amount and the amount of the write down shall be accounted for as a realized loss. The expected realizable value is the new cost basis.

16. The new cost basis shall not be changed for subsequent recoveries in realizability.

**Disclosures**

17. The following disclosures shall be made in the financial statements. For purposes of this disclosure, total unused transferable state tax credits represent the entire transferable state tax credits available:

a. Carrying value of transferable state tax credits gross of any related state tax liabilities by state and in total,

 

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25. Statutory accounting guidance does not currently address transferable state tax credits, therefore, in accordance with (SSAP No. 4), transferable state tax credits default to nonadmitted assets at this time.

## RELEVANT LITERATURE

### Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
-

### Generally Accepted Accounting Principles

- was adopted with modification in

### State Regulations

- No additional guidance obtained from state statutes or regulations

 

## Implementation Guide

On 1/1/X1 SAM Insurance Company purchased transferable state tax credits for a cost of $100,000. The transferable state tax credits are redeemable for $160,000 and expire at the end of 12/31/X4. SAM initially expects to utilize the tax credits before expiration. in their state of domicile in the amount of $40,000 per year. In year X4, SAM sells the remaining $30,000 in transferable state tax credits for $20,000

| | | | |
|---|---|---|---|
| 1/1/x1 | Transferable state tax credits | 100,000 | |
| | Cash | | 100,000 |

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