FINANCIAL INSTITUTIONS
ACCOUNTING AND TAX UPDATE

Key 2018 year-end accounting and tax issues for financial institutions

December 11, 2018
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## Agenda

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CREDIT IMPAIRMENT
Credit Impairment

• ASU 2016-13 issued in June 2016
• Apply new current expected credit loss (CECL) model to financial assets measured at amortized cost
  - Loans and loan commitments
  - Lease receivables
  - HTM debt securities
• Retain current guidance (with some modification) for AFS debt securities
  - Impairment recognized through allowance
• Financial assets carried at fair value through earnings generally not in scope
  - Trading securities
  - Loans held for sale
  - Financial assets for which fair value option has been elected
Effective dates

• PBEs that are SEC filers
  - Years beginning after 12/15/19, including interim periods in that year

• PBEs that are not SEC filers
  - Years beginning after 12/15/20, including interim periods in that year

• Non-PBEs
  - Years beginning after 12/15/21, including interim periods in that year *(As revised by ASU 2018-19)*

• Early adoption is permitted
  - Years beginning after 12/15/18, including interim periods in that year
Reality Check on CECL Timeline

• Standard was issued on June 16, 2016
• SEC Filers
  - Effective for Q1 2020 (CYE)
  - 1294 days between issuance and 1/1/20
  - 908 days have passed (70% of the total)
  - Last year was 40%
• Non PBEs
  - Effective for Q1 2022 (CYE)
  - 2025 days between issuance and 1/1/22
  - 908 days have passed (44% of the total)
  - Last year was 27%
Reality Check on CECL Timeline

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  - Last year was 27%
- Are you 70% or 44% complete?
Polling Question

- Are you 70% (or 44%) complete with your CECL implementation?
- My institution is a SEC filer and we are 70% or more complete.
- My institution is a non-PBE and we are 44% or more complete.
- We are behind but less than last year.
- We are further behind than last year.
Anticipated Modifications (11/7/18 FASB meeting)

• Next slides relate to proposed ASU expected soon as part of the Codification Improvements – Financial Instruments project
• 30 day comment period
• Effective date to mirror ASU 2016-13
Anticipated Modifications (11/7/18 FASB meeting)

• Recoveries: Incorporate expected recoveries from assets that were or may be written off in the CECL estimate
  – As with other inputs, should be reasonable and supportable
  – Leverage current practice and historical data in determining what to include in recoveries

• Negative allowance: May result on a particular asset however should not exceed the aggregate amount of previous or expected writeoffs
Anticipated Modifications (11/7/18 FASB meeting)

• Vintage disclosures – Presentation of revolving loans that convert to term loan
  – If conversion is based on credit decision, origination year would be based on most recent credit decision
  – Separate column presentation for all revolving arrangements that converted without credit decision (do not break out by origination year)
Anticipated Modifications (11/7/18 FASB meeting)

- Impact of contractual extensions to determination of contractual life – renewal and extension options that are not unconditionally cancellable by the lender should be included
  - Example: Borrower has option to extend for 5 year term based on meeting debt covenants
    - Consider contractual term to include 5 year renewal period and factor in expected prepayments, or
    - Consider probability of extending when establishing contractual term
Anticipated Modifications (8/29/18 FASB meeting)

- Amortized cost basis is defined to include accrued interest however, can measure allowance on accrued interest separately and report accrued interest and its related allowance separate from the assets to which it relates.

- If accounting policy is to timely reverse or writeoff unpaid accrued interest, can elect to exclude accrued interest from the allowance calculation.

- Reversals of accrued interest can be through interest income or the allowance.
November 2018 TRG Meeting

• Alternative certain banks are proposing:
  – Determine amount of allowance in accordance with ASU 2016-13
  – Recognize expected net charge offs for next 12 months in earnings, remainder in OCI

• Investor preference – recognize losses upon origination separately from changes in loss expectations

• FASB will consider proposal but has concerns with operability based on previous outreach
• FASB tentatively decided to permit election of fair value option for qualifying existing assets upon adoption of CECL, but not permit reversal of previous fair value election

• Partial discounting:
  – Can cash flows be discounted to a date other than reporting date?
  – Can some but not all cash flows be discounted?
  – FASB intends to document thoughts in follow up memo to TRG meeting
Implementation Questions

• Subsequent events – changes in estimated credit losses arising after the balance sheet date are now considered to be non-recognized events
  – What to do when information like appraisals, delinquency reports and unemployment rates pertaining to the balance sheet date are received after year end that reflect information that is materially different than the assumptions on which your estimate is based?
Observations from AICPA National Conference on Banks & Savings Institutions

• Challenges with data availability and quality including origination date for refinancings and acquired assets

• Reasonable and supportable forecast period – 1 to 3 years commonly mentioned – can’t set and forget

• Few intend to use DCF approach outside circumstances where required

• Lessons learned from IFRS 9 – Did not leave sufficient time for parallel run
HEDGE ACCOUNTING

Highlights of ASU 2017-12
Effective dates for ASU 2017-12 – Early application permitted

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- **Permitted** in 2019 for public business entities.
- **Required** in 2020 for other entities.
- Early application permitted.

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Assessing effectiveness of hedge qualitatively after inception

• If initial quantitative assessment demonstrates hedge is highly effective, may be able to elect to assess effectiveness qualitatively thereafter (ASC 815-20-35-2A to 35-2F)

• Verify and document on a quarterly basis that facts and circumstances have not changed, such that an assertion can be made qualitatively that the relationship was, and continues to be, highly effective
  – If facts and circumstances change – revert back to quantitative approach
Short-cut method for interest rate swaps

- Permits assumption of perfect effectiveness if elected and all criteria are met.
  - Pre-existing guidance: If subsequently discovered that you didn’t qualify, or no longer qualified, hedge accounting needed to be discontinued and potentially, financial statements restated
  - Modified guidance: Hedge can continue uninterrupted as long as you documented at hedge inception the long-haul methodology that will be used to assess effectiveness and demonstrate the hedge is highly effective using that methodology

- Modified guidance also permits partial-term fair value hedges to qualify for the shortcut method
Cash flow hedges of interest rate risk

• Pre-existing guidance - requires hedging total changes in cash flows associated with variable rate debt unless the variable rate is based on a benchmark rate

• Modified guidance - can hedge interest rate risk (changes in cash flows attributable to changes in the debt instrument’s contractually specified interest rate) regardless of whether the contractually specified rate is a benchmark rate
  - Facilitates hedging prime-based variable rate debt instruments
Fair value hedges of IRR – Hedging a portfolio of prepayable assets

• Pre-existing guidance - hedged item in a fair value hedge of IRR was generally required to be an individual asset or liability or portions of individual assets or liabilities

• Modified guidance permits designating hedged item under a “last-of-layer” method when hedging a closed portfolio of prepayable financial assets. The hedge remains intact as long as the balance in the closed portfolio does not fall below the designated layer
Example: Bank A is hedging its interest rate risk associated with a closed portfolio of fixed rate prepayable commercial loans that have an aggregate balance of $400 million at hedge inception. The hedging instrument is a 3 year receive-variable, pay-fixed interest rate swap with a $50 million notional amount. Bank A designates the hedged item as the last $50 million of loan balances remaining in this closed portfolio and expects the relationship to be highly effective as long as with consideration given to prepayments, defaults and other events impacting the amount and timing of cash flows, $50 million of the portfolio is expected to be outstanding at the end of the 3 year hedge period.
Fair value hedges of IRR– Partial-term hedges

• Pre-existing guidance - hard to achieve an effective partial-term fair value hedge of interest rate risk

• Modified guidance - can measure the change in fair value of the hedged item by assuming it has a term that reflects only the designated cash flows being hedged
• Pre-existing guidance - requires the use of the total contractual coupon cash flows in determining the change in the fair value of the hedged item attributable to interest rate risk

• Modified guidance – election can be made to use solely the benchmark rate component which eliminates mismatches due to credit spreads
• While hedge needs to be highly effective to apply hedge accounting, ineffectiveness is no longer quantified and separately recognized
  - In a cash flow hedge, all changes in the fair value of the derivative that are included in the assessment of effectiveness are deferred in OCI and recognized in earnings when the hedged item affects earnings (under pre-existing guidance, ineffectiveness was recognized immediately in earnings)
  - Accounting remains substantially the same for fair value hedge (both changes in the fair value of the derivative and changes in the fair value of the hedged item that are attributable to the hedged risk are reflected in earnings, with perfect offset not occurring to the extent there is ineffectiveness)
Income statement presentation of hedging results

• Pre-existing guidance - silent on the income statement presentation of the effective and ineffective portions of the change in the fair value of the hedging instrument

• Modified guidance - earnings effect of the hedging instrument is presented in the same income statement line item as the earnings effect of the hedged item
Excluding components from the assessment of effectiveness

• Pre-existing guidance – changes in fair value of option premiums and forward points excluded from the assessment of effectiveness are recognized currently in earnings

• Modified guidance - can recognize the initial value of any excluded components in earnings over the life of the hedging instrument using a systematic and rational method (e.g. time value of interest rate cap)
Modified disclosure requirements

• New tabular disclosure of the effect on the income statement of fair value and cash flow hedges
• Eliminated disclosures of ineffectiveness
• New tabular disclosures related to cumulative basis adjustments for fair value hedges
Transitioning to ASU 2017-12

• Cumulative-effect adjustment to eliminate ineffectiveness associated with cash flow hedges
• Presentation and disclosure is prospective
• Permits certain beneficial transition elections in the quarter of adoption including one-time opportunity to reclassify debt security from HTM to AFS
  – Must be eligible to be hedged under last-of-layer method (have fixed rate and be prepayable)
    • No requirement to hedge
  – Transfer or subsequent sale won’t taint former stated intent to hold to maturity
TAX UPDATE
On Dec. 22, 2017, the Tax Cuts and Jobs Acts was signed into legislation and represented the most significant change in U.S. tax law since 1986. Corporations by now should have already addressed the financial statement impacts of the tax law changes in the reporting period that includes Dec. 22, 2017.

The enacted law reduces corporate tax rates from 35 percent to 21 percent for tax years beginning after Dec. 31, 2017. Under the enacted law, a company was required to revalue deferred tax assets and liabilities at the enacted rate, and reflect that change in their financial statements for the period that includes the date of enactment. However, some of our clients used provisional amounts under SAB 118.
ASC 740 – 2017 Disclosures

• The SEC released Staff Accounting Bulletin (SAB) 118, and discussed the tax accounting aspects of the Tax Cut and Job Acts. The SAB indicated that due to the complexities inherent in the tax law changes, companies may not be able to complete a precise analysis of the impacts of the changes in the period that includes Dec. 22, 2017.

• The SAB provides that in cases where the company can make a reasonable estimate, it should record that estimate and make appropriate disclosures. If a reasonable estimate cannot be made, then the companies should not record anything, but will need to provide appropriate disclosure.

• There will be a measurement period of no more than a year from enactment for entities to adjust the estimates that are provided – Final provisional amounts need to be updated no later than December 22, 2018
Tax Law Changes – Banking Summary

- C & S corporate tax rate reduction
- Net operating loss carryover changes
- Compensation limitations – section 162(m)
- Alternative minimum tax repeal & refund of AMT tax credits
- Increased the bonus depreciation deduction to 100 percent through Dec. 31, 2022, with 20% phase-down percentage reductions to 0 percent from 2023-2026
- Increase section 179 deduction to $1 million
- Dividends Received Deduction (DRD) changes
- BOLI changes
Tax Law Changes – Banking Summary

- Financial statement conformity for revenue recognition
- FDIC premium deduction limitation (large banks)
- Disallows Lobbying Expense
- Disallow entertainment, amusement, or recreation expenses
- Disallow membership dues for a club organized for business, pleasure, recreation, or other social purpose and the related facilities.
- S Corporation 199A deductions (20% flow-through deduction)
- Parking Expenses
- Excess Business Loss Deductions (for individuals)
- Interest Expense Limitations
- Tax Credits
Net Operating Losses

• The enacted law makes several changes to net operating loss carry-forwards.

• First, for net operating losses arising in taxable years beginning after Dec. 31, 2017, such losses may only offset 80 percent of current year taxable income.

• Secondly, for net operating losses arising in taxable years ending after Dec. 31, 2017, these losses may not be carried back, and can be carried forward indefinitely.

• The enacted law does not change the pre-2018 losses usage, carryover or carryback periods.
Net Operating Losses

• Frequently Asked Question
  – Now that an NOL has an indefinite life, does that mean that we no longer need a Valuation Allowance

• Answer
  – Nothing has changed in terms of assessing realizability of deferred tax assets. In the absence of sufficient positive evidence, a valuation allowance on deferred assets would still be required, even if an NOL does not expire

• Example – De Novo Bank
  – Bank has been producing tax losses for the first few years since inception. On these facts, there is no positive evidence to suggest that the NOLs would be realized.
Frequently Asked Question
- How does the 80% income limitation work?

Example:
- XYZ Bank has $100MM in NOL generated through 12/31/2017 and incurs a $20MM NOL in tax year ended 12/31/2018
- If XYZ Bank generated $100MM in 2019 taxable income, it would appear that all of the pre-2018 NOL would be available
- What if XYZ Bank generated $110MM in 2019 taxable income?
  - XYZ would likely offset $8MM of the additional $10MM in income with the 2018 loss
  - Or… would XYZ Bank’s utilization of the 2018 loss be zero because 80% of $110MM is $88MM, which is less than the $100MM of NOL applied to the 2019 taxable income?
The enacted law eliminates the exception under section 162(m) for all performance based compensation, including bonuses, stock options, deferred compensation and restricted stock.

The law did provide a transition rule for payments that are made pursuant to a binding written contract in effect on Nov. 2, 2017.

The new provisions require an analysis of deferred tax assets related to stock compensation, deferred compensation and bonuses to determine whether those assets are more likely than not to be realized, or whether they need to be written off.
Key Changes in section 162(m)

- Section 162(m) will now apply to companies that issue public debt securities, in addition to public equity filers (section 15(d) filers)
- The CFO/Principal Financial Officer is added to the group of covered employees
- Once an individual is a covered employee in 2017 or later, they are always a covered employee, even if no longer one of the five officers or have separated form the company
- Also extends covered employee status whether or not a proxy is filed, in situations where a proxy would have otherwise been required (for example, sale of a business during a period when the company was a public entity)
- Transition rules cover payment pursuant to binding contracts in existence at Nov. 2, 2017- this should cover most stock option and stock grants, but bonus plans could be a challenge—will need more guidance in this area
Alternative Minimum Tax

• The enacted law repeals the corporate alternative minimum tax, effective for taxable years beginning after Dec. 31, 2017.

• The enacted law will continue to allow existing AMT credits to offset regular tax liability, after other credits.

• Any AMT credits that are not used to reduce regular tax will be refunded, starting in years beginning after 2017 and before 2022 in an amount equal to 50 percent (100 percent in tax years beginning in 2021) of the excess of the available AMT credit for the year over the amount allowable against the regular tax.

• The balance of the AMT credit will be refunded in the 2021 tax year.
Alternative Minimum Tax

• For tax accounting purposes, this would most likely result in a release of a valuation allowance against any AMT credit’s since those credits are now ultimately realizable, either as a reduction of future regular tax liability or as a refund.

• AMT credits should now be recorded as a current tax receivable since 100% of the credits will ultimately be refundable or be utilized as credits against current taxable income.
Alternative Minimum Tax – Sequestration

• Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, refund payments issued to, and credit elect and refund offset transactions for, corporations claiming refundable prior year minimum tax liability, are subject to sequestration.

• This means that refund payments and credit elect and refund offset transactions processed on or after Oct. 1, 2018, and on or before Sept. 30, 2019, will be reduced by the fiscal year 2018 6.2 percent sequestration rate, irrespective of when the IRS received the original or amended tax return. (6.6% through September 30, 2018)

• The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise affects the sequester, at which time the sequestration reduction rate is subject to change.
Depreciation changes

• 100 percent bonus depreciation through 2022, then phased out (20% per year) through 2026. Applies to new and used property acquired
• $1 million permanent expensing under section 179, subject to limitations and phase-outs
• Note:
  – New “Qualified Improvement Property” categorization added by tax reform to consolidate various types of improvement property into one category with a 15 year life, eligible for bonus depreciation
  – However, as law is currently drafted, QIP will have a 39 year life and does NOT meet the eligibility requirements for new 100% bonus depreciation.
  – Congress must pass a technical correction to fix
Dividends Received Deductions

Dividends received deductions (DRD) for corporation-to-corporation dividends adjusted accordingly

- Reduces 80 percent DRD to 65 percent and 70 percent DRD to 50 percent to preserve current effective rates
- Effective for tax years beginning after 12/31/17
Bank Owned Life Insurance

• BOLI acquired in a stock acquisition (i.e. carry-over basis type transaction) should be reviewed with respect to the new “transfer for value” rules during the due diligence process.

• Also, Section 6050Y, introduced by the Tax Cuts and Jobs Act (TCJA), imposes reporting requirements on parties involved in a 'reportable policy sale'. Although those reporting requirements were to be effective for sales after 2017, Treasury announced in Notice 2018-41 that it is going to be issuing proposed regulations on section 6050Y and that the reporting requirements are suspended until those regulations are final.
Bank Owned Life Insurance

• Most banks in an M&A deal would be making an 'indirect' acquisition of the policies by virtue of its acquisition of another bank's stock. Therefore, the key question, the one that will determine if a portion of the proceeds of the BOLI policies will be taxable becomes whether the rest of the definition applies. i.e., whether an acquiring bank will have a substantial family, business, or financial relationship with those individuals who are covered by the target's BOLI policies.

• If it does not, then it may have to establish a deferred tax item under ASC 740 to reflect the potential tax liability.

• Section 101(a)(3) has no bearing whatsoever on other favorable tax characteristics of the policy, such as the tax deferred inside build-up of the cash value. Only the death benefit is affected.
Revenue Recognition

• New IRC 451(b) provisions generally prohibit recognizing income for tax purposes later than the timing of the financial statement recognition with some exceptions (i.e. special tax accounting methods, mortgage servicing, etc.)

• Revenue would be recognized for tax in the earliest period of when “fixed” (earned/due/received) or when recognized for GAAP purposes.

• Generally interchange income, credit card late fees, market discount, OID, for example, may no longer be deferred for tax purposes, but guidance is still forthcoming.

• Rev. Proc. 2018-60 was released November 29, 2018 which provides for automatic procedures to change revenue recognition methods under 451
  - The primary takeaway from this revenue procedure, at this point, is that taxpayers need not rush to file non-automatic method changes before year-end to implement section 451(b): automatic changes have an expanded filing period that runs through the due date of the extended return.
  - The Revenue Procedure also serves as notice that, hopefully, substantive guidance will come before the due date for 2018 returns.
Meals & Entertainment

• New rules for meals
  – No more de minimis fringe benefit exception to 50 percent limitation for employee group working meals and meals on-site for the convenience of the employer
  – Section 274(e) exceptions to 50 percent limitation for meals that still apply (i.e. 100% deductible meals):
    • Expenses treated as employee compensation
    • Reimbursed expenses
    • Expenses for recreational, social or similar activities primarily for the benefit of employees
    • Expenses for goods, services and facilities made available by the taxpayer to the general public
    • Expenses for goods or services that are sold by the taxpayer in a bona fide transaction for an adequate and full consideration
    • Expenses includible in income of persons who are not employees
Meals & Entertainment

• New rules for entertainment
  – Most entertainment is now nondeductible
  – Section 274(e) exceptions to disallowance for entertainment that still apply
    • All of the meals exceptions on the previous slide, plus:
    • Meetings of employees, stockholders, agents and directors
    • Meetings of business leagues (e.g. Chambers of Commerce)
Meals – At Entertainment Venue?

• Business meals between business owner or employee and client or potential client are 50 percent deductible meals, if
  • Furnished at a restaurant and not an entertainment venue
  • Not lavish or extravagant under the circumstances
  • Taxpayer has reasonable expectation of deriving income or other business benefit

• Otherwise, it is nondeductible entertainment

• **UPDATE:** Notice 2018-76 – recently clarified that meals at an entertainment event may still qualify for the 50% deduction if for business purposes and separately stated/tracked
FDIC premium payments

• TCJA imposes a limit on the deductibility of FDIC premium payments if “total consolidated assets” exceed $10 billion

• Limitation equal to the ratio that:
  – “total consolidated assets” in excess of $10 billion bears to
  – $40 billion
  – deduction phases out completely when “total consolidated assets” exceed $50 billion

• Effective for tax years beginning after December 31, 2017
Federal credits and incentives

Most federal credits and incentives were retained without any change

• Energy credits
  - Investment Tax Credit for Solar
  - Production Tax Credit for Wind
  - Plug-in Electric Vehicle Credit
  - Enhanced Oil Recovery Credit
  - Marginal Well Credit

• Other general business credits
  - Research and Development Tax Credit
  - Nuclear Production Tax Credit
  - Low-income Housing Tax Credit
  - New Markets Tax Credits
  - Work Opportunity Tax Credit
  - FICA Tip Credit
  - Employer Provided Child Care Credit
  - Access to Disabled Individuals Credit
Excess Business Loss Disallowance

- Aggregated losses from active trade or business now limited to $500,000 MFJ, $250,000 for other taxpayers
- Determined at the individual level
- Losses disallowed treated as an NOL carry-forward
Pass-through entity deduction – in General

- A 20 percent deduction that effectively reduces the top rate on certain business income from 37 percent to 29.6 percent
- Generally, does not apply to “service” businesses
- Additional limitations based on wages paid or tangible assets
  - Pass-through deduction limited to the greater of:
    - 50 percent of W-2 wages (employees and owners), or
    - 2.5 percent of original cost of depreciable, tangible property plus 25 percent of wages
  - Wage/asset and service business limitations do not apply to individuals with taxable income < $157,500/$315,000
  - Trusts are eligible for the deduction
  - Passive vs. active status of owner does not impact eligibility
- Only applies to income taxes (not self employment or net investment income tax calculations)
Specified service businesses – Statutory Uncertainty

Excerpt from IRC 1202(e)(3)(A):
“any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees [OR OWNERS]”

(emphasis added)
Proposed Regulations - Concerns

• On August 16, 2018, the IRS and Treasury published proposed regulations under section 199A to further clarify the rules as originally proposed.

• It is our understanding that Congress intended for banks to be excluded from the definition of “specified service trade or business” based on significant lobbying efforts by the ABA, ICBA, and the Subchapter S Bank Association and their interactions with Congress.

• However, there were concerns with respect to some key provisions in the proposed regulations which may put the 20% deduction at risk for our S Corporation bank clients.
One concern relates to a provision which denies the deduction for “dealers in securities”. RSM has drafted a comment letter to Treasury requesting that a lender be precluded from this definition if they are not both buying and selling loans in the ordinary course of business to customers:

- In general, RSM would suggest that final regulations clarify that a lender will be considered to be a dealer in securities (for purposes of Section 199A) only to the extent that the loans (including a retail installment sales contract) acquired by the lender (whether by originating the loans or acquiring them in the secondary market) are held in inventory or held for sale to customers in the ordinary course of a trade or business within the meaning of Section 1221.

- In addition, if a loan is not so acquired – and is instead acquired with a view towards holding the loan to maturity in the lender’s portfolio – and the loan is later sold outside the normal course of business or in connection with a change in circumstances such as a work-out or a bulk sale of distressed loans or loans that no longer meet the taxpayer’s business strategy or regulatory requirements – such sales will not result in the lender being viewed as a dealer in securities.
Proposed Regulations - Concerns

• A second, and more alarming concern, relates to a provision which denies the deduction for S Corporations which exceed a 5% (or 10%) gross receipts threshold for prohibited “service” type activities under a de minimis rule.

• This would impact our S Corporation banks which have active trust or investment management activities (i.e. wealth management)

• The IRS and the view in the industry is that as currently written, the proposed regulations could deny any Bank which exceeds this 5% (or 10%) de minimis threshold the 20% pass-through deduction (it’s an all or nothing proposition). That said, we are still waiting for the final regulations which will hopefully address this harsh answer.

• For now, some are considering segregating these non-qualifying activities in order to avoid losing the 20% pass-through deduction
• States incorporate provisions of the Federal tax law in varying degrees – each state must be examined separately to conclude as to impact of Tax Reform
  - Several states have “rolling” conformity provisions in their statute, meaning that they will automatically conform with the new Federal law (e.g. IL, MO, TN)
  - Several other states must update their “fixed date” conformity statutes to adopt the new provisions, if they have not already (e.g. IA, MN, WI, MI, IN, KY). Some who have already updated their conformity are decoupling from specific provisions (e.g. bonus depreciation)
  - The remaining states only conform selectively

• Generally, most states will experience a revenue increase.

• State income taxes generally has become more material to financial statement ETR reporting due to a reduction in Federal benefit
• Banks with national lending/leasing platforms should consider the following:
  - IRC conformity date
  - State decoupling from Federal provisions
  - Treatment of disregarded entities
  - Flow-through conformity to 20% deduction
  - Separate / Combined / Consolidated returns
  - Tax elections & Accounting Methods
  - NOL carry-back / carry-forward rules
  - Financial statement impact
  - Regulatory filing / Call Report impact
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