



Tax Update

FMS Mini Session

Glenn Richard James, JD, CPA
Partner, BDO USA, LLP

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Agenda

- ▶ Multistate Tax Exposure
- ▶ New Jersey Tax Update
- ▶ New York Tax Update
- ▶ Pennsylvania Tax Update
- ▶ Maryland Tax Update
- ▶ Basel III Regulatory Capital
- ▶ Exposure Drafts Affecting taxes
- ▶ ASU 2014-01 LIHTC accounting
- ▶ Federal Tax Reform



Multistate Tax Exposure

Multistate tax exposure

- State tax reform is changing from a physical presence nexus to a market based nexus
 - Need to obtain loan and lease balances by state of borrower location
 - Need to obtain loan and lease balances by state of collateral location

New Jersey Tax Update



New Jersey Tax Update

- 2016 Budget has no new taxes
- Interest rate on underpayments remains at 6.25%
- New procedure for Bank VDA, clear use of name with the Department of Banking and Insurance - letter application
- Effective for 2015 E-file of returns and payments mandated

New Jersey Tax Update

New Jersey

Republican governor till January of 2018

Senate 24 Democrats 16 Republicans

Gen Assembly 48 Democrats 32 Republicans

Next election November 2015 - only Assembly up for election

Veto override 54 Gen Assembly 27 Senate

\$1.75 billion budget shortfall

New York City Tax Update

New York City Tax Reform for 2015

- New York City Code Amended effective 1 January 2015 to “follow” NYS Tax Reform
- Rates reduced from 9% to 8.85% for community banks
- Single receipts factor apportionment phased in over 4 years to 2018
- NYC Code changes do not encompass a “receipts-sourced-in-city” nexus standard

New York City Tax Update

- *Astoria Financial Corp.*, New York City Tax Appeals Tribunal, Administrative Law Judge Division, TAT(H)10-35(BT), October 29, 2014, ¶600-783
 - Wholly-owned subsidiary holding non-NYC mortgages not required to file combined return with parent.
- Interest rate on underpayments remains at 7.5% for 2015

PA Tax Update

PA Tax Update

Wolf Proposal

1. Raise Personal Income Tax rate from 3.07% to 3.7 (20% rise)
2. Raise Sales and Use Tax rate from 6% to 6.6% (10% rise) and expand to more services
3. Impose a Shale Oil Severance tax
4. Raise the Bank Shares tax rate back to 1.25, retroactively
 - A. Apply call-report-based receipts as apportionment factor
 - B. Fix the error in the 2013 legislation relative to sourcing investment income receipts
5. No goodwill relief
6. Force combined reporting under the corporate net income tax
7. Reduction of NOL deduction limitation \$5 million to \$3 million

PA Tax Update

Negotiation Picture

Governors key policy objectives:

1. Restore \$400 million to education
2. Fund with a Shale Oil Severance tax

GOP key policy objectives:

1. No increase in PIT or Sales and Use (including no base broadening)
2. Pension reform that stops the growth of the funding gap

Compromise issues:

1. Bank Shares Tax rises
2. Shale Oil Severance Tax impost

Bank Shares Tax Revenue Continues to Decline

1. Down \$33 million in 2014 from 2013
2. Down \$67 million in 2015 from 2013

Maryland Tax Update



Maryland Tax Update

- Interest rate on underpayments remains at 13.0%
- Partisan Bill intro. In Senate by Democrats to require Combined Reporting
 - 33 Democrats and 11 Republicans

Basel III Regulatory Capital

Basel III Regulatory Capital

- Need to audit the regulatory capital disclosure to see that Basel III properly implemented
 - 3 buckets of Deferred Tax Assets
 1. NOL and Credit carryforward DTAs - disallowed
 2. Temp Diff DTAs recoverable in a carry-back - allowed 100% risk weighted
 3. Temporary Diff DTAs dependent upon future taxable income - allowed to 10% of CET 1
 - Confusion between capital adjustment for the DTA and Risk Weighted Assets
 - Confusion over allocation of Deferred Tax Liabilities before or after hypothetical carryback
 - MSRs election to net DTL or include DTL with other deferred tax allocations
 - Confusion over capital losses and Minimum Tax Credits (AMT)

Exposure Drafts Affecting Taxes

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Exposure Draft 2015-270 Share Based Compensation

- All excess and deficient tax benefits arising on account of tax deductions differing from book expense **run through income tax expense**, not APIC Pool
- Excess tax benefits **recognized regardless of realization** through current tax expense
- Election to estimate forfeitures or take them as they occur
- Excess tax benefits **combined with other income taxes** in cash flow statement as operating
- Equity awards can be cashed out in amount not in excess of **maximum individual statutory tax rate**.
- **Taxes withheld/paid** on an award **treated as a financing cash flow** consistent with equity repurchase
- Classification of award with contingent repurchase based on probability and not employee control
- Entity can **elect an expected term** for an award with performance or service conditions
- Non-public entity can make a one-time election to **switch to intrinsic value** for measuring liability awards

Exposure Drafts Affecting Taxes

Exposure Draft 2015-200

- Requires current recognition for current and deferred income taxes relative to an intra-entity transfer of assets.
- For public companies - effective for periods beginning after 12/15/16 - no early adopt
- For non-public companies - effective (may adopt with public)
 - for statements after 12/15/17
 - for interim periods after 12/15/18

Exposure Drafts Affecting Taxes

Exposure Draft 2015-210

Elimination of deferred tax classification between current and non-current

- All deferred taxes now non-current
 - No need to classify
 - No need to allocate valuation allowance between current and non-current
- Effective for publics - statements and interim periods after 12/15/16 - no early adopt
- Effective for non-publics - but can adopt with publics
 - statements after 12/15/17
 - interim periods after 12/15/18

ASU 2014-01

ASU 2014-01 Low Income Housing Credit

- Election to use the tax benefit proportional amortization method
- Record amortization as offset to tax benefit
- Effective for publics in statements after 12/15/2014
- Effective for non-publics in statements after 12/15/14
- Effective for non-publics in interim periods after 12/15/15
- Early adoption is permitted

ASU 2014-01 Low Income Housing Credit

Example

Investment	\$90,000
LIHC	\$100,000
Per year credit	\$10,000
Loss per year	\$10,000
Tax rate	35%
Tax benefit per year	\$13,500

Annual Entries

	<u>Dr.</u>	<u>Cr.</u>
Accrued tax payable	\$13,500	
Investment in project		\$9,000
Income tax expense		\$4,500

Federal Tax Reform

Tax Reform Outlook

Federal

Senate -Class III up for re-election

	Republican	Democrat	Independent	Total
Now	54	44	2	100
2016 election	24	10	-0-	34
Safe seats	10	7	-	17
Other	14	3	-	17