

Thrift Bulletin

Handbook: Thrift Activities
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Regulatory Reporting of Net Deferred Tax Assets

Summary: Savings associations are required to adopt the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), for regulatory reporting in 1993. However, where realization of deferred tax assets under SFAS No. 109 depends on future taxable income and tax planning strategies, the inclusion of such assets in regulatory capital is subject to certain limitations. A transition provision applies to certain deferred tax assets reported prior to the issuance of this bulletin.

For Further Information Contact: The Regional Office in the region where you are located, or Accounting Policy, Office of Thrift Supervision ("OTS"), Washington, D.C. 20552.

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Policy

The OTS is adopting the Federal Financial Institutions Examination Council (FFIEC) recommendations announced on December 23, 1992, with respect to SFAS No. 109 and deferred tax assets, which are summarized below. In addition, the OTS is adopting the transition provision outlined in the FFIEC's August 7, 1992, Request for Comment.

Adoption of SFAS No. 109

The FFIEC recommends that, for regulatory reporting purposes, banks and savings associations report deferred tax assets in accordance with SFAS No. 109 as of January 1, 1993, or as of the beginning of their first fiscal year thereafter, if later. Early adoption is permitted. However, regulatory reports for periods prior to December 31, 1992, may not be restated. The OTS is adopting this recommendation in its entirety.

Deferred Tax Assets and Regulatory Capital Limitation

The FFIEC also recommends a limitation on the amount of net deferred

tax assets under SFAS No. 109 that are includable in regulatory capital. (Net deferred tax assets represent deferred tax assets, reduced by any valuation allowances, in excess of deferred tax liabilities). Application of the limit depends on the possible sources of taxable income available to an institution to realize deferred tax assets, as described below.

Deferred tax assets that can be realized from the following generally are not limited:

- Taxes paid in prior carryback years, and
- Future reversals of existing taxable temporary differences.

To the extent that the realization of deferred tax assets depends on an institution's future taxable income (exclusive of reversing temporary differences and carryforwards), or its tax-planning strategies, such deferred tax assets are limited for regulatory capital purposes to the lesser of:

- The amount that can be realized within one year of the quarter-end report date, or
- Ten percent (10%) of core capital.

The OTS is adopting this recommendation in its entirety. In addition, the OTS is adopting the following transition provision from the

FFIEC's August 7, 1992, Request for Comment.

Transition Provision

With respect to the regulatory capital limitation, a transition provision applies to deferred tax assets reportable as of December 31, 1992, under Accounting Principles Board Opinion No. 11 or SFAS No. 96. Such deferred tax assets may be in excess of the amount otherwise includable in regulatory capital under this bulletin. Accordingly, the inclusion in regulatory capital of such deferred tax assets, to the extent they remain unamortized, is not limited under this bulletin. However, such deferred tax assets are subject to previously-existing rules and supervisory policy, including periodic evaluation as to realization and as to their contribution to the savings association's ability to absorb losses.



—John Robinson
Acting Deputy Director for
Washington Operations