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Attachment 2

For your action **2018 federal tax rate change**

May 8, 2018

TO: General contacts at cost companies in CL and TS pool

Due to the 2017 Tax Cuts and Jobs Act, the federal corporate tax rate changed from 35 percent to 21 percent for C Corp companies. Our [January 9, 2018 letter](#) (member login required) instructed companies on adjustments to Account 4340 as required by GAAP.

Application of tax rate changes

After further review and subsequent discussions with FCC staff, we have confirmed the proper treatment of the tax rate change for regulated entities. The FCC bases its accounting rules on GAAP to the extent regulatory considerations permit (see 47.CFR §36.1). This situation constitutes one of the variations. While flowing through the full impact of the tax rate difference in Account 4340 deferred taxes as a one-time adjustment in 2017 may be applicable for GAAP reporting purposes, regulated entities for interstate reporting must follow the normalization method of accounting and flow back the excess deferred taxes ratably over the life of the timing difference that gave rise to the excess (see, e.g., [Report and Order, CC Docket No. 89-360, 9 FCC Rcd. 727 \(1994\)](#), ¶ 6 and ¶ 7).

Cost study and HCLS submissions

Companies who made flow-through adjustments to Account 4340 and Account 7250 on their financials in accordance with GAAP, will need to make adjustments to data reported for 2017 cost study and 2018-1 HCLS submissions to remove the impact of flowing through the excess deferred tax. Amortization of excess deferred income taxes will be effective with the change in tax rate on January 1, 2018. 2018 cost studies and the 2019-1 HCLS submission (reflecting 2018 period ending data) will reflect amortized excess deferred taxes using the normalization method.

Additional guidance

We are currently updating NECA Reporting Guideline 3.3 Excess Deferred Tax Development, which addresses methods for calculating and amortizing excess deferred taxes as a result of the Tax Reform Act of 1986. Until the guideline is updated, you may find a review of this [document](#) (member login required) helpful in describing the calculations and reporting requirements in settlements. NECA Cost Pool Procedures will also be updated to provide instructions on EC1050 reporting of these amounts for the calculation of federal income tax.

Questions?

If you have questions, please contact your member service manager.

Sincerely,

Carol A. Brennan

cc: Authorized consultants