

FA Module 12: Accounting for income taxes – homework assignment

(The attached PDF file has better formatting.)

*Homework assignment:* Deferred tax assets and liabilities for depreciation

[Deferred tax assets and liabilities are substantial for insurers and are tested several ways on the final exam. Both this module and the following one homework relating to deferred tax assets and liabilities; this module deals with depreciation schedules and the next module deals with claim reserves. You may want to complete the homework assignments for both modules after working through both modules.]

The tax rate is 20%. A firm uses straight line depreciation for fixed assets. A building bought for 880 on December 31, 20X0, has

- ! an eight year estimated useful life for the financial statements
- ! a four year estimated useful life for the tax return
- ! zero salvage value after its estimated useful life

The firm pays taxes of 50 in 20X1, 55 in 20X2, and 60 in 20X3. The firm has no other deferred tax assets or liabilities (besides the one related to this building).

- A. What is the annual depreciation expense for the building in 20X1, 20X2, and 20X3?
- B. What is the carrying value of the building on December 31, 20X3?
- C. What is the annual tax depreciation for the building in 20X1, 20X2, and 20X3?
- D. What is the tax basis of the building on December 31, 20X3?
- E. What is the deferred tax asset or liability on December 31, 20X3?
- F. What is the tax expense in 20X3?