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TEXT OF TREASURY STATEMENT ON INVESTMENT CREDIT

"The Revenue Act of 1971 requires a taxpayer who claims the job development investment credit to disclose in financial reports subject to the jurisdiction of any Federal agency the method of accounting for the credit. The taxpayer is also required to account for the credit consistently in these reports, unless given permission to change the method of accounting by the Secretary of the Treasury or his delegate.

"In answer to inquiries, Treasury said today that December 10, 1971 -- the date President Nixon signed the Act -- is the effective date of the consistency in accounting requirement. Both Section 101(c) of the Act and the report of the Congressional Conference Committee which considered the legislation indicate that the requirement was to be effective on the date the measure was signed into law by the President.

"Accordingly, in financial reports which are issued on or after December 10, 1971, and which are subject to the jurisdiction of a Federal agency, a taxpayer need not account for the investment credit in the same manner as in his prior reports. However, once the taxpayer has used a particular method of accounting for the credit in reports issued on or after December 10, 1971, he must retain that method in all subsequent reports unless permitted to change by the Secretary of the Treasury or his delegate."

SEC POSITION ON LIFE INSURANCE COMPANIES

In a letter to the committee on insurance accounting and auditing, the SEC has said that life insurance companies which heretofore have reported to the SEC and to their shareholders in accordance with accounting practices prescribed by state statutes must continue to do so until an industry audit guide on "Audits of Life Insurance Companies," presently in the draft stage, is adopted by the AICPA committee. Those companies which have previously used the "natural reserve method" in registration statements or annual reports filed with the SEC may continue to do so.

Some companies now using statutory accounting had announced plans to switch to the natural reserve method. This method adjusts the statutory earnings principally by spreading the initial expenses of writing a life insurance policy over a number of years and by using more realistic actuarial assumptions in computing policyholders' reserves than those prescribed by statute.

It is expected that the draft audit guide will be reissued for public comment in spring 1972.

TREATMENT OF UNREMITTED EARNINGS OF DISCS

The exposure draft of an APB Opinion on "Accounting for Income Taxes-Special Areas," (See ARA Newsletter, Dec. 15, 1971) to be released in January, will propose that the unremitted earnings of Domestic International Sales Corporations be treated in a manner similar to undistributed earnings of subsidiaries and corporate joint ventures, that is, interperiod income tax allocation would not ordinarily be required. The DISC is a specially-taxed type of U. S. corporation created by the Revenue Act of 1971 to make American exporters more competitive in world markets.

BROKER-DEALER DISCLOSURE TO CUSTOMERS

The committee on stock brokerage accounting and auditing is considering submitting comments on the proposed new SEC rule on financial disclosure to broker-dealer customers.

Under the proposal customers would receive annually: financial statements substantially equivalent to those received by investors in a public company; a summary of material inadequacies found by the auditor; a statement and explanation of the broker-dealer's ratio of aggregate indebtedness to net capital; and a statement specifying publicly announced disciplinary actions.

Also, the new rule would require that customers be sent a quarterly net capital computation within 10 days after the end of each calendar quarter. Comments are due at the SEC by February 1.

REVISIONS TO REGULATION S-X

It is not expected that the proposed revisions to Regulation S-X will be ready in time to be applied to financial statements for the year ended December 31, 1971. The proposed general revisions, the first since 1950, were announced in SEC Releases Nos. 33-5177 and 34-9264 dated August 20, 1971.

IRS PROPOSED REGULATIONS ON TAX ACCOUNTING

The IRS has issued proposed regulations on "accounting for long-term contracts" (prior proposed regs on this subject issued March 24, 1971, have been withdrawn) and on "use of the full absorption or modified full absorption method of inventory valuation." In each set of proposed regulations there is a direct relationship between the tax accounting method and the financial reporting method for long-term contracts and valuing inventories. The Tax Division and the Accounting Principles Board are reviewing the proposed regulations.

AUDITS OF EDUCATIONAL INSTITUTIONS

A draft of a new industry audit guide, "Audits of Educational Institutions," has been sent to the APB and the committee on auditing procedure for their review prior to public exposure, which is slated for early 1972.