



UNDERSTANDING TAX RULES AND ACCOUNTING PRINCIPLES APPLICABLE TO WARRANTY AND SERVICE CONTRACTS

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Businesses that offer warranty or service contracts on the products they manufacture or sell must be aware of state, federal and local tax rules and accounting requirements that affect their ability to manage risks in both a cost-efficient and legal manner. This presentation will provide a basic overview of state, federal and local tax statutes and regulations applicable to the sale of warranty and service contracts, as well as a discussion of case law, administrative rulings, NAIC SAP rules and FASB technical bulletins that impact a company's tax reporting and payment and internal accounting decisions with respect to the management of warranty and service contracts. The presentation will also address how the company may be taxed on the income from sales of warranty and service contracts as well as the application of taxes, such as excise and sales taxes, on the sale of the warranty and service contracts.

Participants will learn the following:

- The manner in which state and municipal governments apply tax laws to the sale of warranty and service contracts.
- Federal tax law applicable to the sale of warranty and service contracts. Included in the discussion will be an analysis of a recent IRS Technical Advice Memorandum (TAM 200827006) which outlines which warranty contracts will be characterized as insurance for federal income tax purposes.
- How federal, state and local laws may differ in the characterization of warranty and service contracts as insurance contracts for tax purposes.
- GAAP and SAP accounting standards and principles applicable to the recognition of warranty and service contract revenues and costs as well as the application of reserve requirements.