

The U.S. Tax Act provides for a change in the methodology employed to calculate reserves for tax purposes. Beginning January 1, 2018, a higher interest rate assumption and longer payout patterns are used to discount these reserves. In addition, companies are no longer able to elect to use their own experience to discount reserves, but instead are required to use the industry-based tables published by the IRS annually. During 2017, the Company estimated the provisional tax impacts related to the change in methodology as \$1,696. During 2018, the IRS published the discount factor tables and the Company calculated the tax impact of the methodology change and recorded an updated amount for deferred tax assets and an offsetting deferred tax liability of \$2,262 at December 31, 2018. During 2019, the IRS published updated discount factor tables and the Company updated the tax impact. The deferred tax liability was amortized into income in the amount of \$281 in 2019 in accordance with the 8-year inclusion described in the U.S. Tax Act. The deferred tax liability amortized into income in 2018 was revised to \$228 compared to \$323 as originally calculated in 2018 under the discount factor tables.

Deferred income taxes are calculated to account for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax liabilities:		
Unrealized gain on fixed income and equity security investments	\$ 5,327	\$ 4,572
Deferred acquisition costs	2,821	2,552
Loss and loss expense reserves	2,701	3,583
Limited partnership investments	2,587	-
Accelerated depreciation	687	690
Other	1,361	1,509
Total deferred tax liabilities	<u>15,484</u>	<u>12,906</u>
Deferred tax assets:		
Loss and loss expense reserves	11,460	9,999
Limited partnership investments	-	3,498
Unearned premiums discount	2,529	2,321
Other-than-temporary investment declines	39	625
Deferred compensation	1,181	580
Deferred ceding commission	1,037	1,173
Other	1,273	972
Total deferred tax assets	<u>17,519</u>	<u>19,168</u>
Net deferred tax assets	<u>\$ (2,035)</u>	<u>\$ (6,262)</u>

A summary of the difference between federal income tax expense (benefit) computed at the statutory rate and that reported in the consolidated financial statements as of December 31, 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutory federal income rate applied to pre-tax income (loss)	\$ 1,821	\$ (9,213)	\$ 3,543
Tax effect of (deduction):			
Tax-exempt investment income	(402)	(253)	(968)
Change in enacted tax rates	-	-	(9,572)
Other	(93)	(331)	(1,204)
Federal income tax expense (benefit)	<u>\$ 1,326</u>	<u>\$ (9,797)</u>	<u>\$ (8,201)</u>

Federal income tax expense (benefit) as of December 31, 2019, 2018 and 2017 consists of the following:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Tax expense (benefit) on pre-tax income (loss):			
Current	\$ 1,377	\$ 8,997	\$ (4,335)
Deferred	(51)	(18,794)	(3,866)
	<u>\$ 1,326</u>	<u>\$ (9,797)</u>	<u>\$ (8,201)</u>