11. INCOME TAXES

Spire

The Company's provision (benefit) for income taxes during the fiscal years ended September 30, 2018, 2017, and 2016 was as follows:

	2018	2017	2016
Federal			
Current	$ —	$ 0.1	$ 0.1
Deferred	(22.7)	67.7	62.0
Investment tax credits	(0.2)	(0.2)	(0.2)
State and local			
Current	2.2	0.5	0.6
Deferred	(5.8)	9.5	7.0
Total income tax (benefit) expense	$ (26.5)	$ 77.6	$ 69.5

The Company's effective income tax rate varied from the federal statutory income tax rate for each year due to the following:

	2018	2017	2016
Federal income tax statutory rate	24.5 %	35.0%	35.0%
State and local income taxes, net of federal income tax benefits	3.4	2.8	2.8
Certain expenses capitalized on books and deducted on tax return	(2.3)	(2.3)	(3.4)
Taxes related to prior years	(0.4)	(0.9)	(0.2)
Tax law changes	(35.9)	—	—
Amortization of excess deferred taxes	(1.8)	—	—
Other items – net *	(1.6)	(2.2)	(1.7)
Effective income tax rate	(14.1)%	32.4%	32.5%

* Other consists primarily of property adjustments.

The Company's significant items comprising the net deferred tax liability recorded in the Consolidated Balance Sheets as of September 30 were as follows:

	2018	2017
Deferred tax assets:		
Reserves not currently deductible	$ 25.9	$ 31.5
Pension and other postretirement benefits	75.6	58.6
Operating losses	162.7	169.6
Regulatory amount due to customers, net	41.8	—
Other	8.2	26.0
Deferred tax assets	314.2	285.7
Less: valuation allowance	1.4	0.5
Total deferred tax assets	312.8	285.2
Deferred tax liabilities:		
Relating to property	518.3	728.3
Regulatory pension and other postretirement benefits	117.1	108.0
Deferred gas costs	2.3	30.6
Other**	110.9	125.8
Total deferred tax liabilities	748.6	992.7
Net deferred tax liability	$ 435.8	$ 707.5

** Other consists primarily of Goodwill related liabilities.

The Tax Cuts and Jobs Act ("TCJA") was signed into law on December 22, 2017, with an effective date of January 1, 2018, for substantially all of the provisions. This comprehensive act includes significant reform of the current income tax code including changes in the calculation for business entities and a reduction in the corporate federal income tax rate from 35% to 21%. The specific provisions related to regulated public utilities in the TCJA generally allow for the continued deductibility of interest expense, the elimination of full expensing for tax purposes of certain property acquired in tax years beginning after January 1, 2018, and the continuation of certain rate normalization requirements for accelerated depreciation benefits.

Missouri Senate Bill ("S.B.") 884 was signed into law on June 1, 2018. S.B. 884 reduces the corporate income tax rate from 6.25% to 4.0% for tax years beginning on or after January 1, 2020, among other legislative changes. The impact of S.B. 884 is not material to the consolidated financial statements.

ASC Topic 740, *Income Taxes,* requires that the effects of changes in tax laws be recognized in the period in which the new law is enacted. It also requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. For the Company's regulated entities, the changes in deferred taxes related to the regulated operations are recorded as either an offset to or creation of a regulatory asset or liability and may be subject to refund to customers in future periods. The changes in deferred taxes that are not associated with rate making (including all changes for the Company's non-regulated operations) are recorded as adjustments to deferred tax expense or benefit.

The Company has recorded TCJA impacts and reflected those amounts in the September 30, 2018 financial statements. The amounts recorded are based on information known and reasonable estimates used as of that date, but are subject to change based on further actions of regulators. The items recorded include the impact of the federal income tax rate reduction and the revaluation of the deferred tax assets and liabilities. In fiscal 2018, the MoPSC Amended Report and Order took effect and the estimated excess accumulated deferred income tax began to be returned to customers in rates. The amount being returned is estimated with a tracker established to defer the difference from the estimated amounts to the actual amounts once the actual amounts have been calculated. During fiscal 2018, excess accumulated deferred taxes of $3.5 were returned.

The total amounts recorded, before reduction for amounts returned to customers, for the year ended September 30, 2018, are presented in the table below.

Adjustment to deferred tax liabilities	$	(318.3)
Adjustment to deferred income tax expense		(75.0)
Adjustment to regulatory assets		(75.9)
Adjustment to regulatory liabilities		167.4

As indicated in Note 1, Summary of Significant Accounting Policies, the Company's regulated operations accounting for income taxes is impacted by ASC Topic 980, *Regulated Operations*. Reductions in deferred income tax balances due to the reduction in the corporate income tax rate will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates. The TCJA includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other deferred taxes will be determined by state regulators.

In assessing whether deferred tax assets are realizable, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers all significant available positive and negative evidence, including the existence of losses in recent years, the timing of deferred tax liability reversals, projected future taxable income, taxable income in carryback years, and tax planning strategies to assess the need for a valuation allowance. Based upon this evidence, management believes it is more likely than not the Company will realize the benefits of these deferred tax assets, except for the contribution carryforward valuation allowance noted below.

The Company had federal and state loss carryforwards of approximately $711.9 at September 30, 2018. The Company also had contribution carryforwards of approximately $12.9 at September 30, 2018. The loss carryforwards begin to expire in fiscal 2030 for certain state purposes and fiscal 2035 for federal and other states purposes. The contribution carryforwards begin to expire in fiscal 2019. The Company had a valuation allowance of $1.4, as a portion of the contribution carryforward will not be realized prior to its expiration. The Company also has various tax credit carryforwards of approximately $2.4 that begin to expire in 2020, as well as a capital loss carryforward of $0.4 that expires in 2022.

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The Company recognizes the tax benefit from a tax position only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company records potential interest and penalties related to its uncertain tax positions as interest expense and other income deductions, respectively. Unrecognized tax benefits are reported as a reduction of a deferred tax asset for an operating loss carryforward to the extent the recognition of the benefit would impact the operating loss carryforward, pursuant to ASU 2013-11. In addition, pursuant to the TCJA, the deferred tax asset for a net operating loss carryforward was revalued based on the federal tax law change.

The following table presents a reconciliation of the beginning and ending balances of the Company's unrecognized tax benefits:

	2018	2017	2016
Unrecognized tax benefits, beginning of year	$ 11.0	$ 10.0	$ 7.1
Decrease related to tax law changes	(4.0)	—	—
Increases related to tax positions taken in current year	1.2	2.4	3.4
Reductions due to lapse of applicable statute of limitations	(0.1)	(1.4)	(0.5)
Unrecognized tax benefits, end of year	$ 8.1	$ 11.0	$ 10.0

The amount of unrecognized tax benefits which, if recognized, would affect the Company's effective tax rate were $3.9 and $5.1 as of September 30, 2018 and 2017, respectively. It is reasonably possible that events will occur in the next 12 months that could increase or decrease the amount of the Company's unrecognized tax benefits. The Company does not expect that any such change will be significant to the Consolidated Balance Sheets.

As of September 30, 2018 and 2017, interest accrued associated with the Company's uncertain tax positions was de minimis, and no penalties were accrued.

The Company is subject to federal income tax as well as income tax in various state and local jurisdictions. The Company is no longer subject to examination for fiscal years prior to 2014.

Regarding the Company's Spire EnergySouth acquisition, tax returns for calendar years 2014 and 2015 remain open and subject to examination by the Internal Revenue Service and state taxing jurisdictions. These returns cover periods during which Spire EnergySouth was owned by Sempra Global. The impact of any adjustments made to these returns by the relevant taxing authorities would be addressed by the indemnification provisions of the stock purchase agreement with Sempra Global.

Spire Missouri

Spire Missouri's provision (benefit) for income taxes during the fiscal years ended September 30, 2018, 2017, and 2016 was as follows:

	2018	2017	2016
Federal			
Current	$ —	$ —	$ —
Deferred	(26.1)	42.0	37.5
Investment tax credits	(0.2)	(0.2)	(0.2)
State and local			
Current	—	—	0.1
Deferred	(6.3)	5.7	8.0
Total income tax (benefit) expense	$ (32.6)	$ 47.5	$ 45.4

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Spire Missouri's effective income tax rate varied from the federal statutory income tax rate for each year due to the following:

	2018	2017	2016
Federal income tax statutory rate	24.5 %	35.0%	35.0%
State and local income taxes, net of federal income tax benefits	3.4	2.8	2.8
Certain expenses capitalized on books and deducted on tax return	(4.6)	(3.5)	(4.8)
Taxes related to prior years	(0.7)	(1.4)	(0.2)
Tax law changes	(50.3)	—	—
Amortization of excess deferred taxes	(3.6)	—	—
Other items – net *	(2.5)	(3.3)	(2.8)
Effective income tax rate	(33.8)%	29.6%	30.0%

* Other consists primarily of property adjustments.

Spire Missouri's significant items comprising the net deferred tax liability reported in the Balance Sheets as of September 30 were as follows:

	2018	2017
Deferred tax assets:		
Reserves not currently deductible	$ 20.0	$ 25.3
Pension and other postretirement benefits	71.9	52.7
Deferred gas costs	0.5	—
Operating losses	65.2	52.0
Regulatory amount due to customers	38.0	—
Deferred tax assets	195.6	130.0
Less: valuation allowance	1.4	0.5
Total deferred tax assets	194.2	129.5
Deferred tax liabilities:		
Relating to utility property	372.6	563.2
Regulatory pension and other postretirement benefits	113.4	108.0
Deferred gas costs	—	25.0
Other	69.2	57.1
Total deferred tax liabilities	555.2	753.3
Net deferred tax liability	$ 361.0	$ 623.8

Spire files a consolidated federal income tax return and various state income tax returns and allocates income taxes to Spire Missouri and its other subsidiaries as if each entity were a separate taxpayer.

Spire Missouri has recorded TCJA impacts and reflected those amounts in the September 30, 2018 financial statements. The amounts recorded are based on information known and reasonable estimates used as of that date, but are subject to change based on further actions of regulators. The items recorded include the impact of the federal income tax rate reduction and the revaluation of the deferred tax assets and liabilities. In fiscal 2018, the MoPSC Amended Report and Order took effect and the estimated excess accumulated deferred income tax began to be returned to customers in rates. The amount being returned is estimated with a tracker established to defer the difference from the estimated amounts to the actual amounts once the actual amounts have been calculated. During fiscal 2018, excess accumulated deferred taxes of $3.5 were returned.

S.B. 884, signed into law on June 1, 2018, reduces the corporate income tax rate from 6.25% to 4.0% for tax years beginning on or after January 1, 2020, among other legislative changes. The impact of S.B. 884 is not material to the financial statements.

The total amounts recorded, before reduction for amounts returned to customers, for the year ended September 30, 2018, are presented in the table below.

Adjustment to deferred tax liabilities	$ (285.3)
Adjustment to deferred income tax expense	(57.0)
Adjustment to regulatory assets	(78.1)
Adjustment to regulatory liabilities	150.2

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As indicated in Note 1, Summary of Significant Accounting Policies, the Company's regulated operations accounting for income taxes is impacted by ASC Topic 980, *Regulated Operations*. Reductions in deferred income tax balances due to the reduction in the corporate income tax rate will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates. The TCJA includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other deferred taxes will be determined by state regulators.

In assessing whether deferred tax assets are realizable, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers all significant available positive and negative evidence, including the existence of losses in recent years, the timing of deferred tax liability reversals, projected future taxable income, taxable income in carryback years, and tax planning strategies to assess the need for a valuation allowance. Based upon this evidence, management believes it is more likely than not that Spire Missouri will realize the benefits of these deferred tax assets, except for the contribution carryforward valuation allowance noted below.

Spire Missouri had federal and state loss carryforwards of approximately $309.2 at September 30, 2018 on a separate company basis. For federal tax purposes, these loss carryforwards may be utilized against income from another member of the consolidated group. Spire Missouri also had contribution carryforwards of approximately $10.9 at September 30, 2018. The loss carryforwards begin to expire in fiscal 2035 for federal and state purposes. The contribution carryforwards begin to expire in fiscal 2019. Spire Missouri had a valuation allowance of $1.4, as a portion of the contribution carryforward will not be realized prior to its expiration. Spire Missouri also has approximately $2.0 of various tax credit carryforwards with expiration dates which begin to expire in 2020.

Spire Missouri recognizes the tax benefit from a tax position only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Spire Missouri records potential interest and penalties related to its uncertain tax positions as interest expense and other income deductions, respectively. Unrecognized tax benefits are reported as a reduction of a deferred tax asset for an operating loss carryforward, pursuant to ASU 2013-11. In addition, pursuant to the TCJA, the deferred tax asset for a net operating loss carryforward was revalued based on the federal tax law change.

The following table presents a reconciliation of the beginning and ending balances of Spire Missouri unrecognized tax benefits:

	2018	2017	2016
Unrecognized tax benefits, beginning of year	$ 10.7	$ 9.7	$ 6.9
Decrease related to tax law changes	(4.0)	—	—
Increases related to tax positions taken in current year	1.1	2.4	3.3
Reductions due to lapse of applicable statute of limitations	—	(1.4)	(0.5)
Unrecognized tax benefits, end of year	$ 7.8	$ 10.7	$ 9.7

The amount of unrecognized tax benefits, which, if recognized, would affect Spire Missouri's effective tax rate were $3.6 and $4.8 as of September 30, 2018 and 2017, respectively. It is reasonably possible that events will occur in the next 12 months that could increase or decrease the amount of Spire Missouri's unrecognized tax benefits. Spire Missouri does not expect that any such change will be significant to Spire Missouri's Balance Sheets.

As of September 30, 2018 and 2017, no interest or penalties were accrued associated with Spire Missouri's uncertain tax positions.

Spire Missouri is subject to federal income tax as well as income tax in various state and local jurisdictions, and is no longer subject to examination for fiscal years prior to 2014.

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