

COHERENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. INCOME TAXES (Continued)

The reconciliation of the income tax expense at the U.S. Federal statutory rate (21.0% in fiscal 2019, 24.5% in fiscal 2018 and 35.0% in fiscal 2017) to actual income tax expense is as follows (in thousands):

	Fiscal		
	2019	2018	2017
Federal statutory tax expense	\$12,610	\$ 88,684	\$105,719
Valuation allowance	7,925	4,263	4,454
Foreign taxes at rates greater (less) than U.S. rates, net	(8,210)	8,417	(12,346)
Stock-based compensation	556	(8,536)	3,969
State income taxes, net of federal income tax benefit	1,131	(373)	398
Research and development credit	(3,665)	(6,972)	(7,884)
Deferred compensation	(206)	(560)	(1,022)
Release of unrecognized tax benefits	(6,688)	(352)	(538)
Release of interest accrued for unrecognized tax benefits	(205)	(156)	(78)
U.S. tax reform impact	—	26,653	—
Deferred taxes on foreign earnings	1,215	—	—
Write-off of withholding tax credits	1,134	—	—
Other, net	626	3,127	739
Provision for income taxes	\$ 6,223	\$114,195	\$ 93,411
Effective tax rate	10.4%	31.6%	30.9%

On December 22, 2017, the Tax Act was enacted. The Tax Act contains significant changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21.0%, implementing a territorial tax system with a one-time transition tax assessment on previously tax-deferred foreign earnings and imposing new taxes on certain foreign-sourced income. We elected to pay the one-time transition tax over a period of up to eight years.

In conjunction with the Tax Act, the SEC issued guidance under Staff Accounting Bulletin No. 118 (“SAB 118”) directing taxpayers to record the impact of the Tax Act as “provisional” when they do not have all the necessary information to complete the accounting under ASC 740. The guidance allowed for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impact. In accordance with SAB 118, we recorded provisional estimates to our consolidated financial statements in fiscal 2018 based on the Tax Act. During the first quarter of fiscal 2019, we further analyzed the income tax effects of the Tax Act and determined there were no material changes to the provisional amounts disclosed in our fiscal 2018 financial statements. Although our accounting for the effects of the Tax Act is complete under SAB 118, there may be future adjustments based on interpretations by the U.S. federal and state governments and regulatory organizations, legislative updates or new regulations, or changes in accounting standards for income taxes.

The Tax Act also includes provisions for Global Intangible Low-Taxed Income (“GILTI”) wherein taxes on foreign income are imposed in excess of a deemed return on tangible assets of foreign corporations. In general, this income will effectively be taxed at a 10.5% tax rate reduced by any available current year foreign tax credits. This provision became effective for taxable years beginning