

HC2 HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

16. Income Taxes

The provisions (benefits) for income taxes for the years ended December 31, 2019 and 2018 were as follows (in millions):

	Years Ended December 31,	
	2019	2018
Current: Federal	\$ 3.5	\$ 0.5
State	2.6	3.6
Foreign	1.4	1.0
Subtotal Current	7.5	5.1
Deferred: Federal	(27.7)	(1.4)
State	(0.3)	(0.2)
Foreign	(0.1)	(1.1)
Subtotal Deferred	(28.1)	(2.7)
Income tax (benefit) expense	<u>\$ (20.6)</u>	<u>\$ 2.4</u>

The US and foreign components of income (loss) from continuing operations before income taxes for the years ended December 31, 2019 and 2018 were as follows (in millions):

	Years Ended December 31,	
	2019	2018
US	\$ (58.3)	\$ 179.6
Foreign	1.6	2.7
Income (loss) from continuing operations before income taxes	<u>\$ (56.7)</u>	<u>\$ 182.3</u>

The provisions (benefits) for income taxes differed from the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes due to the following items for the years ended December 31, 2019 and 2018 (in millions):

	Years Ended December 31,	
	2019	2018
Tax provision (benefit) at federal statutory rate	\$ (11.9)	\$ 38.3
Permanent differences	0.3	1.5
State tax, net of federal benefit	(7.3)	6.2
Foreign rate differential	1.4	(0.9)
Minority interest	0.2	(4.6)
Executive and stock compensation	2.5	3.5
Increase (decrease) in valuation allowance	(7.6)	(43.8)
Transaction costs	0.1	1.5
Tax credits generated/utilized	(2.2)	—
Return to provision	(6.0)	15.6
ASU 2017-11 adoption	(1.3)	—
Goodwill impairment	10.9	—
Gain/loss on sale or deconsolidation of a subsidiary	—	5.7
Bargain purchase gain	—	(24.2)
Other	(1.8)	3.6
Warrant liability	2.1	—
Income tax (benefit) expense	<u>\$ (20.6)</u>	<u>\$ 2.4</u>

The income tax benefit as of December 31, 2019 is \$20.6 million. The benefit was primarily driven by a net valuation allowance release of \$37.4 million related to the Insurance segment partially offset by an impairment of goodwill which is not deductible for tax purposes. The Insurance segment is profitable in 2019 and in a three-year overall cumulative income position as of December 31, 2019. The profitability is driven by current year income associated with favorable claims and reserve development relative to expected. Further, unrealized gains from the investment portfolio continued to grow in 2019.