

Riyadh Philanthropic Society for Science

**Prince Sultan University**

College of Business Administration

Department of Accounting



Comment Letter

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Dear fellow Americans and FASB,

It is a great honor to have an opportunity to engage in the discussion of when to recognize tax consequences for intra-entity transactions. I applaud the apparent improvement in the diversity of internal discussions of FASB by not only considering opinions for the proposal, but also opinions contrary to the proposal. Yet while acknowledging possible issues, the Board has unanimously agreed on pushing the new standards without adequately addressing the costs and benefits of the issues. As an aspiring philosopher in accounting, I provide my views, thoughts, and opinions as follows.

**Question 1:** Should the current and deferred income tax consequences of an intra-entity asset transfer be recognized when the transfer occurs? If not, why?

Historically, especially as IFRS gained prominence in reconstruction nations and former European colonies, IFRS has been reputed as a less costly alternative to US GAAP. First internationalized in Western Europe, these nations did not have as much resources for accounting requirements and compliance as the United States. This was not limited to Western Europe. Leaving too much open for interpretation allowed for greater manipulation of financial reports that unnaturally rewards accounting optimism over accounting conservatism with its disastrous consequences.

As the Proposal mentions, adopters might need process and internal control changes and the Proposal might result in greater volatility in earnings. I think the Board grossly underestimates the consequences. As the Board unanimously agreed and it is mentioned in the proposal, I trust the reasons why had already been discussed and considered.

In addition, the Proposal claims the Simplification Initiative will maintain or improve the usefulness of information provided to users. Yet the Proposal acknowledges there might be potential for greater volatility in earnings as a result. It has been consistently proven there is an inverse relationship between volatility and information usefulness. Although some companies may manage earnings to reduce volatility and thus potentially immaterial, the additional volatilities as a result of this proposed standard will still be imbedded into earnings and passed onto information users. Also, this may justify more companies to manage earnings while without appropriate rules and regulations.

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Furthermore, if the Board truly seeks to adopt or converge with IFRS, the timing of the Proposal is inappropriate. I support the idea of having a single accounting standard around the world. However:

- (1) I do not support the idea of adopting an inferior accounting standard when there is little economic incentive to do so. Political, yes but at an expense against rest of the world. Some IFRS representatives claim that the world uses IFRS, but the fact remains that “IFRS nations” still develop or modify their own standards (e.g. German, French, & UK GAAP).
- (2) There is already a shortage of qualified people in the accounting industry. The adoption of the Proposed may create an even greater shortage if companies are to establish and maintain at least an equivalent usefulness of information to the current standard.
- (3) There are many perspectives in the US, even more perspectives from US-listed foreign entities, and significantly more perspectives around the world that would be detrimental with greater potential in accounting creativity.
- (4) If this was 1975, I might agree with the Proposal. But this is 2015. If managed properly, data can be unbelievably cheap to store, maintain, and access when compared to paper.

Thus, for income tax consequences of an intra-entity asset to be recognized when transfer occurs is a regression of US accounting standards and should not be allowed. The costs of the proposal are likely to exceed the benefits in the long-term for some firms.

**Question 2:** If the income tax consequences should not be recognized when the transfer occurs, should the income taxes payable or paid upon transfer be expensed as incurred? If not, how should income taxes payable or paid be recognized?

This should be discussed by FASB and its recognized constituents.

**Question 3:** Should the proposed guidance be applied on a modified retrospective basis? Are the transition disclosures appropriate?

A stakeholder-wide survey and ~~debate~~ discussion should be used to answer this question. One could approach this issue from different perspectives, so an equal discussion to best consolidate these perspectives will result in the best answer.

**Question 4:** Should the amendments in this proposed Update be effective for: 3 a. Public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2016 b. All other entities for annual periods beginning after December 15, 2017, and interim periods in annual periods beginning after December 15, 2018, with early adoption permitted, but not before the effective date for public business entities?

Companies should have more time to implement and operate the controls necessary to create safeguards and circumvent unfavorable outcomes. If transitioned to maintain an equivalent usefulness of information, the Proposal should also involve more than changing processes and controls.

**Question 5:** What would be the expected transition costs of adopting the guidance in the proposed Update? What would be the expected recurring costs of applying the proposed guidance compared with the costs of applying current GAAP?

From my perspective using my cost-benefit model for financial reporting requirements, SCUTES formerly SCUT ([goo.gl/9rVrqG](http://goo.gl/9rVrqG)), I reason that costs will far exceed the benefits of this proposal. A quantitative analysis is unnecessary due to the obvious differential that results. For further discussion on this issue, feel free to contact me at [aljpan@gmail.com](mailto:aljpan@gmail.com).

In conclusion, just because many others say or do something does not necessarily mean it is right.

"If destruction be our lot, we must ourselves be its author and finisher... Passion has helped us; but can do so no more. It will in future be our enemy. Reason, cold, calculating, unimpassioned reason, must furnish all the materials for our future support and defense."

- Abraham Lincoln's Lyceum Address on the Perpetuation of Our Political Institutions

Sincerely,

/s/Alan J. Pan/s/  
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*This letter expresses solely the author's opinion and in no way represents his institution as a whole.*