

May 29, 2015

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2015-200

Dear Ms. Cospers:

McGladrey LLP is pleased to comment on the Proposed Accounting Standards Update, *Income Taxes (Subtopic 740), Intra-Entity Asset Transfers* (the "proposed ASU"). We support the Board's Simplification Initiative which was established to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of the financial statements.

In addition to our overall support of the Board's Simplification Initiative, we support the provisions of this proposed ASU and its amendments to the existing guidance on accounting for the income tax consequences of intra-entity asset transfers. Our responses to the "Questions for Respondents" on which specific comment is sought on the proposed Update are included below for your consideration.

Responses to Questions for Respondents

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

We support the proposed ASU and believe that the income tax consequences of intra-entity asset transfers should be recognized at the time of the transfer. We support eliminating the current exception as it is a source of complexity with limited application guidance and, as a result, causes diversity in practice. This is especially true for intra-entity transfers of long-lived or indefinite-lived assets, such as intellectual property or other intangible assets.

Further, stakeholders have indicated that the current exception does not provide useful information to financial statement users because the exception requires deferral of the income tax consequences of the asset transfer. The deferral provisions are inconsistent with current guidance on other intra-entity transactions (that do not involve asset transfer) such as services, leasing arrangements and other transactions.

Lastly, the proposed change more closely aligns U.S. GAAP with the International Financial Reporting Standards (IFRS) standard on income taxes.

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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?*

As discussed above, we support the proposed ASU and believe that the income tax consequences of intra-entity transfers should be recognized when the transfer occurs.

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

We support the ASU's proposed use of the modified retrospective adoption model. We believe the proposed transition disclosures are appropriate.

Question 4: *Should the amendments in this proposed Update be effective for:*

- 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?*

We agree with the proposed mandatory effective dates. However, we believe that early adoption should be permitted for all entities. The nature of the intercompany activity is normally entity-specific and not necessarily an issue that would impact comparability among entities. Therefore, early adoption would not impact the usefulness of the information from a user's perspective. The primary objective of the Board's Simplification Initiative is to improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of the financial statements. Prohibiting early adoption of the proposed ASU by entities in a position to currently apply the standard would require them to continue to incur unnecessary costs with little perceived benefit for transactions between the issuance and effective dates.

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?*

Although there may be some initial costs to certain preparers to implement the proposed ASU's guidance, for most entities the expected transition costs of adopting the guidance of the proposed ASU will be minimal. Further, the proposed ASU would reduce costs for many entities. Application of current GAAP necessitates that entities identify and track income taxes paid by the selling entity and recognize those income taxes as a deferred charge on the balance sheet, potentially for many years. The costs associated with this tracking would be eliminated under the proposed ASU. We believe the long-term benefit of the proposed ASU outweighs the initial costs of its adoption.

We appreciate this opportunity to provide feedback on the proposed guidance and would be pleased to respond to any questions the FASB or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Michael Hoffman at 612.455.9442.

Sincerely,



McGladrey LLP