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Proposed Accounting Standards Update: Income Statement—Reporting Comprehensive Income (Topic 220) *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

We have the following comments on the proposed ASU.

Question 1: Do you agree with the amendments in this proposed Update that would require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate? If not, why?

The Committee agrees with the amendments in this proposed Update that would require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate

Question 2: Are the transition requirements appropriate? If not, what transition approach is more appropriate and why?

The Committee would prefer that the proposed Update be implemented at the same time as other changes related to the Tax Cut and Jobs Act of 2017 (the Act), but recognizes that such implementation may be impractical for entities that require several reporting periods to implement all the changes related to the Act. The Committee therefore does not object to the proposed transition requirements.

Question 3: Do you agree that early adoption should be permitted?

The Committee believes early adoption should be permitted.

Question 4: Do you agree with the proposed effective date? If not, what effective date is more appropriate and why?

The Committee agrees with the proposed effective date.

Question 5: GAAP generally prohibits backwards tracing, which is the process of recognizing the effects of changes in deferred tax amounts in the current year in the same line item in which the deferred tax amounts were originally recognized (for example, other comprehensive income) in prior years. The Board did not allow backwards tracing as part of this project and is currently researching the merits of a broader project on backwards tracing. Should the Board add a broader project on backwards tracing to its active agenda? If so, why? Additionally, should the following alternatives to backwards tracing be considered in that broader project? If so, why?

- a. Accounting for the release of the stranded tax effects from accumulated other comprehensive income
- b. Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with prior changes in other tax rates (for example, state and local taxes)
- c. Reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects associated with all future changes in tax rates.

If the Board permits backwards tracing as proposed in this Proposal, we believe it has very little practical choice other than to deal with analogous situations by adding a broader project on backwards tracing to its active agenda. This should include all the alternatives listed in the Question, and any others that may arise during deliberations.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,



Matthew J. Lombardi  
Chair  
Accounting Principles and Assurance Services Committee  
California Society of Certified Public Accountants