May 28, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-500

Dear Mr. Kuhaneck:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update (Revised), *Income Taxes (Topic 740), Disclosure Framework – Changes to the Disclosure Requirement for Income Taxes* (the "ED").

We support the Board's overall objective in the disclosure framework project to make financial statement disclosures more effective, balancing the information needs of financial statement users with the costs and complexity of producing that information.

We generally agree that the proposed amendments would result in the inclusion of more decision-useful information about income taxes in the notes to the financial statements. In particular, we agree with the proposal to codify certain disclosures that are already required by SEC rules for public business entities. However, we have both conceptual and practical reservations regarding certain aspects of the proposal, in particular the disclosure of income (or loss) from continuing operations before intra-entity eliminations and the disclosure of the amount of valuation allowance recognized for deferred tax assets related to carryforwards.

Income (or loss) from continuing operations before intra-entity eliminations
We do not believe the guidance should require that pre-tax income (or loss) be disaggregated on a pre-elimination basis. Instead, we believe that the information should be disclosed consistent with current SEC rules, which do not specify pre- or post-elimination. In many cases, such as when dividends are remitted "up the chain" from a lower tier subsidiary to the ultimate parent, pre-tax income may be counted multiple times even though there might not be a corresponding tax impact (for example, because of a participation exemption or dividends received deduction). This requirement would, in many cases, result in distortive information in the financial statement footnotes. In addition, there is significant diversity in practice today on how companies track eliminations (e.g., a "tier-by-tier" consolidation or a "flat" consolidation). Establishing the consistency necessary to comply with the proposed requirement would likely mean that there would be significant cost to implement new systems and controls. There would also be incremental effort to audit these new amounts.

Valuation allowance recognized for deferred tax assets related to carryforwards
We believe the requirement to disclose the amount of any valuation allowance recognized for a specific subset of deferred tax assets (i.e., carryforwards) is inconsistent with the basic principles of ASC 740. ASC 740 requires a holistic assessment, within a particular taxing jurisdiction, of the need for a valuation allowance. In addition, we believe it will be difficult to apply, and, because the allocation of the valuation allowance would be inherently arbitrary, likely provides little informational value to users. We recommend that the FASB remove this requirement.

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The appendix contains our detailed responses to the Questions for Respondents in the ED and additional observations related to our comments above. If you have any questions, please contact Jennifer Spang at (973) 236-4757 or Brett Cohen at (973) 236-7201.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

Question 1: Would the amendments in this proposed Update that add or modify disclosure requirements result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

We generally agree that the proposed amendments would result in the inclusion of more decision-useful information in the financial statements. However, as noted in our cover letter, we have both conceptual and practical reservations regarding certain aspects of the proposal. Comments on certain aspects of the proposal are addressed below. Comments related to proposed disclosures about which the FASB asked specific questions are addressed in those questions.

Carryforward disclosures (proposed ASC 740-10-50-6A)

A valuation allowance is not typically traced directly to individual deferred tax assets. The proposed requirement to determine the amount of valuation allowance related specifically to carryforwards would require scheduling and an arbitrary allocation of a valuation allowance, which is not supported by US GAAP. For example, in a case when a company has both taxable and deductible temporary differences, including NOL carryforwards, and a full valuation allowance recorded against its net deferred tax assets, a portion of the deductible temporary differences is being supported by reversing taxable temporary differences. In this circumstance, a company would need to come up with an approach, solely for purposes of satisfying the disclosure requirement, for allocating a portion of the valuation allowance to the carryforwards.

ASC 740 does not generally require scheduling of deferred taxes unless there is a specific need to do so to determine the appropriate measurement (ASC 740-10-55-15). This concept has been a longstanding view (reiterated multiple times in the FAS 109 basis for conclusions (FAS 109 BC)), but has also been reinforced relatively recently.

- When deferred tax assets and liabilities were classified between current and non-current under ASC 740-10-55-15(a), a pro rata allocation of the valuation allowance was required because the pro rata allocation did not "create the impression that detailed scheduling is required for situations in which it could otherwise be avoided" (FAS 109 BC152).
- ASU 2015-17 superseded ASC 740-10-55-15(a). In its basis for conclusion, the FASB indicated that "determining when a temporary difference is expected to reverse might be impractical for many types of temporary differences (for example, predicting the timing of reversal of temporary differences for available-for-sale securities)." The Board decided not to pursue an alternative that would have required scheduling "because it would have increased cost and complexity compared with both current GAAP and the amendments in this Update" (ASU 2015-17 BC6).
- FAS 109 BC153 indicated that the Board permitted the offset of deferred tax assets and liabilities in the same jurisdiction to avoid the detailed analyses that would be necessary to determine whether reversing temporary differences offset each other in carryback or future years.
- In explaining why deferred taxes were not discounted, FAS 109 BC199 states, "...if deferred income taxes were discounted, however, a detailed analysis of the future reversals of temporary differences would be routinely required and a frequent criticism of Statement 96 was the need for scheduling."

In each of these cases, the focus was on eliminating cost and complexity. The proposed requirement to include the amount of valuation allowance against carryforwards seems to run counter to this history and would seem to require scheduling in many cases to determine the amount of valuation allowance associated with carryforwards. Such an exercise appears to provide little incremental value to a user of the financial statements.

In addition, we do not agree with the proposed requirement in ASC 740-10-50-6A(b) to disclose the amount of unrecognized tax benefits that offsets the deferred tax asset attribute. The FASB ratified the EITF consensus that required companies to present unrecognized tax benefits as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward (with certain exceptions) because it provided more decision-useful information for users (ASU 2013-11 BC 8). No incremental disclosures were required as part of that standard setting. We also note that, by definition, an unrecognized tax benefit means the related deferred tax asset was not recognized for financial reporting purposes. Requiring the disclosure of the unrecognized tax benefit indicates that the FASB's expectation is that the carryforwards in the table would be based on the tax returns rather than the financial reporting amounts.

We believe the carryforward table should remain focused on the expirations and recommend not requiring inclusion of uncertain tax benefits and the valuation allowance.

Valuation allowance disclosures

We do not believe that proposed ASC 740-10-50-6B, which requires a public business entity to disclose the total amount of the valuation allowance recognized and released during the period (with an explanation of each) is necessary. The concept of explaining the change in valuation allowance could instead be added to the last sentence of ASC 740-10-50-2, which already requires that the net change in the valuation allowance be disclosed. Further, we do not see a basis for exempting entities other than public business entities from providing an explanation for changes in the valuation allowance. We propose that ASC 740-10-50-2 (as revised inclusive of our suggestion with regard to incorporating proposed ASC 740-10-50-6B) be applicable to all entities.

Regardless of whether proposed ASC 740-10-50-6B is applicable only to public business entities or the Board integrates it into ASC 740-10-50-2, we believe the extent of disclosure required by proposed ASC 740-10-50-6B is unclear. It could be interpreted to cover all changes in the valuation allowance during the year. However, when read in concert with the concepts in ASC 740-10-45-20 and ASC 740-10-50-9(h), it could be interpreted to only capture adjustments to the beginning-of-the-year valuation allowance resulting from "a change in circumstances that causes a change in judgment about the realizability of the related deferred tax assets in future years." For example, an entity that has a full valuation allowance on its net deferred tax assets at both the beginning and the end of the year would recognize a change in the valuation allowance solely driven by a change in the deferred tax balance for current activity. In our view, disclosure of the mathematical increase or decrease in valuation allowance in this instance is not warranted. If the Board agrees with this view and did not intend for this type of change to be included within the disclosure, it would be helpful to clarify proposed ASC 740-10-50-6B to indicate that only amounts recognized or released during the period due to a change in judgment about the realizability of deferred tax assets are required to be disclosed.

Suggested implementation guidance and/or clarification

Broadly speaking, we encourage the FASB to consider additional implementation guidance to help minimize the potential for diversity in practice. For example, the proposal requires public business entities to disclose an explanation of year-to-year changes in reconciling items with respect to differences between their statutory total provision and their reported total provision. It is unclear whether the required explanation would be applicable in situations when the tax effect remains consistent year over year but the applicable percentage changes solely as a result of changes in pre-tax income.

We also recommend that the FASB reconsider the proposed disclosure of non-tax-effected carryforwards (ASC 740-10-50-8A). There seem to be inconsistencies in the basis for conclusions regarding why the requirement is different for public business entities and entities other than public business entities.

- The Private Company Decision-Making Framework indicates that disclosure alternatives should be provided for private companies when the information would be relevant to typical users of private company financial statements. The basis for conclusions in the ED (BC92) indicates that carryforward information as a whole is not relevant to private company financial statements users.
- The basis for conclusions (BC73) highlights concerns of stakeholders about disclosing non-tax-effected carryforward information. One of these concerns is that an entity might double count non-tax-effected state carryforwards reported on two different tax returns because the entity would receive a benefit for that non-tax-effected amount in two states, although the amounts would be subject to each state's apportionment rules. This is one reason that the required disclosure for public business entities was revised to require disclosure of tax-effected carryforwards. This potential double counting remains a concern for other than public business entities in all but the most simple and straightforward cases (e.g., doing business in a single state).
- BC93 states that private company preparers indicated that disclosing the tax-effected amounts of carryforwards would be complex and costly. However, this information would be readily available because the tax-effected information would be necessary to prepare the company's financial statements.

We recommend that the FASB either (1) change proposed ASC 740-10-50-8A to require the disclosure of tax-effected carryforwards or (2) eliminate proposed ASC 740-10-50-8A and make proposed ASC 740-10-50-6A applicable to all entities.

If the FASB maintains proposed ASC 740-10-50-8A as currently drafted, the first sentence could be confusing based on the ordering of the words "foreign tax credit carryforwards." This phrase is intended to refer to any tax credit carryforwards that exist within the foreign jurisdiction, but could be confused with actual foreign tax credit carryforwards. We recommend the Board revise this wording as follows (added text is underlined and deleted text is ~~struck out~~):

> An entity other than a public business entity shall disclose the total amounts of ~~federal or national, state, and foreign~~ tax credit carryforwards for federal or national, state, and foreign, and the total amounts of other federal or national, state, and foreign carryforwards (not tax effected), separate for those carryforwards that do not expire and those that do expire, along with their expiration dates (or a range of expiration dates).

We also note that the term "statutory" is used inconsistently in proposed ASC 740-10-50-12. The first and last references to the federal or national income tax rate are preceded by the word "statutory." However, the two references in between are not. The term "statutory" should either be excluded from this section or used consistently before each mention of the federal or national income tax rate.

In addition, in proposed ASC 740-10-50-12, the first sentence reads as follows: "A public business entity shall disclose a reconciliation between the amount of reported total income tax expense (or benefit) from continuing operations and the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal or national income tax rate, showing the reporting currency amount of each of the underlying causes [emphasis added] for the difference." However, further down, the guidance indicates that the reconciliation may be presented in percentages or in reporting currency amounts. We recommend updating the underlined portion of the sentence above to say instead, "showing the amount of each of the underlying causes."

Proposed ASC 740-10-50-10B requires disaggregation of income tax expense between federal or national, state, and foreign. If the intention is to codify SEC Rule S-X 4-08(h)(1), which requires disaggregation of income tax expense between United States Federal income taxes, foreign income taxes, and other income taxes, the word “state” should be replaced with the word “other.” In many jurisdictions, other terms are used to describe subdivisions of a country, such as canton or province. In other jurisdictions, the term “state” actually describes the country itself (e.g., State of Israel).

We appreciate the Board’s clarification within proposed ASC 740-10-50-10B that income taxes on foreign earnings that are imposed by the jurisdiction of domicile should be included in the amount for the jurisdiction of domicile. A similar clarification would be helpful within proposed ASC 740-10-50-10B indicating that the “state” or “other” category should only include taxes assessed by jurisdictions within the home country. For example, a US company that pays taxes at the federal and provincial level in Canada should include both the federal and provincial taxes within the “foreign” category, rather than including the Canadian taxes within the “foreign” category and the provincial taxes within the “state” or “other” category.

Finally, the Board noted within the basis for conclusions (BC33) that “an entity may still make an indefinite reinvestment assertion for its foreign earnings so that it is not required to record a liability for the (a) state and (b) withholding tax consequences of unremitted foreign earnings.” Limiting the discussion of the potential tax consequences for outside basis differences to state and withholding taxes within the basis for conclusions could be misleading. First, there could be components of an outside basis difference other than unremitted earnings for which an entity might make an indefinite reinvestment assertion. Second, even with respect to unremitted earnings, there could be taxes other than state and withholding taxes (e.g., federal tax impacts related to foreign currency, federal tax impacts in jurisdictions without a dividends received deduction or participation exemption, foreign tax credits). We believe that the Board should broaden the discussion within the basis for conclusions to capture these additional considerations so that the basis is not erroneously interpreted to imply that the only remaining tax consequences of an outside basis difference after the Tax Cuts and Jobs Act are state and withholding taxes on unremitted earnings.

Disclosure objectives

One of the key elements of the disclosure framework project is the introduction of key “disclosure objectives” in each topical section. We support the addition of disclosure objectives to assist entities in determining when disclosures should be made. However, we have some suggestions for improvements to focus on objectives versus specific rules. For example, proposed ASC 740-10-50-1A(d) lists one of the objectives as, “The difference between expectations based on statutory rates and the effective tax rate.” This seems more like a rule (addressed in proposed ASC 740-10-50-12 for public business entities and proposed ASC 740-10-50-13 for entities other than public business entities) rather than an overall objective. Additionally, it is unclear how the disclosure requirements within Topic 740 would provide information related to acceptable alternative accounting policies or methods (proposed ASC 740-10-50-1A(e)). Finally, the objective focused on “undistributed earnings” (proposed ASC 740-30-50-1A(b)) is incomplete, as undistributed earnings is just one component of the potential unrecognized tax liability related to an outside basis difference. On a related note, we also observed that the title of many of the sections in ASC 740-30 is "Undistributed Earnings of Subsidiaries and Corporate Joint Ventures" -- including the section associated with this disclosure objective. We suggest the FASB add “and other outside basis differences” to these titles.

Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

We expect that preparers will be able to accumulate the majority of information necessary under the proposed disclosures. However, as discussed in Question 1, the requirement to determine the amount of valuation allowance for carryforwards will require scheduling and an arbitrary allocation of the valuation allowance.

Our concerns related to the operability of proposed ASC 740-10-50-10A (disclosure of pre-tax income (or loss) from continuing operations before intra-entity eliminations) are addressed in Question 4. While we acknowledge that the proposed disclosures would be auditable, we believe that it would create incremental cost. There is also diversity in how companies track eliminations. There may be multiple elimination companies, they may have only a single elimination company, or they may choose to simply push eliminations down by entity.

We question whether the disclosure in proposed ASC 740-10-50-15A(c) would be operable in cases when there is no line item within the statement of financial position in which unrecognized tax benefits are "presented." For example, if a company files an amended tax return for a tax refund claim, but the position fails the more-likely-than-not recognition criteria, there is no tax receivable asset to record, and the full amount of the related unrecognized tax benefit would be included in the tabular roll-forward disclosure. We are concerned there will be confusion as to what it means to be "presented" within the statement of financial position when the effect of the accounting for the uncertain tax position is to reduce or eliminate an asset in its entirety. We have similar concerns in the case of uncertain tax positions that relate to timing differences for which the unrecognized tax benefit would affect multiple offsetting line items in the statement of financial position. We also believe this additional disclosure would be redundant with information already provided in the tabular roll-forward. We, therefore, recommend either removing this proposed requirement or clarifying it to read as follows (added text is <u>underlined</u> and deleted text is ~~struck out~~):

> c. The line items in the statement of financial position ~~in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits for each line item~~ <u>that would either increase or decrease, and the related amounts by which they would change, if unrecognized tax benefits were recognized as of the balance sheet date</u>.

Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

As indicated in Question 1, we believe the proposed disclosures for inclusion of an amount of valuation allowance related to carryforwards and the disclosure of pre-tax income (loss) on a pre-elimination basis could result in significant incremental costs since these requirements would necessitate additional controls and systems to track and allocate information on a basis that is not currently being captured. Auditing these amounts would also require incremental audit effort, resulting in additional costs.

Question 4: One of the proposed amendments would require entities to disclose pre-tax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign, which initial feedback indicated would reduce diversity in practice. Would this proposed amendment be operable? Should the Board specify whether the disclosed amounts should be before or after intra-entity eliminations? Why or why not?

We do not believe that pre-tax income (or loss) should be disaggregated on a pre-elimination basis. We propose that the FASB codify the current SEC requirement using the language that exists in SEC Rule S-X 4-08(h)(1).

We suggested clarifying whether the pre-tax income (or loss) disclosure should be on a pre- or post-elimination basis in our comment letter on the 2016 Proposed Accounting Standards Update, *Income Taxes (Topic 740), Disclosure Framework - Changes to the Disclosure Requirement for Income Taxes*; however, after further research and consideration, we are concerned that with (1) the multiple ways in which companies maintain their separate jurisdictional records and (2) the number of interpretational issues that would need to be resolved, specifying that the pre-tax information needs to be on either a pre- or post-elimination basis does not appear to satisfy the cost-benefit test. And while we are aware of diversity in practice that has existed for years as it relates to this SEC disclosure requirement, we believe it would be preferable to allow companies some limited discretion in this area.

In many cases, such as when dividends are remitted "up the chain" from a lower tier subsidiary to the ultimate parent, pre-tax income may be counted multiple times even though there might not be a corresponding tax impact (for example, because of a participation exemption or dividends received deduction). Similarly, for entities such as branches where the operations are taxed in more than one country, the pre-tax income would be included more than once even though it is possible that one tax regime may provide a tax credit for taxes paid in another jurisdiction.

We are concerned that many other questions will arise and companies will need to interpret the concepts and establish accounting policies that would otherwise not be required but for the proposed disclosure requirement. Consider the following simplified fact pattern. Company A is the parent company of a single foreign subsidiary, Sub A. Sub A pays annual management fees to Company A. In the current year, Sub A prepays five years' worth of management fees to Company A in order to avoid having net operating losses expire (for tax purposes, the management fees are considered taxable income in Company A's jurisdiction when the amounts are received). While clearly the prepayment would eliminate in the consolidated financial statements of Company A, for purposes of the "pre-elimination" taxable income in the two jurisdictions, it is unclear if the prepayment should (1) remain in the pre-tax income of Company A or (2) be excluded from pre-tax income under the theory that, had Company A prepared US GAAP standalone financial statements for the parent company, the amounts received for future years would be considered deferred revenue.

Question 5: Would a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction be operable? Would such a proposed amendment result in decision-useful information about income taxes? Why or why not?

We support the Board's decision not to require further disaggregation of income (or loss), income tax expense (or benefit), and cash taxes. We also agree with the Board's proposal to codify the current requirements of SEC Rule S-X 4-08(h)(1) regarding the disaggregation of pre-tax income (or loss) and tax expense (or benefit), and the Board's proposal to disaggregate cash taxes paid between domestic and foreign. We believe it is unclear how a requirement to further disaggregate income tax expense (or benefit) would provide decision-useful information about income taxes. Without a more detailed understanding of a company's structure, local tax laws, and additional details on pre-tax income (or loss), tax expense (or benefit) by major jurisdiction may lead financial statement users to draw inaccurate conclusions about the company's tax-paying profile by jurisdiction, and therefore would not only be of limited usefulness, but may also be misleading. We are also concerned about the cost and complexity of breaking down information at an even more granular level.

We support the FASB's conclusion in the proposed ASU to not require further disaggregation.

Question 6: The proposed amendments would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-08(h). That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income tax by the applicable statutory federal income tax rate. Should the Board consider a threshold that is different than 5 percent? If so, please recommend a different threshold and give the basis for your recommendation.

The 5% threshold has existed in the SEC's disclosure rules for many years, and, in our experience, SEC registrants have not had difficulty applying the threshold. While US GAAP generally does not include "bright line" quantitative thresholds, for simplicity, we believe aligning the guidance for all US GAAP preparers is appropriate.

Question 7: Are there any other disclosures that should be required by Topic 740 on the basis of the concepts in Chapter 8 of Concepts Statement 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

We are not aware of any additional disclosures that should be required by Topic 740.

Question 8: Are there any other disclosure requirements that should be removed on the basis of the concepts in Chapter 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

We do not propose removing any other disclosures from Topic 740.

Question 9: The proposed amendments would replace the term *public entity* in Topic 740 with the term *public business entity* as defined in the Master Glossary of the Codification. Do you agree with the change in scope? If not, please describe why.

We agree with the replacement of the term "public entity" with the term "public business entity" as defined in the Master Glossary of the Codification. However, we note that the basis for conclusions frequently references private companies rather than calling them entities other than public business entities. We suggest that the FASB use consistent terminology or define private companies as "entities other than public business entities" to eliminate any potential confusion.

Question 10: Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.

We agree with the conclusions reached in the basis for conclusions with respect to the application of the proposed disclosures for the reporting and subsequent periods. As noted, retrospective application would not be cost effective and would largely be achieved through the manual manipulation of prior year system information since the entity's accounting systems may not have captured the data needed to comply with the proposed disclosures. We would not object if an entity decided to voluntarily provide restated prior period information for comparative purposes.

Question 11: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.

The questions regarding the time period required for implementation are better addressed by preparers.

We believe that early adoption should be permitted.