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May 31, 2019

VIA ELECTRONIC TRANSMISSION

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

RE: Proposed ASU, Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes (File Reference Number: 2019-500)

Dear Mr. Kuhaneck:

The Silicon Valley Tax Directors Group[1] appreciates the opportunity to comment on the FASB's proposed Accounting Standards Update (ASU) on Changes to the Disclosure Requirements for Income Taxes. The input provided within this comment letter is based on our collective experience as preparers of financial statements, responsible for administering accounting for income taxes in an increasingly complex global tax and business environment.

The proposed ASU would require certain changes to the income tax disclosures in the notes to financial statements. The objective and primary focus of the disclosure framework project is to improve the effectiveness of disclosures required by GAAP in the notes to financial statements by facilitating clear communication of information that is most important to financial statement users. We believe a few of the proposed disclosures meet this criterion, and we believe should be adopted:

- removal of the requirement to disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months (proposed paragraph ASC 740-10-50-15(d));
- clarifying that disclosure of aggregate income taxes paid is required for interim periods (clarifying ASC 230-10-50-2);
- removal of the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to

[1] The Silicon Valley Tax Directors Group ("SVTDG") is composed of 102 high-technology companies with significant presence in the Silicon Valley (California). The SVTDG includes public and private companies, from smaller start-up companies to large multi-national companies. The SVTDG supports sound tax and accounting policies that allow the U.S. high-technology industry to continue to innovate and compete in the global marketplace. SVTDG members are listed in Appendix B.

comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures (removing ASC 740-30-50-2(b));
- disclosure of the total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards (proposed paragraph ASC 740-10-50-6A(b); and
- disclosure of income tax expense (or benefit) from continuing operations disaggregated between federal, state, and foreign (proposed paragraph ASC 740-10-50-10B).

With the exception of the above five disclosure changes, we believe the other proposed disclosures in the proposed ASU should not be adopted because they do not improve the effectiveness of disclosures required by GAAP in the notes to financial statements and do not facilitate clear communication of information that is most important to financial statement users. We believe these other disclosures do not provide incrementally useful information, will require additional costs to prepare, may be confusing to readers, increase complexity, or create redundancy in the disclosures around income taxes. The proposed disclosures that we believe should not be adopted include the following (as explained in the attached Appendix A):

- domestic and foreign profit disaggregation before intra-entity eliminations (proposed paragraph ASC 740-10-50-10A);
- amounts of federal, state, and foreign carryforwards by time period of expiration for each of the first five years after the reporting date, a total for any remaining years, and a total for carryforwards that do not expire (proposed paragraph ASC 740-10-50-6A(a));, and the amounts of any valuation allowance recognized for deferred tax assets for federal or national, state, and foreign carryforwards (proposed paragraph ASC 740-10-50-6A(c));
- the explanation of the year-to-year change in an amount or percentage of a reconciling item within the effective tax rate reconciliation (contained in proposed paragraph ASC 740-10-50-12);
- 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 (proposed paragraph ASC 740-10-50-15A(c));
- income taxes paid during the period disaggregated between federal or national, state, and foreign (proposed paragraph ASC 740-10-50-22); and
- explanation of valuation allowance release and/or recognition (proposed paragraph ASC 740-10-50-6B).

The SVTDG's answers to the Board's questions for respondents are shown in the attached Appendix A.

We very much appreciate the Board's consideration of our comments. We would be pleased to meet with the Board or Staff at your convenience to answer any questions you might have.

Sincerely,

/s/ Robert F. Johnson

Robert F. Johnson
Co-Chair, Silicon Valley Tax Directors Group

Appendix A

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.*

With limited exceptions, we believe the proposed amendments would not result in more effective, decision-useful information about income taxes. We believe the following six proposed disclosures would not result in more-effective, decision-useful information about income taxes, and we recommend the Board not adopt these six proposed disclosures:

1. DOMESTIC AND FOREIGN PROFIT DISAGGREGATION BEFORE INTRA-ENTITY ELIMINATIONS

In the Board's outreach for feedback, it was determined that there is diversity in practice under the SEC requirements related to whether income (or loss) from continuing operations is disclosed before or after intra-entity eliminations. The board considered whether it should provide a clarification to reduce that diversity in practice (see paragraph BC21 of the proposed Update). Furthermore, the Board acknowledged that the domestic and foreign income (or loss) from continuing operations before intra-entity eliminations would not equal the amount presented on the income statement, but the income before intra-entity eliminations would have a more direct relationship with income tax expense (or benefit), providing more decision-useful information to the financial statement users (see paragraph BC21 of the proposed Update).

However, intra-entity eliminations are not defined in the proposed Update, which we believe could lead to further diversity in practice. For example, if the definition encompasses intra-entity sale of inventory, then this would run contrary to the board's goal to provide a more direct relationship between pretax income and income tax expense (or benefit). Another example of an intra-entity elimination is an intercompany dividend. For instance, multinational companies often pay dividends through tiers of corporations. A dividend may be counted multiple times in both the U.S. and foreign pre-tax income before intra-entity eliminations, depending on the number and location of entities in the ownership chain, which would lead to profit not agreeing to the income statement. This disparity, coupled with the fact that intra-entity dividends are often not taxable due to dividend received deductions or participation exemptions, would cause confusion for users of financial statements.

We recommend the Board not adopt any requirement to disclose domestic and foreign profit disaggregated before intra-entity eliminations. We recommend instead that the Board adopt the SEC requirement (Rule 4-08(h) of Regulation S-X) to disclose domestic and foreign pre-tax income and income tax expense.

2. CARRYFORWARD DISCLOSURES

We believe that disclosure of carryforward information disaggregated by period of expiration is not more effective, decision-useful information to users of the financial statements. We believe that the impact of expiration dates of carryforwards is already incorporated in the current requirement to evaluate all carryforwards for realization and establish valuation allowances where the carryforwards do not meet the realization threshold (e.g., due to expiration of carryforwards, or insufficient expected future taxable income, etc.). We believe disclosure of carryforward information that has been reduced for valuation allowance and/or unrecognized tax benefits but not disaggregated against the respective carryforwards set to expire would be misleading to users. In order to identify the portion of the valuation allowance related solely to carryforwards rather than all deferred tax assets would require detailed and complex scheduling of reversals of taxable temporary differences allocated to the valuation allowance between carryforwards and other deferred tax assets. Furthermore, when the public business entity is in a partial valuation allowance situation, determining the valuation allowance for carryforwards would be even more challenging.

We believe the respective federal, state, and foreign carryforwards should be disclosed on an aggregate (not disaggregated by period of expiration) tax-effected basis to inform the users of the actual expected economic value of the respective federal, state, and foreign carryforwards. Accordingly, we recommend the Board clarify that all carryforward disclosures be made on an aggregate (not disaggregated by time period of expiration) tax-effected basis for the respective federal, state, and foreign carryforwards.

3. EXPLANATION OF EFFECTIVE TAX RATE RECONCILING ITEMS

The proposal modifies the existing rate reconciliation requirement for public business entities under ASC 740-10-50-12 to partially align with SEC Regulation S-X 210.4-08(h), which requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. The proposed amendment departs from Regulation S-X by requiring public business entities to disclose an “explanation of the year-to-year change in an amount or percentage of a reconciling item.” The FASB recommended this change because the added “disclosure would be meaningful to users and would not be costly because preparers should know why those reconciling items change if the change is significant” (see paragraph BC84 of the proposed Update).

While we agree with the Board’s effort to drive consistency with the SEC guidance for effective tax rate reconciliation, we believe the additional requirement to provide an explanation of the change in an amount or percentage of a reconciling item from year to year would not be meaningful for the users of the financial statements and would be redundant of the information reflected already in the effective tax rate reconciliation. The additional explanations would result in irrelevant disclosures. For example, when profit before tax changes year over year that has a cascading effect on the dollar amounts of the statutory tax, foreign rate benefit and other items.

We do not believe the proposed explanation of year-to-year change is necessary and request that it be withdrawn because ASC 740-10-50-14 also requires, if not otherwise evident from the disclosures, an entity disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented. In addition, SEC Regulation S-K 229.303(a)(3) already requires explanation of year-to-year changes that are significant. Therefore, we believe the requirement of additional explanations for rate reconciling items would not be decision useful and would add redundancy in the disclosure.

4. UNRECOGNIZED TAX BENEFITS IN STATEMENT OF FINANCIAL POSITION

The Board proposed that public business entities disclose the line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such UTBs for each line item. The users of the financial statements have said that providing the breakdown of the unrecognized tax benefit presented by statement of financial position line item would be more beneficial and allow for the investor to discern how a line item is affected by unrecognized tax benefits (see paragraph BC52 of the proposed Update).

We believe the additional disclosure of unrecognized tax benefits in the line items within the statement of financial position would lead to more confusion. Currently, it is required to prepare the unrecognized tax benefit rollforward on a gross basis. Unrecognized tax benefits is a defined term in ASC 740 and could be included in current and noncurrent income taxes payable or deferred tax asset line items within the statement of financial position. These line items include various other items and therefore would require further explanation to provide any useful information to reconcile the unrecognized tax benefits. Additionally, unrecognized tax benefits may be broken out between current and noncurrent income tax payable, which without context, could lead to more questions from the investors on how to discern current and noncurrent classification in relation to future settlements or statute of limitations lapsing. Without additional explanation and context, we believe this disclosure could lead to further confusion rather than being beneficial in understanding the impact of the unrecognized tax benefits.

Users of financial statements noted that they utilize the disclosures of the unrecognized tax benefit to assess how aggressive an entity is with its tax positions (see paragraph BC 40 of the proposed Update). We believe this is achieved already through the tabular rollforward. Therefore, disclosure of the net impact to the financial statements would not provide further decision-useful information.

5. INCOME TAXES PAID

We do not believe the disaggregation of income taxes paid between federal, state and foreign would provide decision-useful information about income taxes for the investor. Additional disclosure of disaggregation of income taxes paid may create confusion and incorrect interpretation while comparing across different jurisdictions.

Each jurisdiction has separate requirements of timing of when the estimated taxes are to be paid. Some jurisdictions require all estimated taxes to be paid within the current year, others require the estimate to be based on prior year's liability, and some don't require advanced payment at all. In addition, tax payments in any period may not be correlated to current year earnings due to prior period overpayments, carryforwards, credits, audits, etc.

While presenting income tax expense on a disaggregated federal, foreign, state basis is similar to current SEC guidance, more effort and cost would be incurred to disaggregate income taxes paid as this has not been required previously. Companies would have to implement processes and incur costs to obtain disaggregated information by federal, state, and foreign taxes paid. We do not believe the additional cost and process is justified for disclosure that will often be misleading due to timing of tax payments.

6. VALUATION ALLOWANCE

The proposal requires a public business entity to disclose valuation allowance amounts recognized and released during the reporting period, with an explanation of the changes. We believe this information is already included as part of the effective tax rate reconciliation when the change in valuation allowance is significant and in the Management Discussion and Analysis ("MD&A") where significant financial statement changes are discussed. Also, companies subject to SEC regulation disclose a rollforward of valuation allowance in the notes to the financial statements. We recommend the Board remove the proposed additional disclosures as they are redundant to existing disclosure requirements.

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

We believe the following proposed disclosure requirements pose operability or auditability issues:

- domestic and foreign profit disaggregation before intra-entity eliminations (proposed paragraph ASC 740-10-50-10A);
- amounts of federal, state, and foreign carryforwards by time period of expiration for each of the first five years after the reporting date, a total for any remaining years, and a total for carryforwards that do not expire (proposed paragraph 740-10-50-6A(a));, and the amounts of any valuation allowance recognized for deferred tax assets for federal or national, state, and foreign carryforwards (proposed paragraph 740-10-50-6A(c)); and
- income taxes paid during the period disaggregated between federal or national, state, and foreign (proposed paragraph ASC 740-10-50-22).

With respect to domestic and foreign profit disaggregation before intra-entity eliminations, we believe this disclosure will be very complex to make operable and auditable because it would require companies to deconstruct their global consolidation and elimination entries by entity and jurisdiction. This could be costly and time consuming for companies that have many legal entities and elimination entries, multiple consolidations, and/or disparate ERP systems. Companies would likely need to implement new systems and processes solely to arrive at this number for disclosure, and to ensure that such systems and processes don't increase the risk of an error in the actual consolidation or elimination processes used to prepare the financial statements. In addition, there would be additional costs as audit firms would need to audit the underlying data and results.

With respect to disclosure of carryforwards by time period of expiration, including the allocation of unrecognized tax benefits and valuation allowance that relates to deferred tax assets for carryforwards, we believe these disclosures would be difficult to make operable and auditable because of the difficulty of aggregating carryforwards across jurisdictions, and disaggregating the valuation allowance between carryforwards and other deferred tax assets. In addition, there are often complex interplays between carryforwards, uncertain tax benefits, and valuation allowances that would make this disclosure difficult to prepare, for little (if any) utility to users.

With respect to disclosure of disaggregated income taxes paid, we believe the proposed disclosure requirements would be difficult to make operable and auditable as each jurisdiction has separate requirements of timing of when the estimated taxes are to be paid and companies would have to implement processes to obtain disaggregated information in order to prepare the required disclosure. This disclosure would be operationally burdensome for large multinational enterprises with disparate ERP systems and decentralized cash payment processes and systems.

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

Cost is a pervasive constraint on information that can be provided by financial reporting, and it is important that the benefits of reporting financial information justify the costs. We expect incremental costs upon transition to the proposed disclosures as well as on-going record keeping going forward.

We believe the proposed ASU requirement to provide detailed disclosure of domestic and foreign profit disaggregation before intra-entity eliminations and before income tax expense (or benefit) can be expected to increase costs (including external audit fees) significantly as this information is not currently maintained and prepared in the required format for disclosure. Companies may not currently have processes in place to track intra-entity eliminations on a sufficiently granular level to disaggregate information, especially as financial statements are presented on a consolidated level.

With respect to proposed disclosure of interim income taxes paid disaggregated between federal, state, and foreign, we expected this to be costly, as Companies may not currently have processes in place to track this information on an interim basis. We believe the proposed disclosure may be misleading or confusing to the users due to payment requirements of different jurisdictions.

We also believe the proposed disclosure of carryforwards (disaggregated by time period of expiration and offset by valuation allowance and unrecognized tax benefits) would increase costs (including external audit fees) and complexity in the financial statements as this information is not currently prepared or maintained in the required format and result in time spent scheduling the forecasted taxable temporary differences. We believe such proposed disclosure would be of little, if any, utility to users given the volume and complexity of the proposed disclosure and may be misleading or confusing to users.

Question 4: *One of the proposed amendments would require entities to disclose pretax 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 believe the proposed amendment to require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations would not be operable. Because this proposed amendment will disclose pre-tax profit amounts that won't aggregate to consolidated pre-tax profit, and will count the same pre-tax profit multiple times (e.g., intra-entity dividends), this proposed amendment will be confusing and misleading to readers and will increase diversity in practice. The fact that intra-entity dividends are commonly not taxed (e.g., as a result of a dividends received deduction or a participation exemption) will make this disclosure very distortive and confusing to financial statement users.

We recommend the Board adopt the SEC requirement (Rule 4-08(h) of Regulation S-X) to disclose domestic and foreign pre-tax income and income tax expense as this would reduce diversity in practice, avoid imposing costs to Companies to implement process and systems to track disaggregation of profit before intra-entity eliminations, and provide less confusion for users of the financial statements as profit would directly correlate to the net profit presented on the income statement.

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 agree with the Board's decision to not include a requirement to further disaggregate income tax expense (or benefit) from continuing operations by major tax jurisdiction (country). We do not believe the further breakdown by major tax jurisdiction would result in decision-useful information about income taxes for the investor. Disclosure of disaggregation of income tax expense by major tax jurisdiction would be difficult to make operable, and may create confusion and lead to incorrect interpretation.

Further, such proposed disclosure would be inconsistent with the international consensus agreed as a result of the OECD/ Base Erosion and Profit Shifting Project (BEPS). In the October 2015 OECD BEPS Final Report on Action Item 13, *Guidance on the Implementation of Transfer Pricing Documentation and Country-by-Country Reporting,* all participating countries (including the United States) agreed that country-specific tax information would not be disclosed to the public.

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 before 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.*

No. We do not recommend a threshold that is different than 5 percent. We agree with the consistency in requirement with SEC Regulation S-X 210.4-08(h) and find the 5 percent threshold to be reasonable.

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.*

No. We believe the proposed disclosures are adequate, with the exceptions discussed above.

Question 8: *Are there any 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.*

No. We have no recommendations on other disclosures that should be removed on the basis of concepts in Chapter 8 of Concepts Statement 8 as a result of the Tax Cuts and Jobs Act, or for other reasons.

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 5 of the Codification. Do you agree with the change in scope? If not, please describe why.*

Yes. We agree with the change in scope to replace the term public entity with the term public business entity.

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 believe the proposed disclosures should only be required on a prospective basis. We agree that prior periods should not be restated in the year in which requirements are effective. Given the changes due to enactment of the Tax Cuts and Jobs Act, we believe the restatement of prior periods would not be useful for comparability. We believe the time and cost of retrospective adoption would outweigh the benefits of such adoption.

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.*

With regard to time needed to implement the proposed amendment, we recommend an effective date to be at least one year after finalization of the proposed ASU.

No. The amount of time needed to implement the proposed amendments by entities other than public business entities should not be different from the amount of time needed by public business entities.

Yes. Early adoption should be permitted.

Appendix B—SVTDG Membership

10x Genomics, Inc.
Accenture
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Arista
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Broadcom Limited
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Chegg, Inc.
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GoPro
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HP Inc.
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Ingram Micro, Inc.
Integrated Device Technology
Intel
Intuit Inc.
Intuitive Surgical
Keysight Technologies
KLA Corporation
Lam Research
Lime
LiveRamp
Marvell
Maxim Integrated
MaxLinear
Mentor Graphics
Microsoft
Netflix
NVIDIA
Oracle Corporation
Oracle Corporation
Palo Alto Networks
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Pivotal Software, Inc.
Pure Storage
Qualcomm
Red Hat Inc.
Ripple Labs, Inc.
Robinhood
salesforce.com
Sanmina-SCI Corporation
Seagate Technology
ServiceNow
Snap, Inc.
Stripe
SurveyMonkey
Symantec Corporation
Synopsys, Inc.
The Cooper Companies
The Walt Disney Company
TiVo Corporation
Trimble, Inc.
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Veritas
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