Crowe LLP
Independent Member Crowe Global

One Mid America Plaza, Suite 700
Post Office Box 3697
Oak Brook, Illinois 60522-3697
Tel +1 630 574 7878
Fax +1 630 574 1608
www.crowe.com

May 31, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2019-500

Dear Mr. Kuhaneck:

We appreciate the opportunity to respond to the FASB's request for comment on Proposed Accounting Standards Update, *Income Taxes (Topic 740)—Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes* ("Proposed ASU").

We support the FASB's efforts to modify existing income tax disclosure requirements and believe the proposals, overall, will achieve the FASB's objective of establishing disclosures that are more relevant to users of financial statements. While we are supportive of the proposed amendments, we have questions on several of the proposed amendments for the Board to consider.

Our responses to the questions for respondents are attached as Appendix A.

Please contact Scott Lehman at (630) 574-1605 (scott.lehman@crowe.com) or Julie Collins at (630) 706-2002 (julie.collins@crowe.com) should you have any questions or would otherwise like to discuss our response.

Sincerely,

Crowe LLP

Crowe LLP

cc: Jim Dolinar, Partner, Crowe LLP

Appendix A

Responses to Questions for Respondents in the Proposed ASU

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 believe the proposals will result in disclosures that are more relevant to users of financial statements. In addition, we believe the proposed amendments do not result in the elimination of any decision-useful information. However, as discussed below, we have questions about the relevance and practicability of certain of the proposed amendments.

- *ASC 740-10-50-6B (Explanation of Valuation Allowance Changes)*: If the Board retains the proposed requirement to disclose an explanation of year-over-year changes in an entity's valuation allowance, we recommend the explanation be required only upon a significant change in the valuation allowance due to a change in judgment. Frequently, changes in the valuation allowance simply may be a result of ordinary operations. For example, an entity may experience a change in its valuation allowance merely due to reversing deferred tax liabilities that mechanically cause a change in the valuation allowance with no real change in judgment. As a result, information about changes in valuation allowances would not seem relevant to users of the financial statements unless those changes represent significant changes in judgment.

- *ASC 740-10-50-12 (Explanation of Reconciling-Item Changes)*: If the Board retains the proposed requirement to disclose an explanation of year-over-year changes in amounts or percentages of reconciling items, we recommend the explanation be required only upon a significant change in the amount or percentage of a reconciling item. Similar to our discussion above on changes in valuation allowances, we observe that changes in reconciling items can result solely from the bookkeeping mechanics outlined in Topic 740. For example, consider a multinational entity that experiences an increase in pre-tax income across the globe such that its reconciling item for incremental foreign tax expense grows in dollar amount, but not relative to the overall effective tax rate. If the Board retains the requirement as it is currently drafted, an example illustrating the disclosure and the expected level of detail would facilitate more comparability between disclosures prepared by entities.

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

In general, we believe the proposed disclosure requirements are operable and auditable, except for the following:

- *ASC 740-10-50-6A(c) (Disclosure of Valuation Allowance for Carryforwards)*: The requirement to disclose the valuation allowance related to federal, state, or foreign carryforwards will be difficult for companies to prepare and for auditors to audit. The existing provisions of ASC 740 do not require companies to determine a valuation allowance on the basis of each underlying deductible temporary difference or to specifically allocate the valuation allowance to specific deferred tax assets (DTAs) for deductible temporary differences and tax attributes.

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

Several of the new disclosure requirements likely will require entities to start capturing new data or existing data differently and, as such, entities are likely to incur costs to modify or adjust current financial reporting systems. For example, many companies may not currently capture the following information, which is required under the proposed disclosure requirements:

- Year-over-year changes in the valuation allowance;
- Year-over-year changes in reconciling items in the rate reconciliation;
- The portion of the valuation allowance attributable to carryforwards.

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?

While we believe the disclosure requirement will be operable for most entities, we believe it may not be operable for large multinational entities with complex domestic and foreign tax structures. As such, we do not believe that the Board should specify whether the amounts should be before or after intra-entity elimination.

We recommend that instead the FASB 1) allow entities to either use pre-elimination or post-elimination pretax income (or loss) from continuing operations as the basis for disclosure and 2) require disclosure of the method and assumptions the entity has used.

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?

Neither ASC 740 nor the Master Glossary define “major tax jurisdiction”. As such, we believe the proposed disclosure will not be operable, and could result in diversity in practice. If the Board decides to retain the proposed disclosure, we recommend the Board provide guidance on how to apply “major tax jurisdiction” and how it is defined.

In addition, we question whether the proposed disclosure requirement would provide meaningful information, especially for entities with 1) a full valuation allowance where income tax expense may not be overly meaningful or 2) tax-beneficial structures where tax expense is minimal, even though the entity’s presence in a jurisdiction may be significant.

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.

We question whether a 5 percent threshold will result in relevant information to users of the financial statements of public business entities that are not SEC filers. Specifically, we are concerned that with the expansion of this disclosure requirement to all public business entities, coupled with the recent reduction of the U. S. statutory rate under the 2017 Tax Cuts and Jobs Act, using a 5 percent threshold could result in the disclosure of many immaterial reconciling items.

While we generally agree with the effort to align SEC disclosures and US GAAP requirements, a bright-line requirement may not allow a public business entity that is not an SEC filer to use judgment to identify what information is material, relevant, and decision-useful to the users of its financial statements.

While our preference is that public business entities that are not SEC filers be permitted to apply judgment in identifying the significant reconciling items for the users of their financial statements, if the Board determines a quantitative threshold is necessary, we believe the threshold should be consistent with the threshold in existing SEC guidance.

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.

None identified.

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.

None identified.

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 support the decision to replace the term public entity, as defined in Topic 740, with public business entity as defined in the Master Glossary of the Codification.

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 support prospective application, with an option for retrospective application, as the transition method. We believe this approach provides preparers the opportunity to exercise judgment to determine which transition approach best satisfies the needs of its stakeholders.

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.

Generally, we do not believe implementation of the proposed amendments will require significant efforts. We also support early adoption. We do recognize, however, that certain public business entities may require more time to implement several of the new disclosure requirements. Even though several of the new disclosure requirements are consistent with current SEC regulations, not all public business entities (as defined in the Master Glossary) are SEC filers, and therefore may need to adjust current financial reporting processes to capture the necessary data to comply with the new requirements.