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May 31, 2019

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

File Reference No. 2019-500
Re: Proposed Accounting Standards Update, Changes to the Disclosure Requirements for Income Taxes

Dear Mr. Kuhaneck:

Deloitte & Touche LLP is pleased to comment on the FASB's revised proposed Accounting Standards Update (ASU) Changes to the Disclosure Requirements for Income Taxes.

We support the FASB's ongoing efforts to improve the effectiveness of disclosures in the notes to the financial statements, but believe that the proposed changes to the disclosure requirements would only result in marginal improvements to existing disclosures. We also have questions about the usefulness of certain aspects of the proposed disclosures, and have identified other areas where more clarification may be needed. Those comments, and our recommended alternatives for the Board's consideration, are further explained in our responses to the questions for respondents in the appendix below.

We appreciate the opportunity to comment on the proposed ASU. If you have any questions about our comment letter, please feel free to contact Paul Vitola at (602) 234-5143 or Matt Himmelman at (714) 436-7277.

Yours truly,
Deloitte & Touche LLP

cc: Robert Uhl

Appendix
Deloitte & Touche LLP
Responses to the Proposed ASU's Questions for Respondents

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 that the proposed changes to the disclosure requirements would result in marginal improvements to existing disclosures and do not believe that any of the proposed amendments would result in the elimination of decision-useful information. That said, we do have questions about the usefulness of certain aspects of the proposed disclosures and have outlined those along with suggested alternatives (as appropriate) in the paragraphs that follow:

1. While we believe that it is not entirely clear whether the amount of deferred tax assets required to be disclosed in proposed ASC 740-10-50-6A(a) is intended to *include* or *exclude* the effect of any unrecognized tax benefits (UTBs) that arose in the same year that the related net operating loss was generated (as noted in comment 1 of our response to Question 2 below), we interpret it to include the tax effects of UTBs that arose in the same year but exclude UTBs that arose in years other than the years that the carryforward are generated because deferred tax assets are, by definition, recognized and measured "net of" *any* UTBs. As such, only UTBs that offset the deferred tax asset attributable to carryforwards in accordance with paragraph 740-10-45-10A would be included in ASC 740-10-50-6A(b). We believe that such disclosure is not particularly decision-useful because it places undue focus on UTBs arising in years *other than* the years the carryforwards are generated. Accordingly, only focusing on the UTBs that are *presented* as an offset, as required by proposed ASC 740-10-50-6A(b), will likely only lead to confusion on the part of users, and may even create operability issues. As an alternative, the Board might consider condensing ASC 740-10-50-6A(a) and (b) into a single requirement to disclose the tax effected amounts of carryforwards net of *all* associated UTBs (i.e., the carryforward deferred tax asset), regardless of when they originated. The total of all deferred tax assets for federal or national, state, and foreign carryforwards would then reconcile to amounts required to be disclosed under ASC 740-10-50-6, to the extent that carryforward deferred tax assets are significant to the entity's total deferred tax asset balance. We believe that the amount of the deferred tax asset is more decision-useful information because it is the amount that (1) meets the more-likely-than-not recognition and measurement requirements and (2) should be available to reduce future taxes. If the FASB believes that additional disclosure with respect to the amount of UTBs that net against carryforward deferred tax assets as compared to other timing differences is necessary, we would suggest expanding ASC 740-10-50-15A(c) to require disclosure of the amount of UTBs presented as an offset to the deferred tax asset balance, disaggregated by those that relate to carryforwards and those that relate to other timing differences.

2. Proposed ASC 740-10-50-6B (which would require disclosure of the amount of valuation allowance recognized in the period and the amount released in the period) may not provide useful incremental information to financial statement users. For example, a company consistently generating year over year losses would likely be

required to provide a generic disclosure about the generation of additional net operating losses that are not expected to be utilized, resulting in an increase in the valuation allowance. Alternatively, a company with a valuation allowance against its net operating loss carryforward deferred tax asset may have a profitable year resulting in the utilization of fully valued attributes and a decrease in its valuation allowance, even though its overall need for a valuation allowance is unchanged (e.g., negative evidence still outweighs positive evidence). Accordingly, as an alternative, we recommend that the FASB instead limit the disclosure of the amount of valuation allowance recognized or released during the period to only those situations that result from an actual change in judgment about a valuation allowance related to deferred tax assets that existed at the beginning of the period (i.e., an adjustment), as quantitatively disclosed in ASC 740-10-50-9(h), and the significant judgments applied in the measurement of such adjustment.

3. Given the discussion in paragraphs BC89 and BC92 of the proposed ASU which suggest that information about carryforwards is not a focus of the private-company financial statement users for their capital allocation decisions, we question whether proposed ASC 740-10-50-8A will result in more effective, decision-useful information. If the Board decides to retain this requirement, however, we believe that the disclosure as currently proposed could result in misleading and inconsistent disclosures. For example, this paragraph requires entities other than public business entities to disclose the total amounts of tax credit carryforwards and total amounts of other carryforwards (not tax effected), but neither the language included in proposed ASC 740-10-50-8A or the example provided in proposed ASC 740-10-55-220A make it clear whether these carryforwards should be on a tax-return basis or a more-likely-than-not basis. It is also not clear how (not tax effected) state carryforwards should be disclosed, and we believe that there is already diversity in practice with respect to the current application of ASC 740-10-50-3(a), which is similar to this proposed disclosure requirement. For example, as the FASB noted in paragraph BC73 of the proposed ASU, it is possible that non-tax effected state carryforwards would be double counted for the purpose of disclosing non-tax effected carryforwards. If entities other than public business entities are required to disclose non-tax effected carryforwards, this application issue will continue to exist which could result in misleading information being provided. Requiring disclosure of the tax effected amounts disaggregated by period of expiration (or a range of expiration dates) would alleviate this risk and diversity in application and provide more decision-useful information. While we note the Board's discussion in paragraph BC93 of the proposed ASU, it is unclear why providing tax-effected amounts would be complex and costly as these figures must already be established when preparing the financial statements.

4. While the Board has proposed removing ASC 740-10-50-15(d), which requires certain forward-looking disclosures with respect to reasonably possible increases or decreases in the total amounts of UTBs within the next 12 months, similar disclosures may continue to be required by ASC 275-10-50-8. More specifically, ASC 275-10-50-8 requires enhanced disclosure related to certain significant estimates if (1) it is reasonably possible that an estimate included in the financial statements will change in the near term due to one or more future confirming events and (2) the effect of the change would be material to the financial statements. Accordingly, we suggest that the Board consider clarifying how the guidance in ASC 275 applies to UTB disclosures.

5. The proposed ASU would delete ASC 740-30-50-2(b), which requires disclosure of the cumulative amount of each type of temporary difference for which a deferred tax liability has not been recognized because of the exceptions to comprehensive recognition of deferred taxes related to foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration (collectively, "foreign subsidiaries"). We agree with the proposal to delete this paragraph for the reasons described in paragraph BC33 and BC34 of the proposed ASU. Those same issues, however, could be equally applicable to ASC 740-30-50-2(c) and many of the impediments which make the calculation not practicable still exist. While we do not believe that this paragraph should be deleted like ASC 740-30-50-2(b), we believe that modification of this paragraph would result in more effective, decision-useful information consistent with paragraph BC10(b). More specifically, despite the fact that federal taxable temporary differences related to investments in foreign subsidiaries have decreased significantly as a result of the Tax Cuts and Jobs Act, exposure to additional income tax liabilities as a result of accumulated unremitted book earnings still exists and may be significant (e.g. significant foreign withholding tax liabilities). Accordingly, the FASB may wish to modify ASC 740-30-50-2(c) to eliminate the required disclosure of the total amount of *unrecognized deferred tax liability for temporary differences* related to investments in foreign subsidiaries, and instead change it to a disclosure of *tax consequences of remittances of accumulated unremitted foreign book earnings for which a deferred tax liability has not been recognized.* We believe that this disclosure would be more practicable and would provide additional decision-useful information by disclosing to financial statement users the potential exposure to additional tax liabilities as a result of any changes in the entity's assertion related to undistributed foreign earnings.

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

We recommend that the Board clarify certain aspects of the proposed guidance to make it more operable, as further described below.

1. Proposed ASC 740-10-50-6A(a) would require disclosure of the amounts of deferred tax assets for federal or national, state, and foreign carryforwards before the valuation allowance. As currently drafted, we believe that this will create operability issues, because it is not clear in the proposed requirement whether the amount of applicable deferred tax assets is intended to *include* or *exclude* the effect of any UTBs that arose in the same year that the related net operating loss was generated. Such deferred tax assets, by definition, should be initially recorded net of the effect of these UTBs. However, we believe that in practice, entities may not understand that the disclosure requirement in ASC 740-10-50-6A(a) is intended to include such effect, and entities may provide an otherwise gross deferred tax asset amount prior to consideration of *any* related UTBs, regardless of the period they arose. We believe that this is especially likely given the reference to "[t]he total amount of UTBs that offsets deferred tax assets attributable to carryforwards" in ASC 740-10-50-6A(b). Although this paragraph specifically references ASC 740-10-45-10A which is included in the Presentation section of ASC 740, we nevertheless believe that diversity in the application of this paragraph may arise. While our response to question 1 includes a more comprehensive modification to this paragraph, if the Board elects to keep the proposed disclosure in its current form, we would, at a minimum, suggest additional clarification to eliminate confusion and diversity in practice related to amounts required by this disclosure.

2. Proposed ASC 740-10-50-6A(a) would require disclosure of the amounts of deferred tax assets for federal or national, state, and foreign carryforwards before the valuation allowance disaggregated by period of expiration for each of the five years after the reporting date. While entities typically have carryforward schedules that note how far a particular year's loss can be carried forward, such schedules are almost exclusively on a non-tax effected basis. The proposed requirement may create additional cost and complexity, especially for state carryforwards, because of the differences in how each state carryforward is established (e.g., preapportionment or postapportionment).

3. Proposed ASC 740-10-50-6A(c) would require disclosure of the amounts of any valuation allowance recognized for deferred tax assets for federal or national, state, and foreign carryforwards. While this disclosure may be operable, it will likely result in additional cost and complexity because it will require a labor intensive, detailed scheduling exercise when deferred tax liabilities are present that would otherwise not be required, (i.e. valuation allowances are generally determined by jurisdiction based on the expected utilization of the aggregate population of deferred tax assets including both attributes and deductible temporary differences). A requirement to perform an analysis of this nature for carryforwards, in isolation, may also be inconsistent with the FASB's previous decisions on a similar matter as part of the adoption of Statement of Financial Accounting Standards No, 109, *Accounting for Income Taxes*, relating to the allocation of a valuation allowance between current and noncurrent deferred tax assets. Paragraph 41 of Statement 109, as codified in ASC 740-10-45-5 prior to its amendment by ASU 2015-17, required the valuation allowance for a particular tax jurisdiction to be allocated between current and noncurrent on a pro rata basis. In the FASB's Basis for Conclusions of Statement 109, it noted that one reason, among others, that it selected the pro rata alternative as opposed to a detailed analysis of specific amounts of the valuation allowance related to current and noncurrent deferred tax assets is because the "alternative does not create the impression that detailed scheduling is required for situations in which it otherwise could be avoided." For the same reason, we believe that the current proposed disclosure in ASC 740-10-50-6A(c) is unwarranted because an analysis may be required at a level of precision that is otherwise not necessary for U.S. GAAP reporting in order to comply with the disclosure requirement. We believe that existing valuation allowance disclosures elsewhere in ASC 740-10-50-2 and ASC 740-10-50-9 provide sufficient information.

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

We believe that the incremental costs for certain disclosures could be more than insignificant. For example, included in our response to Question 2 above, we noted that a requirement to disclose the amounts of any valuation allowance recognized for deferred tax assets for federal or national, state, and foreign carryforwards may result in additional costs, particularly when an entity has deferred tax assets for carryforwards, other deferred tax assets, deferred tax liabilities and a partial valuation allowance. In order to satisfy this disclosure, a detailed scheduling analysis not otherwise necessary under U.S. GAAP may be required.

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 agree that specifying how the disaggregation of pretax income (or loss) between domestic and foreign should be performed would result in improved financial reporting and reduce diversity in practice. We also agree that, conceptually, disaggregating the data before intra-entity eliminations would seem to be a better starting place as it would allow for more meaningful relationships between pre-tax income and tax expense when intra-entity transactions are significant. That said, there are certain transactions, such as those described in ASC 740-10-25-3(e) that already result in the elimination of income amounts and a similar prohibition of recording related tax amounts. In these situations, it would appear as if the more appropriate presentation would be after eliminations, rather than before, as no tax amounts are actually being recognized in the financial statements. We expect other issues may also exist based on company-specific facts and circumstances (e.g. how entities record intra-entity eliminations or upstream and downstream transactions). Accordingly, the Board might suggest that, while presenting the information before intra-entity eliminations is generally recommended, modifications or exceptions to the model might also be acceptable in individual facts and circumstances provided they are supplemented by appropriate disclosure.

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?

For the same reasons noted in Question 4, we question whether a proposed amendment to require further disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction would be operable. The same issues exist with respect to determining how intra-entity eliminations would be contemplated for the purposes of determining comparable, disaggregated amounts for this disclosure and may be further exasperated when trying to apply the requirement with respect to multiple jurisdictions. We defer to users' views on whether such disclosure would result in decision-useful information about income taxes.

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 believe that the proposed amendments to ASC 740-10-50-12 that would require entities to separately disclose reconciling items that are "more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal or national income tax rate" may result in disclosure of items that are insignificant or immaterial when the amount of income before tax or the applicable income tax rate is low. In addition, as a result of tax reform and the related U.S. federal corporate income tax rate reduction, we have observed that this SEC disclosure requirement has already resulted in a lower quantitative threshold of disclosure for U.S. entities as compared to before tax reform. We recommend that the Board remove reference to a specific numeric or percentage-based threshold for determining when separate disclosure for certain reconciling items is required in the rate reconciliation. Instead, we suggest that the Board continue to require separate disclosure of any "significant" reconciling items, as currently required under ASC 740. The existing disclosure requirement (specifically as it relates to disclosure of reconciling items) is more consistent with the Board's broader objective in its proposed disclosure framework to permit "the appropriate exercise of discretion by reporting entities." This approach would also reduce diversity in practice for parent entities that pass through federal income taxes to their owners and therefore have a tax rate of zero.

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 suggest that the Board add a cross-reference to ASC 235-10-50-3 in ASC 740-10-50-18 that directs users to guidance on disclosing other relevant accounting policies or methods of applying the accounting principles related to income taxes.

Although ASC 740-10-50-17 was not modified by the proposed ASU, we suggest that the Board add a clarification to this paragraph which specifies whether an entity that is a member of a group that files a consolidated tax return but also prepares separately issued financial statements should comply with the requirements of ASC 740-10-50-17 *in addition to* or *in lieu of* other disclosures required under ASC 740. We believe that financial reporting may vary significantly among entities on the basis of different interpretations of this paragraph.

Example 31 in ASC 740-10-55-218 through 55-222 provides illustrative example disclosures related to realizability estimates of deferred tax assets and carryforwards. Included in this illustrative example in ASC 740-10-55-220 are disclosures regarding uncertainties relative to the realization of deferred tax asset carryforwards, including forward-looking statements by management that satisfy the requirements of ASC 275-10-50-8, as noted in paragraph ASC 740-10-55-218. It is unclear why similar disclosures about uncertainty in the preceding example (Example 30) in ASC 740-10-55-217 are proposed to be deleted entirely rather than amended. While it appears that these disclosures are being deleted as a result of the proposed modifications to ASC 740-10-50-15(d), some or all of these disclosures may still be required under ASC 275 under the facts and circumstances described in the original example. We acknowledge that the original facts in Example 30 state that the company does not anticipate a material change in its financial position as a result of resolution of the uncertainty, and this may be a valid reason as to why additional disclosures required under ASC 275 were excluded. However, we believe leaving an affirmative statement of this nature in the example (i.e. that the company does not anticipate a material change in its financial position) and a reference to ASC 275-10-50-8 in the introduction to ASC 740-10-55-217 may better inform financial statement preparers why additional disclosures were not necessary in the illustrative example, in contrast to the additional disclosures provided in Example 31.

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.

We do not believe that there are any additional 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.

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.

Yes, we agree with the change in scope because it establishes consistency between ASC 740 and other areas of U.S. GAAP.

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.

Only prospective disclosures should be required. We believe that since the intention of the disclosures is to give readers useful information upon which they can make investment decisions, restating prior-year disclosures would probably be of little value.

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.

We do not believe that an entity would require a long implementation period because the additional disclosure requirements are generally straightforward; the entity is likely to have the information readily available (with the exception of specific items noted in our responses above, including the determination of certain carryforward expiration dates and allocation of a valuation allowance to carryforward deferred tax assets, for which a longer implementation period might be warranted).

In terms of the effective date, given the nature of the proposed amendments, we believe that entities other than public business entities may not require additional time to implement the amendments. All entities should be allowed to early adopt the guidance.