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May 31, 2019

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

Via Email to [director@fasb.org](mailto:director@fasb.org)

**Re: File Reference 2019-500**

Dear Shayne:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, *Income Taxes (Topic 740) – Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes*.

Grant Thornton supports the Board's intent to modify disclosure requirements to result in more effective, decision-useful information about income taxes. We generally believe that the proposed amendments will result in more effective disclosures by focusing on information that is important to the financial statement users. Please see our responses to the questions below. We are available to discuss our responses to the questions for respondents with Board members or staff at their convenience.

**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.**

Overall, we believe that the proposed amendments would result in more effective, decision-useful information about income taxes, except as noted herein. We have provided further commentary regarding certain aspects of the proposed amendments in our responses to the specific questions below.

We believe the proposed requirements regarding the disclosure of loss and credit carryforwards introduce inconsistencies in reporting that could result in a reduction of the decision-usefulness of disclosed information about income taxes. In particular, the proposed amendments would require public business entities to disclose loss and credit carryforwards tax-effected, whereas entities other than public business entities would be required to disclose the same before tax effect. Carryforward amounts disclosed in public versus non-public financial statements would not convey consistent information, thereby risking confusion among users.

In addition, users may not be able to determine the impact of losses disclosed prior to tax effect, particularly due to the differences in how various states treat net operating



loss (NOL) carryforwards on a pre- or post-apportionment basis. In the former situation, NOL carryforwards are calculated without regard to an entity's apportionment factor in a given jurisdiction, and can be utilized to offset future taxable income prior to apportionment in that year. In the latter situation, the NOL carryforward is determined by applying the apportionment factor to the loss generated in that year, with the apportioned NOL carryforward available to offset future apportioned income. A disclosure of the tax-effected, apportioned NOL carryforwards may harmonize these two jurisdictionally-specific methodologies, whereas a disclosure of the pre-tax effected/pre-apportioned NOL carryforwards may not adequately convey the value of the NOL carryforwards to the users of the financial statements.

While we note that the Board has often prescribed disclosure requirements for non-public entities that differ from public business entities, the differences have typically been in the form of simplification or abbreviation, not of divergence. Non-public entities often opt to prepare financial statements and disclosures consistent with public business entities for a variety of reasons, including a desire to increase transparency to the users of their financial statements and to make a future transition to becoming a public issuer more seamless. The disclosure requirements in the proposed Update (ASC 740-10-50-8A) appear to preclude a non-public entity from adopting the disclosure format of a public business entity. If this is not the Board's intent, we suggest that the proposed guidance in ASC 740-10-50-8A be written as an option.

The Board has proposed to eliminate the existing requirement for all entities to provide certain disclosures regarding positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date. We do not believe this proposed change would eliminate decision-useful information about income taxes. Rather, the proposed elimination may avoid negative consequences to the reporting entity should the estimate of such range eventually be materially different than the amount disclosed due to circumstances beyond management's control. Accordingly, we fully support the Board's elimination of this disclosure requirement, as it is more consistent with a forward-looking disclosure than a disclosure of future-oriented information that is useful.

The Board has proposed requiring public business entities to disclose the total amount of the valuation allowance recognized for deferred tax assets for federal or national, state, and foreign carryforwards. We believe this proposed disclosure would not result in more decision-useful information. Further, it may not be operable or auditable. We recognize that in certain circumstances, a valuation allowance is recognized for a specific deferred tax asset such as a capital loss carryforward. However, a valuation allowance is often not recorded for other specific deferred tax assets including but not limited to net operating loss carryforwards. Instead, the realizability of the deferred tax benefit of net operating loss carryforwards is generally assessed in conjunction with the deferred tax benefit of other future tax deductions arising from the reversal of existing deductible temporary differences. If insufficient income from among the four sources of taxable income exists to conclude that these



deferred tax benefits are more-likely-than-not realizable, then a valuation allowance is recognized on the unrealizable deferred tax asset, rather than separately on each component of the deferred tax asset.

In a simplified example, assume an entity has (1) a \$10 million deferred tax asset associated with a net operating loss carryover with an indefinite carryforward period and (2) a \$5 million deferred tax asset associated with accrued expenses not yet deductible for income tax purposes. Further assume that the future reversal of existing taxable temporary differences, for which the entity has a \$2 million deferred tax liability, is the only source of taxable income to support realizability of the \$15 million deferred tax asset. In such case, a valuation allowance of \$13 million would be recognized to reduce the \$15 million total deferred tax assets to \$2 million, the amount that more likely than not is realizable. In this fact pattern, the \$13 million valuation allowance is not specifically associated with either of the existing deferred tax asset components. Accordingly, this results in difficulty in determining how much of the total valuation allowance this entity would attribute specifically to the net operating loss carryforward. As illustrated herein, the attribution of a valuation allowance to a specific deferred tax asset such as a carryforward, when an entity generally assesses the need for a valuation allowance based on the totality of its deferred tax asset, is inconsistent with the manner in which the valuation allowance is determined. Accordingly, this particular proposed requirement raises concern as to its operability and auditability.

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

Overall, we believe the proposed disclosure requirements are operable and auditable. However, we have provided commentary relevant to this question in our response to other questions. See, for example, our commentary regarding (1) the proposed requirement of public business entities to disclose the total amount of the valuation allowance recognized for deferred tax assets for federal or national, state, and foreign carryforwards (commentary provided in Question 1) and (2) whether a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major jurisdiction is operable (commentary provided in Question 5).

**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 the determination of what potential incremental costs, if any, would be incurred as a result of the proposed disclosures would be best made by the preparers of financial statements. However, we believe that the attribution of valuation allowance to net operating losses and other carryforwards may give rise to incremental costs.

**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 the 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 that a significant cause of the current diversity in practice relates directly to the operability challenges many entities would encounter in modifying processes and accounting systems to conform to differing practices. While disaggregation of pretax income prior to intra-entity eliminations could aid in improving the accuracy of separate legal entity results in individual tax jurisdictions, pretax income for individual tax jurisdictions is not required to be disclosed in accordance with the proposed Update (pending the Board's ultimate conclusion regarding Question 5). Accordingly, it is not entirely clear what decision-useful information would be provided to the users of the financial statements when such requirement would only impact the disaggregation between domestic and foreign.

If having such information would be useful to the users of the financial statements, then we recommend that entities be permitted to disaggregate following either methodology but also be required to disclose the manner by which they are disaggregating pretax income. We do believe that the Board should either specify whether the disclosure should be before or after intra-entity eliminations, or require entities to disclose the method 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?**

We appreciate that the Board has considered a number of country-level disclosures to address feedback received regarding users' primary areas of focus on income taxes including the sustainability of an entity's tax rates and tax exposure in significant countries. Therefore, we believe the question of whether requiring a jurisdictionally disaggregated presentation of income tax expense (benefit) would provide decision-useful information can be best addressed by the intended users of financial statements. To the extent such information is deemed to be decision-useful because it could provide information about the quality of, and potential variability of, an entity's earnings and cash flow, it may be more appropriate for this information to be included in the Management's Discussion and Analysis of Financial Position and Results of Operation (MD&A) section of a public business entity's quarterly and annual financial reports.

That notwithstanding, we recommend that, should such income tax disclosure be required, there be an objective measure of what constitutes a major tax jurisdiction. The absence of an objective measure would introduce challenges to the operability and auditability of this requirement.

In order to enhance the meaningfulness of such disclosures and to improve operability and auditability, we would also suggest that any objective definition of major tax jurisdiction consider not only the relative magnitude of jurisdictions with respect to each other but also to financial statement materiality as a whole



We would also recommend clarity as to whether state/local/provincial tax jurisdictions are intended to be considered as part of the disaggregation or whether such presentation is intended only at the federal/national level.

**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 the 5 percent threshold currently specified in the SEC regulation to be sufficient. We applaud the Board's efforts towards achieving consistency with the SEC requirement and believe that doing so will provide a sufficiently operable and auditable standard that will generate useful information to the users of financial statements.

**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 believe disclosures addressing the extent of an entity's tax impacts under Global Intangible Low-Taxed Income (GILTI) and Base Erosion and Anti-Abuse Tax (BEAT) regimes, and the benefit generated via the Foreign-Derived Intangible Income (FDII) deduction will provide enhanced decision-useful information due to the continued heightened focus on U.S. entities' international footprint and the tax efficiency of same. It is noted, however, that public business entities would already be required to disclose the effect of these items in their rate reconciliation, provided they rise to the requisite threshold. As such, consideration may be given to requiring disclosure of the impacts of these regimes if material and if not otherwise apparent in the rate reconciliation or other disclosures.

We believe that consideration should also be given to requiring disclosure of a public business entity's accounting policy with respect to the recording of deferred tax assets associated with compensation paid to covered employees due to substantial changes made by the TCJA. While the requirement to anticipate the effect of the Section 162(m) limitation when recording deferred tax assets for compensation that may be subject to the limitation has not changed, the changes made by TCJA have the effect of increasing the amount of compensation, including stock-based compensation, that may be subject to the limitation. As a result, the accounting method in which an entity anticipates the effect of the Section 162(m) limitation has potentially become more meaningful to the users of the financial statements especially when considering the divergence in practice with respect to the accounting method used. For example, some entities will regard the impact of stock-based compensation to take priority over future cash compensation, thereby resulting in a deferred tax asset being recorded for stock-based compensation up to the tax deductible amount of \$1 million. Yet, other entities may either (1) consider future cash compensation to take priority over stock-



based compensation, thereby resulting in no deferred tax asset being recorded for stock-based compensation if the future cash compensation will exceed the \$1 million limitation or (2) consider future cash compensation and stock-based compensation to have equal priority, thereby resulting in pro-rating a portion of the \$1 million limitation to stock-based compensation (with a deferred tax asset being partially recorded for stock-based compensation). Due to the potential difference in the recording of the deferred tax asset associated with stock-based compensation, which can be a significant expense of many public companies, we believe consideration should be given to requiring disclosure of a public business entity's accounting policy with respect to the recording of deferred tax assets associated with compensation paid to covered employees. This requirement would be consistent with the one of the objectives of the disclosure requirements to provide users of financial statements with information about acceptable alternative accounting policies or methods.

**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 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.

**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 proposed change in scope whereby the term public entity in Topic 740 would be replaced 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 Board should allow prospective adoption of the proposed disclosures, i.e., prior periods would not be required to be restated in the year the requirements are effective. However, we also believe that entities should not be precluded from restating prior periods in the year in which the requirements are effective should they choose to do such.

**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 entities be different than the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.**

We defer to those in practice to comment on the time that will be required to implement the proposed amendments.



We generally believe that non-public business entities may require more time to implement the proposed amendments given they often have less personnel and financial resources than public business entities. Accordingly, we believe they would benefit from a later effective date.

We believe that early adoption should be permitted.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Lynne Triplett, Partner, at (312) 602-8060 ([Lynne.Triplett@us.gt.com](mailto:Lynne.Triplett@us.gt.com)) or April Little, Partner, at (832) 476-3730 ([April.Little@us.gt.com](mailto:April.Little@us.gt.com)).

Sincerely,

/s/ Grant Thornton LLP