Board Meeting Handout
Simplifications to Accounting for Income Taxes
September 4, 2019

Meeting Purpose

1. The September 4, 2019 meeting is a decision-making meeting. The purpose of this handout is to (a) provide a summary of comments from the 24 letters received in response to the proposed Accounting Standards Update, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (which was published for comment on May 14, 2019, with a comment period ending on June 28, 2019) and (b) serve as a basis for the Board's discussion and redeliberations on the proposed Update.

2. This handout is organized as follows:
   (a) Issue background
   (b) Comment letter demographics
   (c) Summary of comments received.

Questions for the Board
Exceptions Proposed to Be Removed
1. Does the Board want to affirm its previous decisions to remove the following exceptions from Topic 740?
(a) Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items
(b) Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment
(c) Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary
(d) Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.
Proposed Clarifications and Amendments

Franchise Taxes That Are Partially Based on Income

2. Does the Board want to:

(a) Affirm its previous decision on franchise taxes partially based on income?

(b) Provide guidance on the need for a valuation allowance?

(c) Provide a scope exception for pass-through entities?

Transactions That Result in a Step Up in the Tax Basis of Goodwill

3. Does the Board want to:

(a) Affirm its previous decision on transactions that result in a step up in the tax basis of goodwill?

(b) Expand the scope of the proposed amendments to all transactions that result in a step up in the tax basis of goodwill?

Separate Financial Statements of Legal Entities Not Subject to Tax

4. Does the Board want to:

(a) Affirm its previous decision to clarify that an entity is not required to allocate amounts of consolidated current and deferred taxes to a legal entity that is not subject to tax in its separate financial statements, but that the entity may elect to do so for a legal entity that is disregarded by the taxing authority?

(b) Clarify that an entity can make that election on an entity-by-entity basis?

5. Does the Board want to affirm its previous decisions on the following simplifications?

(a) Require that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date?

(b) Make minor amendments to the guidance for (i) income taxes related to employee stock ownership plans and (ii) investments in qualified affordable housing projects accounted for using the equity method?

Transition

6. Does the Board want to affirm the proposed transition disclosures?

7. Does the Board want to (a) require modified retrospective transition for franchise taxes partially based on income and (b) affirm its other previous decisions on transition methods?

Effective Date

8. What should the effective date(s) of the final guidance be for (a) public business entities and (b) all other entities?

9. Does the Board want to permit early adoption?

Cost Benefit

10. Does the Board think that the expected benefits of the changes would justify the expected costs of the changes? If not, is there additional information that the Board needs to make that determination?

11. Does the Board give the staff permission to draft a final Update for vote by written ballot?

Issue Background

3. The Board issued the amendments in the proposed Update on Topic 740 as part of the Board's Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information required to be reported by an entity.

4. The Board has heard from stakeholders that accounting for income taxes is unnecessarily complex. Stakeholders submitted an agenda request with certain suggestions for simplifications to the accounting for income taxes, and other practitioners provided additional suggestions for simplifications during the staff's outreach.

5. The amendments in the proposed Update would simplify the accounting for income taxes by removing certain exceptions in Topic 740, including the exceptions to:

   (a) The incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income)

   (b) The requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment

   (c) The ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary

   (d) The general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

6. The amendments in the proposed Update also would simplify the accounting for income taxes by:

(a) Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income in accordance with Topic 740 and account for any incremental amount incurred as a non-income-based tax

(b) Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction

(c) Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax but that an entity may elect to do so for a legal entity that is disregarded by the taxing authority

(d) Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date

(e) Making minor amendments to the guidance for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

Comment Letter Demographics

7. The 24 respondents to the proposed Update are summarized by type as follows:

Respondent Type	
Association Group	8
Auditor	10
Preparer	4
Individual	2
Total:	24

8. The association group is further broken down as:

Respondent Type	
Professional Association	3
State Society of Certified Public Accountants (CPAs)	5
Total:	8

Summary of Comments Received

9. Questions 1–3 in the proposed Update asked respondents to broadly consider whether the proposed amendments would:

   (a) Simplify the accounting for income taxes

   (b) Maintain or improve the usefulness of information provided to users

   (c) Result in the elimination of decision-useful information

   (d) Be operable and auditable

   (e) Impose significant incremental costs.

   In response to those questions and as described in this handout, stakeholders provided both general feedback on the proposed amendments and specific feedback on various areas of the proposed amendments. The specific feedback has been included in the stakeholder feedback sections of this handout where applicable.

General Feedback

10. Stakeholders generally agreed that the proposed amendments would simplify accounting for income taxes while maintaining or improving the usefulness of information provided to financial statement users. Some stakeholders also noted that the proposed amendments would not result in the elimination of decision-useful information. Several stakeholders (three accounting firms and one preparer) commented that the proposed amendments would improve consistency in accounting for income taxes and simplify practice by removing certain exceptions to the general principles in Topic 740. Most stakeholders agreed that the proposed amendments are operable and auditable and would not impose significant costs.

11. While stakeholders generally agreed that the proposed amendments would simplify accounting for income taxes, maintain or improve the usefulness of information provided, and not impose significant costs, stakeholders also raised concerns about specific areas that are described in subsequent sections of this handout.

Intraperiod Tax Allocation

12. Intraperiod tax allocation is the process of allocating total tax expense or benefit to components of the income statement (such as continuing operations and discontinued operations) and directly to shareholders' equity and other comprehensive income. Total tax expense generally is allocated by first determining the amount of tax expense or benefit allocated to continuing operations and then proportionally allocating the remaining tax expense or benefit to items other than continuing operations. Generally, the tax effect of

income from continuing operations should be determined without considering the tax effect of items that are not included in continuing operations.

13. Current paragraph 740-20-45-7 provides an exception to this general approach by requiring that all components, including discontinued operations and items charged or credited directly to equity, be considered when determining the tax benefit from a loss from continuing operations. This exception applies only when there is a current-period loss from continuing operations and income or gain from the other items. Application of this exception requires that an entity consider a gain or income outside continuing operations (for example, one recognized in other comprehensive income) in the current year for purposes of allocating a tax benefit to a current-year loss from continuing operations. For example, an entity may consider the gain or income outside continuing operations to determine whether a valuation allowance needs to be recognized for purposes of allocating the tax benefit to continuing operations.

14. Stakeholders indicated that the exception creates counterintuitive outcomes, is difficult to apply, is often overlooked, and does not provide any perceived benefit to users. Additionally, there is diversity in practice in how the guidance in current paragraph 740-20-45-7 is interpreted. For those reasons, the Board decided that removing the exception to the incremental approach for intraperiod tax allocation would reduce the cost of applying Topic 740 while not significantly altering the information provided to users of financial statements.

Stakeholder Feedback

15. Five of the 24 respondents (3 accounting firms, 1 professional association, and 1 individual) provided specific feedback on the proposed amendments to the guidance on intraperiod tax allocation. Two accounting firms (CL#10 and CL#15) and an individual (CL#2) supported the elimination of the exception to the incremental approach for intraperiod tax allocation noting that the elimination would simplify the accounting for preparers and improve the usefulness of information provided to users. One of those accounting firms noted that the current exception to the general principle of intraperiod tax allocation is often challenging for companies to apply and the results of the computation often are counterintuitive.

16. One accounting firm (CL#15) and an individual (CL#2) suggested that amendments be made to the intraperiod tax allocation illustrative examples (paragraphs 740-20-55-10 through 55-12C in the proposed Update) to reflect the tax rates in the current tax laws, noting that such changes would increase the operability of the proposed amendments.

17. One accounting firm (CL#11) and one professional association (CL#21) disagreed with the proposed amendments to eliminate the exception to the incremental approach for intraperiod tax allocation, noting that they might eliminate useful information and decrease

comparability in certain circumstances. The accounting firm stated that it agrees that the existing exception results in additional complexity; however, the accounting firm indicated that the exception reflects the actual accounting results and the tax benefit attributable to the loss from continuing operations. The firm explained that, in general, a pretax gain in a category other than continuing operations provides a source of income that may be available to utilize a tax attribute included in continuing operations and by eliminating the exception, the benefit allocated to continuing operations (or lack thereof) results in a disconnect between the two categories as presented on the balance sheet. The firm acknowledged that users of financial statements may find it challenging to reconcile the overall tax provision in circumstances in which the overall income tax expense is zero because of the current exception whereby an income tax benefit is allocated to continuing operations and an income tax expense is allocated to discontinued operations. The firm noted that while this presentation may be counterintuitive, it best reflects the financial position of the entity in which a category other than continuing operations provided a source of taxable income and resulted in a direct effect to a tax attribute associated with continuing operations.

18. The professional association (CL#21) disagreed with the proposed amendments noting that while they may simplify accounting for income taxes in some instances, removing the exception described in paragraph 13 above may complicate the accounting in other instances. The professional association explained that if an entity recognizes a capital gain on a business disposition, the entity may undertake tax-planning strategies to realize losses that are part of continuing operations so that the cash tax liability is minimized. The current accounting is straightforward in that any net benefit of the loss is recorded in continuing operations; however, the professional association noted that under the proposed amendments the benefit of the loss would need to be evaluated for realizability, ignoring the income from discontinued operations. In other words, under the proposed intraperiod tax allocation guidance, the gain in discontinued operations would not be a source of income that could be considered in evaluating whether the tax benefit associated with the loss in continuing operations is realizable. Therefore, the professional association requested that the Board remove the proposed amendments and retain current GAAP.

19. During the June 2019 Private Company Council (PCC) meeting, while PCC members supported the simplifications one PCC member (an auditor) expressed concern about eliminating the exception to the incremental approach for intraperiod tax allocation. That PCC member asserted that the current guidance results in more understandable amounts of tax expense (or benefit) being allocated to the various components in some situations compared with the proposed amendments.

Ownership Changes in Investments

20. Topic 740 provides income tax guidance for situations in which an investment in common stock of a subsidiary changes such that it is no longer a subsidiary. If a parent entity does not recognize income taxes on its undistributed earnings because of the assertion that earnings were indefinitely reinvested or would be remitted in a tax-free liquidation, current paragraph 740-30-25-15 requires that the outside basis difference be frozen (and no deferred tax liability is recognized on the basis difference that exists as of that date) until the period when it becomes apparent that any of the undistributed earnings will be remitted. That guidance states that transitioning from a subsidiary to an equity method investment would not by itself mean that remittance of the undistributed earnings must be considered apparent. An entity would recognize deferred taxes and income tax expense (or benefit) on any basis differences that occur after the subsidiary becomes an equity method investment.

21. The Board noted that the current guidance that requires an entity to freeze the outside basis difference of a subsidiary that becomes an equity method investment represents an exception to the general principle for accounting for outside basis differences of equity method investments. The Board decided that the exception increases the cost and complexity in applying Topic 740 and reduces the comparability of the accounting for reasons described in paragraph BC17 of the proposed Update. Therefore, the Board decided to align the accounting for income tax effects of equity method investments by removing the exception in paragraph 740-30-25-15.

22. Topic 740 also provides income tax guidance for situations in which a foreign equity method investment becomes a subsidiary. Under current guidance in paragraph 740-30-25-16, the deferred tax liability previously recognized for a foreign equity method investment cannot be derecognized when the investment becomes a subsidiary—even if the entity asserts that earnings are indefinitely reinvested or will be remitted in a tax-free liquidation—unless dividends received from the subsidiary exceed earnings from the subsidiary after the date it became a subsidiary.

23. The Board noted that the current guidance that requires an entity to freeze the outside basis difference of a foreign equity method investment that becomes a subsidiary represents an exception to the general principle for accounting for outside basis differences of foreign subsidiaries. The Board decided that the exception increases the cost and complexity in applying Topic 740 and reduces the comparability of the accounting for reasons described in paragraph BC19 of the proposed Update. Therefore, the Board decided to align the accounting for income tax effects of foreign subsidiaries by removing the exception in paragraph 740-30-25-16.

Stakeholder Feedback

24. Eight of the 24 respondents (6 accounting firms, 1 individual, and 1 state CPA society) provided feedback on the proposed amendments to the guidance on ownership changes in investments. Seven of those eight respondents agreed or conditionally agreed with those proposed amendments and one respondent disagreed with part of the proposed amendments. One accounting firm (CL#15) that agreed with the proposed amendments stated that eliminating the current exceptions to the general principles for recognizing or derecognizing deferred tax liabilities for outside basis differences when an investor loses or gains control of foreign subsidiaries or investees accounted for using the equity method would simplify the accounting for preparers and improve the comparability of financial information because outside basis differences would be accounted for in a similar manner, regardless of how the investment was obtained. Another accounting firm (CL#12) noted that the usefulness of information is expected to improve because comparability will be enhanced, and the proposed amendments would be operable and auditable and would likely result in reduced compliance costs.

Exception to the Requirement to Recognize a Deferred Tax Liability for Equity Method Investments When a Foreign Subsidiary Becomes an Equity Method Investment

25. An accounting firm (CL#11) agreed that recognizing income taxes on any outside basis difference that exists after the transition to an equity method investee aligns with existing guidance elsewhere in the Codification, eliminates complexity related to tracking the basis difference, and results in consistent treatment among all investments. However, the accounting firm stated that, in limited circumstances, the entity might be able to control the manner of reversal of the basis difference in the equity method investee through legal agreements or other such contractual agreements and, therefore, the entity would be able to avoid recognition of the deferred tax liability.

26. Similarly, an individual (CL#2) disagreed with the proposed amendments to eliminate the exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment noting that those proposed amendments would result in removing a useful principle. The individual explained that, generally, a change in the investor’s investment status in a foreign entity from a subsidiary to an equity method investment triggers the need to recognize deferred income tax for the outside basis difference. The change in status often makes it apparent that the investor’s equity in the undistributed earnings will be remitted and trigger income tax because the investor no longer controls the timing and manner by which the outside basis temporary difference would reverse. However, there are commercial arrangements that result in the investor losing financial control that results in accounting consolidation, but

the investor still retains control or influence over the expected manner of recovery of the investment and, therefore, still retains control or influence over whether or when the income tax consequences would occur. For example, an investor might reduce its investment below a financial controlling interest and deconsolidate a foreign equity method investee but also might retain certain rights and powers to decide whether the foreign entity can pay dividends (for example, an ability to block dividends) or liquidate. Furthermore, the controlling and noncontrolling investors might contractually agree to not take dividends from the foreign investment. The individual noted that this situation is acknowledged in current paragraph 740-30-25-15, which states in part that "the change in the status of an investment would not by itself mean that remittance of these undistributed earnings shall be considered apparent." The individual noted that this guidance is consistent with the accounting for equity method investments in foreign corporate joint ventures that are considered permanent in duration (paragraph 740-30-25-18), which is an exception to full recognition of deferred income taxes for equity method investments. The individual suggested that the Board should retain the guidance in paragraph 740-30-25-15 because it provides guidance that is consistent with the expected manner of recovery and corporate joint ventures that are permanent in duration. Additionally, the individual notes that eliminating the guidance would force an entity to recognize a deferred income tax liability when a subsidiary investment is changed to an equity method investment even when the facts and circumstance support nonrecognition.

Exception to the Ability Not to Recognize a Deferred Tax Liability for a Foreign Subsidiary When a Foreign Equity Method Investment Becomes a Subsidiary

27. One accounting firm (CL#11) agreed with removing the exception in paragraph 740-30-25-16 because it increases complexity and does not align with the general principles related to indefinite reinvestment and the ability to control the reversal of an outside basis difference. However, the accounting firm requested that the Board clarify whether entities should account for the elimination of any historical deferred tax liability upon transition from an unconsolidated foreign equity method investee to a subsidiary as a benefit to income (loss) from continuing operations or as part of a business combination.

Year-to-Date Loss Limitation in Interim Period Tax Accounting

28. Under the interim period income tax model in Subtopic 740-270, Income Taxes—Interim Reporting, an entity is required to make its best estimate of the annual effective tax rate for the full fiscal year at the end of each interim period and use that rate to calculate income taxes on a year-to-date basis. Subtopic 740-270 includes general guidance for calculating income tax expense or benefit when there is a loss for the year-to-date period and anticipated income for the full year and vice versa. That guidance specifies that an entity

should apply the annual effective tax rate to the year-to-date income or loss as long as the tax benefits for any losses are expected to be realized during the year or would be recognizable as a deferred tax asset at the end of the year (that is, a valuation allowance would not be necessary).

29. Current paragraph 740-270-30-28 provides specific guidance for circumstances in which an entity incurs a loss on a year-to-date basis that exceeds the anticipated ordinary loss for the year, which is an exception to the general guidance in Subtopic 740-270. If an entity has an ordinary loss for the year-to-date period at the end of an interim period that exceeds the anticipated ordinary loss for the year, the income tax benefit recognized for the year-to-date period is limited to the income tax benefit determined on the basis of the year-to-date ordinary loss.

30. The Board decided that removing the exception would reduce the costs and complexity of applying Topic 740 in interim periods. Removing the exception also would remove the propensity for error that exists because the exception is easily overlooked by preparers. Additionally, the Board decided that removing the exception would not significantly change the information provided to users of financial statements because removing the exception would be consistent with the general principle in Subtopic 740-270 and result in more neutral recognition of tax benefits compared with tax expense.

Stakeholder Feedback

31. Of the 24 respondents to the proposed Update, 5 respondents (4 accounting firms and 1 individual) provided explicit feedback on the proposed amendments on the year-to-date loss limitation in interim period tax reporting. One accounting firm (CL#12) stated that it has seen this exception overlooked on several occasions and although removing the exception would not necessarily improve the usefulness of information, the usefulness would be maintained (that is, there would not be a decrease in the usefulness of information). An individual (CL#2) stated that the elimination of the exception is welcome and is certain to reduce the cost and complexity of complying with interim period tax accounting without sacrificing useful information.

32. One accounting firm (CL#11) agreed that while the proposed amendments would simplify the accounting for income taxes, they might result in increased variability in interim period income tax expense because year-to-date losses would benefit despite the lower full-year forecasted losses, which might affect the integrity of the information presented on an interim basis.

33. Another accounting firm (CL#13) disagreed with eliminating the exception noting that it might result in information that is misleading to financial statement users. That firm noted

that while it appreciates that some entities might not be aware of the exception, which may have led them to make errors in or restate their financial statements, the exception permits entities to calculate a more realistic interim tax benefit in situations in which the application of the annual effective tax rate would result in a distortive tax benefit as compared with the amount of tax benefit that would be recognized if the year-to-date ordinary loss was the anticipated loss for the fiscal year. Accordingly, the accounting firm noted that while eliminating the exception may simplify the accounting, it may not produce the intended results and may require supplementary disclosures to explain the distortive tax effect.

Franchise Taxes That Are Partially Based on Income

34. Franchise taxes in certain jurisdictions are calculated using the greater of two calculations—one based on income and one based on items other than income (for example, capital). Current GAAP states that:

    (a) Topic 740 does not apply to franchise taxes based on capital when there is no additional tax based on income.

    (b) If there is a tax based on income that is in excess of the tax based on capital, then that excess is subject to the guidance in Topic 740.

    That guidance results in an entity separating the component of the tax based on items other than income from the component of the tax based on income when the income tax is greater than the tax on items other than income. Taxes based on items other than income generally should not be included in the income tax line on the financial statements.

35. Stakeholders indicated that the current guidance for franchise taxes increases the cost and complexity of applying Topic 740, particularly when the amount related to the non-income-based tax is not significant, and that the guidance does not result in increased usefulness to users of financial statements.

36. The Board proposed amending the current guidance to require that if a franchise tax (or similar tax) is partially based on income (for example, the entity pays the greater of an income-based tax and a non-income-based tax), deferred tax assets and liabilities should be recognized and accounted for in accordance with Topic 740. The amount of current tax expense that is based on income should be accounted for in accordance with Topic 740, with any incremental amount incurred recorded as a non-income-based tax. The Board decided that this proposed amendment would simplify Topic 740 and reduce the cost of applying the guidance when the amounts for those types of franchise taxes are not significant because an entity would need to separate the tax on amounts other than income only if that amount is greater than the income tax amount. Additionally, the Board noted that

an entity would not need to consider whether temporary differences would reverse in years in which the entity pays a tax that is based on amounts other than income when measuring its deferred taxes. The Board decided that this proposed amendment would, at a minimum, maintain the decision-useful information provided to users and may increase it. Additionally, applying the disclosure requirements in Topic 740 to those amounts could result in greater transparency of franchise tax amounts.

Stakeholder Feedback

37. Of the 24 respondents to the proposed Update, 13 respondents (6 accounting firms, 1 individual, 1 preparer, 3 state CPA societies, and 2 professional associations) provided feedback on the proposed amendments on franchise taxes that are partially based on income.

38. Two accounting firms (CL#10 and CL#12) expressed their support for the proposed amendments on franchise taxes that are partially based on income. One of those firms (CL#12) stated that the usefulness is improved because current and deferred income tax expense will reflect taxes directly based on income while the current guidance results in a potential understatement of income-based tax. That firm also noted that the proposed amendments would be operable and auditable and may reduce compliance costs because identifying franchise tax versus income-based tax is more logical and eliminates the potential need for scheduling reversals of temporary differences.

39. Nine of the 13 respondents conditionally agreed with the proposed amendments. A state CPA society (CL#23) noted that the proposed amendments would be a simplification in scenarios in which an income-based tax routinely exceeds a non-income-based tax and would be more operable and auditable; however, in certain circumstances in which non-income-based measures represent nearly the entire tax liability, the presentation and disclosure implications of the proposed amendments might confuse financial statement users. The state CPA society did not provide a basis for its comment on why financial statement users might be confused.

40. One accounting firm (CL#15) conditionally supported the proposed amendments noting that they would reduce the complexity of accounting for income taxes in hybrid tax regimes (that is, a tax that is the greater of a tax based on income and a tax based on items other than income). That accounting firm recommended that the Board clarify that (a) an entity should not consider whether the temporary difference would reverse in a period at a tax rate other than the income tax rate used in the computation of the franchise tax when measuring deferred taxes and (b) a franchise tax that is only based on capital and any incremental non-income-based amount of a franchise tax are not within the scope of Topic 740 and,

therefore, should not be included as a component of income tax expense. The accounting firm stated that it also would support a model that would allow the total hybrid tax to be allocated entirely to either income tax expense or to non-income-based tax expense based on predominance. The firm acknowledged that such a model would require the Board to define *predominance* and provide additional guidance on how an entity would measure deferred taxes in situations in which the entity would allocate the tax entirely to tax expense.

41. One individual (CL#2) stated that the proposed amendments would reduce cost and complexity in scenarios in which income tax exceeds the tax based on nonincome. However, the individual noted that it is unclear whether cost and complexity would be reduced when the non-income tax exceeds the income tax. When the income tax is greater than zero, the proposed amendments would require the recognition of income tax expense even when an entity incurs a higher non-income tax. For example, if tax based on capital is $100 and tax based on income is $20, there is no income tax recognized under the current guidance. Under the proposed amendments, there would be $20 of income tax expense recognized and $80 of capital tax recognized in pretax earnings. The individual recommended that the Board consider a model that is more appropriate for hybrid tax laws (for example, the character of the tax could determine whether the entire amount should be recognized in pretax earnings or in income tax expense). Deferred income taxes would be determined for assets and liabilities, and the net change either would be recognized in pretax earnings or income tax depending on the higher tax ultimately incurred.

42. One preparer (CL#1) noted that while federal and state income taxes for pass-through entities are obligations of their members rather than the entity itself, pass-through entities may be subject to state franchise taxes for the right to do business in the state and those state franchise taxes generally are not significant. The preparer stated that for a pass-through entity that is not subject to federal or state income taxes, bifurcation of the income and non-income components of various franchise taxes in many states for the sole purpose of income tax accounting would be an unnecessary burden; therefore, the preparer recommended that the Board consider a scope exception for pass-through entities.

43. One accounting firm (CL#11) noted that the proposed amendments could affect certain balance sheet analytics and analytics based on pretax income. For example, an entity that historically recorded all or a significant portion of a franchise tax as part of pre-tax income based on the current guidance may now record the same tax as part of income tax expense under the proposed amendments. Furthermore, the proposed amendments could affect the non-GAAP measure of earnings before interest, tax, depreciation, and amortization (EBITDA). For some entities, EBITDA might be the financial measure used as a benchmark when an entity determines (a) amounts due under employee compensation arrangements,

(b) whether the entity has complied with financial covenants under a borrowing arrangement, and (c) amounts to pay former owners of acquired businesses under contingent consideration arrangements.

44. Two of the 13 respondents (1 accounting firm and 1 state CPA society) disagreed with the proposed amendments. One state CPA society (CL#19) disagreed with presenting a non-income-based tax separately from an income-based tax and more broadly stated that the tax line item on the financial statements should include all taxes whether based on fixed fees, capital, net income, or net revenue. One accounting firm (CL#3) asserted that the proposed amendments on franchise taxes would increase costs for some entities and would result in different views about whether a valuation allowance would be required for a deferred tax asset that results from temporary differences that are expected to reverse in a period in which the entity pays a tax based on amounts other than income. Therefore, the accounting firm recommended that the Board provide guidance on the valuation allowance assessment similar to the interpretation that the FASB staff provided in response to the enactment of certain tax laws in P.L. 115-97, *An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018* (Tax Cuts and Jobs Act) in which alternative tax mechanisms exist. The firm noted that providing such guidance would increase the transparency of the accounting for financial statement users and decrease the costs of applying the proposed amendments.

Transactions That Result in a Step Up in the Tax Basis of Goodwill

45. An entity may enter into a transaction with a government in its capacity as a taxing authority that results in an increase in the tax basis of assets of the entity. For example, tax laws in a foreign country may allow an entity to elect to step up the tax basis of certain fixed assets to fair value in exchange for a current payment to the government. This step up also could be acquired by sacrificing existing tax attributes (for example, a net operating loss carryforward or tax basis in another asset). Current paragraph 740-10-25-53 requires that an entity recognize the effect of transactions with a government that are not part of a business combination in income. In certain situations, the step up in the tax basis as a result of the transaction with the government results in a step up to the tax basis of goodwill. If the step up in the tax basis of goodwill relates to the portion of goodwill from a prior business combination for which a deferred tax liability was not recognized, then current paragraph 740-10-25-54 prohibits the entity from recognizing a deferred tax asset for the increase in tax basis, except to the extent that the tax-deductible goodwill exceeds the remaining balance of book goodwill. Therefore, an entity would not record a deferred tax asset for the step up in basis of goodwill unless it would have recorded a deferred tax asset if a business combination had occurred.

46. Before the issuance of the proposed Update, stakeholders noted that the guidance in paragraph 740-10-25-54 that prohibits an entity from recognizing a deferred tax asset for the acquisition of a step up in the tax basis of goodwill may result in an outcome that does not represent the economics of the transaction. That is because an asset on the entity's balance sheet (for example, cash or deferred tax assets for other tax attributes) would be sacrificed to obtain that benefit, but those assets would be immediately expensed. Additionally, stakeholders indicated that it can be difficult to determine whether the new tax-deductible goodwill relates to the original goodwill recorded in the financial statements when applying the guidance in paragraph 740-10-25-54 because there is often a significant amount of time between the two transactions or a realignment of the original book goodwill between reporting units has occurred.

47. The Board decided that clarifying the guidance about whether a step up in the tax basis of goodwill relates to the business combination in which the book goodwill was originally recognized would reduce the cost of applying Topic 740 and indicate that a separate transaction may affect goodwill. Therefore, the Board proposed removing the prescriptive guidance in paragraph 740-10-25-54 and requiring that an entity determine whether the tax basis step-up transaction relates to the business combination in which the book goodwill was originally recognized (in which case a deferred tax asset would not be recognized unless the newly deductible goodwill exceeds the remaining balance of book goodwill) or to a separate transaction (in which case a deferred tax asset would be recognized) on the basis of certain indicators. The Board decided that the proposed amendment would better reflect the economic consequences of separate transactions because it would result in the recognition of an asset instead of expense when the step up in tax basis results in a future tax benefit.

Stakeholder Feedback

48. Of the 24 respondents to the proposed Update, 11 respondents (6 accounting firms, 1 preparer, 1 individual, 1 state CPA society, and 2 professional associations) provided feedback on the proposed amendments on the evaluation of when a step up in the tax basis of goodwill should be considered part of a business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction. Nine respondents agreed or conditionally agreed with the proposed amendments and two respondents disagreed with the proposed amendments.

49. One accounting firm (CL#10) generally agreed with the proposed amendments requiring an entity to evaluate when a step up in the tax basis of goodwill should be considered part of the business combination or a separate transaction. However, that firm recommended that

the Board clarify the factor that a *significant lapse in time between the transactions has occurred*. That firm noted that there are mixed views on whether a tax adjustment should be reflected within purchase accounting if the tax position is contingent on completing a perfunctory task that will not occur until after the measurement period closes, even though it is within the company's control to do so and the underlying information was available and contemplated at the acquisition date.

50. One accounting firm (CL#12) and one state CPA society (CL#23) noted that the proposed amendments would potentially improve the usefulness of information because the economic consequences of separate transactions are more accurately reflected. However, because management would be required to perform additional analysis when determining whether a step up in basis is the result of a separate transaction or related to the original business combination, the proposed amendments may not be a simplification and compliance costs could potentially increase.

51. One state CPA society (CL#19) requested that an illustrative example be added that corresponds to paragraphs BC9 and BC10 in the proposed Update.

52. Two accounting firms (CL#13 and CL#15) indicated that the types of transactions that result in a step up in the tax basis of goodwill are not limited to those directly between a taxpayer and a government. Therefore, they recommended that the Board expand the scope of the proposed amendments to any transaction that results in a step up in the tax basis of goodwill. Those firms noted that the heading above paragraph 740-10-25-54, *Transactions Directly between a Taxpayer and a Government*, was added in Accounting Standards Update No. 2018-09, *Codification Improvements*. The firms acknowledged that the guidance included in paragraph 740-10-25-54 was originally issued as EITF Issue No. 98-11, "Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations," and focused on transactions between a taxpayer and a government, but they noted that before the heading was added, entities applied paragraph 740-10-25-54 to all transactions that resulted in a step up in the tax basis of goodwill. They indicated that if the Board amended the guidance to include all transactions that result in a step up in the tax basis of goodwill, it would codify the existing practice to analogize to paragraph 740-10-25-54 for transactions other than those between a taxpayer and a government.

53. One preparer (CL#8) disagreed with the proposed amendments to paragraph 740-10-25-54 and suggested that they be removed. The preparer stated that the proposed list of factors to evaluate in proposed paragraph 740-10-25-54 would not result in simplification and would create more cost, complexity, and professional judgment that could lead to inconsistencies in application. The preparer suggested that instead of requiring an evaluation, the guidance

should require that in all situations in which the transaction occurs outside of the purchase accounting window, the step up in basis should be considered a separate transaction. The preparer asserted that its suggestion would:

(a) Better align with other guidance that requires tax adjustments that occur outside of acquisition accounting to be reflected accordingly in the financial statements

(b) Further reduce the cost and complexity of accounting for income taxes

(c) Create more consistency in applying the guidance.

54. One individual (CL#2) disagreed with the proposed amendments described in paragraph 47 above and suggested that they be removed. That individual stated that the list of indicators to consider when evaluating whether tax basis arises from a separate transaction could lead to greater professional judgment, more complexity, higher cost, and inconsistent application.

Separate Financial Statements of Legal Entities Not Subject to Tax

55. Topic 740 requires that the consolidated amount of current and deferred tax expense for a group that files a consolidated tax return be allocated among the members of the group when those members issue separate financial statements. Unlike a member of a group that files a consolidated tax return, a single-member limited liability company that is disregarded for tax purposes generally is not severally liable for the taxes of its taxable owner. Therefore, stakeholders indicated that some entities do not allocate the consolidated amount of current and deferred taxes to single-member limited liability companies that are disregarded entities in their separate financial statements while other entities do.

56. The Board decided to clarify that an entity is not required to allocate amounts of consolidated current and deferred taxes to a legal entity that is not subject to tax (including a single-member limited liability company) in its separate financial statements, but an entity may elect to do so for a legal entity that is disregarded by the taxing authority.

57. The Board observed that current paragraph 740-10-50-16 requires that an entity disclose that it is not subject to income taxes, which would provide financial statement users with information about the tax status of the entity. The Board also decided to require additional disclosures for an entity that is not subject to tax and that is disregarded by the taxing authority that elects to include the allocated amount of current and deferred tax expense in its separately issued financial statements by requiring that the entity disclose that fact and provide the disclosures required by paragraph 740-10-50-17.

Stakeholder Feedback

58. Of the 24 respondents to the proposed Update, 10 respondents (5 accounting firms, 2 preparers, 1 individual, and 2 professional associations) provided feedback on the proposed amendments on the election to allocate the consolidated amount of current and deferred tax expense for certain legal entities. Those ten respondents agreed or conditionally agreed with the proposed amendments.

59. One preparer (CL#20) stated that maintaining an election to allocate the consolidated amount of current and deferred tax expense would allow entities to better reflect the economics of their business and provide a uniform and consistent approach across the entity. That preparer also asserted that excluding income tax expense from the financial statements of its single-member limited liability company would not appropriately reflect its operations or cash flows. Another preparer (CL#24) noted that allocating tax expense to its subsidiaries is an important part of its financial results because current and deferred taxes are part of the costs included in regulatory ratemaking and, therefore, it is important to the preparer’s financial statement users to allow an election to allocate the consolidated amount of tax expense.

60. One professional association (CL#4) appreciated the flexibility that allows an entity to elect to allocate the consolidated amount of current and deferred tax expense to legal entities that are not subject to tax and that are disregarded by the taxing authority, noting that this is a practice issue that is common in private companies.

61. Six respondents (CL#2, CL#3, CL#10, CL#14, CL#15 and CL#22) generally agreed with the proposed amendments on the election to allocate consolidated tax expense to separate financial statements of members but requested clarification on which entities can make the election. Those respondents noted that as drafted, the proposed language could be misinterpreted because there is no formal definition of the term *disregarded entity* in the Codification’s Master Glossary. Furthermore, the proposed guidance might inadvertently be interpreted as allowing the policy election to apply to partnerships in addition to single-member limited liability companies and other disregarded entities. In that case, the allocation of income taxes would create significant complexity when there are multiple owners with potentially different tax attributes. The respondents recommended that the Board either should update the language to clearly state that the election does not apply to entities taxed as a partnership by the taxing authority or remove the option to allocate income tax expense.

62. One accounting firm (CL#3) agreed with the proposed amendments but requested that the Board clarify whether the election should be made on an entity-by-entity basis or whether the guidance would be applied to all entities once an election is made.

Enacted Changes in Tax Laws in Interim Periods

63. Current interim-period guidance requires that the effects of an enacted change in tax law on taxes payable or refundable for the current year be recorded after the effective date of the tax law. Because of the use of the term *effective date*, a tax law enacted at the beginning of the year with an effective date in the middle of the year would result in an entity recognizing the effect of the enacted tax law in the period of enactment for deferred tax assets and liabilities, but the enacted tax law would not affect the annual effective tax rate until the period that includes the effective date of the tax law.

64. The proposed amendments would require that the effects of an enacted change in tax law be reflected in the computation of the annual effective tax rate in the first interim period that includes the enactment date to reduce the costs of applying the guidance as well as simplify the guidance. This change also would align the guidance for changes in tax law in interim periods with the general principle that the effects of enacted changes in tax laws should be recorded on the enactment date.

Stakeholder Feedback

65. Seven of the 24 respondents (6 accounting firms and 1 individual) explicitly expressed support for the proposed amendments on the enacted changes in tax laws in interim periods, with one of those accounting firms (CL#12) stating that the proposed amendments would improve the usefulness of information because they allow for better alignment of the overall tax effect related to a change in tax laws and/or tax rates (that is, the effect of the change is recognized on both deferred taxes and current taxes in the same period).

66. Several of those seven respondents recommended that the Board make minor clarifications or revise certain aspects of the proposed amendments to increase operability and consistency and avoid unnecessary confusion in applying the guidance. One of those seven respondents (CL#14) recommended that paragraph 740-270-55-50 (of Example 6) in the proposed Update under the heading "Case B: Effective Date of New Legislation That Is Administratively Effective" should be removed in its entirety because it does not provide specific accounting guidance. The accounting firm noted that retaining this example would create unnecessary confusion because there is no accounting guidance on how to apply the effective date of a tax law.

Codification Improvement—Stock Compensation

67. Accounting Standards Update No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, amended paragraph 718-740-45-7 to state that "the tax benefit of tax-deductible dividends on allocated and

unallocated employee stock ownership plan shares shall be recognized in *the income statement*" (emphasis added). Before Update 2016-09 was issued, paragraph 718-740-45-7 stated that the tax benefit of tax-deductible dividends for allocated shares should be recognized in income taxes allocated to continuing operations. Other references to the tax effects of tax-deductible dividends throughout the Codification still indicate that the tax benefit of tax-deductible dividends should be recognized in income taxes allocated to continuing operations. Therefore, the Board decided to change the phrase *the income statement* in paragraph 718-740-45-7 to *income taxes allocated to continuing operations* to clarify where the tax benefit of tax-deductible dividends should be shown in the income statement.

Stakeholder Feedback

68. Only two respondents (both accounting firms) provided feedback on the proposed amendment to the guidance on stock compensation. One accounting firm (CL#10) expressed its support for the improvement. Another accounting firm (CL#3) suggested revisions to the proposed amendment so that an entity would be permitted to present the tax benefits of dividends on unallocated shares in discontinued operations when the related compensation expense on those shares is presented in discontinued operations; all other tax benefits of tax-deductible dividends would be allocated to continuing operations.

Codification Improvement—Investments—Equity Method and Joint Ventures

69. The Board decided to supersede paragraph 323-740-55-8 in the proposed Update on Topic 740 to remove an error in the calculation of when an impairment should occur under the equity method. The Board noted that Subtopic 323-740, Investments—Equity Method and Joint Ventures—Income Taxes, is focused on the application of the proportional amortization method and not on the general equity method. Section 323-740-55 includes an example that illustrates the application of the proportional amortization method to an investment in qualified affordable housing projects, so the Board decided that the example in paragraph 323-740-55-8 is not needed.

Stakeholder Feedback

70. Six of the 24 respondents (5 accounting firms and 1 professional association) provided feedback on the proposed amendment on investments in qualified affordable housing projects accounted for using the equity method.

71. Two of those accounting firm respondents (CL#10 and CL#12) expressed their support for the proposed amendment and one of those respondents noted that the proposed amendment would maintain or improve the usefulness of information for users.

72. One accounting firm (CL#14) and one professional association (CL#22) conditionally agreed with the Board's decision to remove both the references to the equity method within Subtopic 323-740 and the example in paragraph 323-740-55-8 and offered further suggestions to improve the guidance. The accounting firm recommended that the Board also remove the references to the cost method with amortization throughout Subtopic 323-740 and the example in paragraph 323-740-55-7. The accounting firm explained that in its experience investments in qualified affordable housing projects rarely, if ever, qualify for the application of the cost method of accounting in part because of the SEC guidance (paragraph 323-30-S99-1) that requires application of the equity method to limited partnership investments unless the investor's interest is so minor that the limited partner may have virtually no influence over partnership operating and financial policies. The accounting firm stated that if the cost method references and example are not removed, it recommends that the Board provide guidance on when the cost method would be acceptable because the cost method is otherwise no longer in use. The accounting society stated that the Board should either (a) fix the error in the example in paragraph 323-740-55-8 to recognize the impairment in the appropriate period or (b) remove the equity method example and the cost method example because Subtopic 323-740 is focused on the application of the proportional amortization method. The professional association noted that if the examples are removed, clarifying language should be provided that states that the methods continue to be acceptable.

73. Two accounting firms (CL#15 and CL#18) raised concerns about removing the example in paragraph 323-740-55-8 because they noted that entities apply the guidance in the example as a basis to measure an identified impairment on an undiscounted basis. Therefore, removing the example would result in the elimination of guidance that is used in the accounting for subsequent measurement of qualified affordable housing property investments under the equity method. One of those accounting firms (CL#15) recommended that the Board correct the example rather than supersede it. That firm noted that if the Board moves ahead with the proposed change, it should clarify whether the method for measuring impairment described in footnote (a) in paragraph 323-750-55-8[1] continues to be

[1]Footnote (a) in paragraph 323-740-55-8 states that projections of future operating results at the end of Year 9 indicate that a net loss will be recognized over the remaining term of the investment, which indicates a need to assess the investment for impairment. For purposes of the example, impairment is measured on the basis of the remaining tax credits allocable to the investor, although an alternative measure could include other tax benefits to be generated by the investment.

acceptable. The other accounting firm (CL#18) recommended that if the Board moves ahead with removing the example from Subtopic 323-740, then that same example should be added to Subtopic 970-323, Real Estate—General—Investments—Equity Method and Joint Ventures, as implementation guidance applicable to qualified affordable housing property investments under the equity method.

Transition

74. The amendments in the proposed Update related to (a) separate financial statements of legal entities that are not subject to tax and (b) franchise taxes that are partially based on income would be applied on a retrospective basis for all periods presented. The proposed amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries would be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. All other proposed amendments would be applied on a prospective basis.

75. The transition disclosures in proposed paragraph 740-10-65-9(c) would require an entity to disclose in the first fiscal year after an entity's adoption date, and in the interim periods within the first fiscal year:

    (a) The nature and reason for the change in accounting principle

    (b) The transition method

    (c) A qualitative description of the financial statement line items affected by the change.

76. The proposed Update included the following question on transition:

> **Question 4:** Are the transition requirements and transition disclosures for the proposed amendments appropriate? If not, what transition approach or transition requirements would be more appropriate and why?

Stakeholder Feedback

77. There were 21 respondents that commented on Question 4 in the proposed Update. Of those, 11 respondents unconditionally agreed with the proposed transition methods and transition disclosures. The other 10 respondents conditionally agreed with the proposed transition methods and transition disclosures and raised the following concerns.

Transition Disclosures

78. One public accounting firm (CL#3) recommended that the transition disclosures in paragraph 740-10-65-9(c) not be required for the proposed amendments that apply the

prospective transition method to reduce unnecessary complexity. The prospective transition method would be applied to the proposed amendments on:

(a) Intraperiod tax allocation

(b) Year-to-date loss limitation in interim period tax accounting

(c) Transactions that result in a step up in the tax basis of goodwill

(d) Enacted changes in tax laws in interim periods

(e) The guidance for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects.

Transition Method—Franchise Taxes That Are Partially Based on Income

79. Ten respondents (6 accounting firms, 1 preparer, 1 state society, and 2 professional associations) expressed concerns about applying the retrospective transition method to the proposed amendments on franchise taxes that are partially based on income. Seven of the 10 respondents recommended that the Board permit either a retrospective transition method or a modified retrospective transition method, and the other 3 respondents recommended that the Board require modified retrospective transition instead of retrospective transition. The 10 respondents noted that retrospective transition could be costly and complex and that the expected benefits of retrospective transition would not outweigh the expected costs for the following reasons:

(a) Retrospective transition would require entities to recognize or remeasure deferred tax assets and liabilities and assess (or reassess) the need for a valuation allowance in each prior period presented. Those requirements could be especially challenging for an entity that generally pays its franchise tax on the basis of a non-income-based measure. Many entities in that position operate at, or close to, breakeven from a taxable income perspective so the "higher of" computation results in paying non-income-based tax. To comply with the proposals, an entity would identify deferred tax assets and liabilities for a jurisdiction for the first time in each prior period and may need to recognize a net deferred tax asset. It may be challenging in that circumstance to evaluate whether the historical net deferred tax asset is realizable because the entity has not had sufficient taxable income to pay income-based taxes in those prior periods and may not expect to have sufficient taxable income to pay income-based taxes in future periods.

(b) Retrospective transition might present operational challenges for certain entities, depending on how they currently account for these taxes. For example, because under current guidance the amount considered as an income tax expense is the amount of tax in excess of the tax that is based on capital, entities may not have measured deferred taxes using the tax rate used in the computation of the franchise tax partially based on income. As a result, an entity adopting the proposed amendments may expend additional time and incur additional costs to recompute income tax expense (including deferred taxes) for prior periods presented.

(c) Many entities would need to adjust their deferred tax rates, which could be a complex endeavor retrospectively for amounts that may be insignificant.

80. Several respondents noted the following about either permitting or requiring the modified retrospective transition method:

(a) Permitting the modified retrospective transition method would avoid the potential effect on deferred income tax and valuation allowance considerations that could result from recasting prior periods under a retrospective approach.

(b) As a result of applying the modified retrospective transition method, the opening deferred tax balances would reflect the effect of the proposed amendments without the effect being recognized in expense during the period of adoption (as would occur under prospective transition); the effect would instead be recorded as a cumulative adjustment to retained earnings.

(c) Requiring the modified retrospective transition method would require less historical information than the retrospective transition method, and financial statement users would still be given valuable insights into the historical effects of the new guidance. One respondent noted that in applying the retrospective transition method, an entity would need to calculate its inventory of temporary differences and reversals for prior periods, which may be difficult if the entity does not have enough historical information.

Transition Method—Separate Financial Statements of Legal Entities Not Subject to Tax

81. A preparer (CL#8) recommended that the modified retrospective transition method be permitted for the proposed amendments on separate financial statements of legal entities that are not subject to tax asserting that the benefits of financial statement comparability do not outweigh the burden an entity could experience in recasting the prior periods presented.

Effective Date and Early Adoption

82. The Board did not propose an effective date or decide whether an entity should be permitted to early adopt the proposed amendments because it wanted to consider stakeholder feedback before making those decisions. The Board also did not previously decide on whether entities other than public business entities should be provided with an additional

year to implement the proposed amendments. The proposed Update included the following question about effective date and early adoption:

> **Question 5:** How much time would be needed to adopt the proposed amendments? Should early adoption be permitted? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Why or why not?

Stakeholder Feedback

83. There were 21 respondents that commented on Question 5 in the proposed Update. However, some comment letter respondents did not address all aspects of Question 5. Eleven of the 20 respondents provided feedback on the amount of time necessary to implement the proposed amendments. Of those, five respondents (two accounting firms, one state society of CPAs, one professional association, and one individual) indicated that one year would provide enough time for public business entities to implement the proposed amendments.

84. Six respondents (two accounting firms, two preparers, one state society of CPAs, and one professional association) noted that most entities would not need significant time to implement the proposed amendments but did not specify a precise time frame. One accounting firm (CL#13) stated that a long implementation period would not be required because the proposed amendments would simplify current accounting and, therefore, lessen an entity's burden in applying Topic 740. Furthermore, the changes generally are straightforward and entities are likely to have the information readily available (with the possible exception of the historical information required for the calculation of the temporary differences that existed in the past for entities that paid more non-income-related tax than income tax if retrospective transition is required for the proposed amendment on franchise taxes). Another of the six respondents (CL#9, a state society of CPAs) noted that the time to adopt the proposed amendments is dependent upon the complexity of the reporting entity's tax structure and the related transaction structure. In some cases, the cost and time to implement the proposed amendments could be high but likely would be a one-time cost and would generally result in reduced costs on an ongoing basis. In other cases, the implementation time required would not be unreasonable when balanced against an entity's existing tax structure and transaction structure.

85. One of the 11 respondents (CL#21, a professional association) noted that the proposed amendments may require significant time to implement and, therefore, suggested that the Board provide at least 18 months to implement the changes.

86. Of the 21 respondents to Question 5, 18 commented on whether the amount of time needed to adopt the proposed amendments for entities other than public business entities should

be different from the amount of time needed by public business entities. Sixteen respondents supported providing an additional year and 1 respondent (CL#4, a professional association) preferred providing 2 more years for entities other than public business entities to adopt the proposed amendments. Several of those 16 respondents (CL#2, CL#6, CL#11, and CL#19) noted that entities other than public business entities often do not have the same level of resources as public business entities. Other respondents (CL#4, a professional association, and CL#9, a state CPA society) indicated that an additional year would be helpful to allow entities other than public business entities to learn about the adoption of the proposed amendments from public companies. One respondent (CL#13, an accounting firm) stated that given the nature of the proposed amendments, entities other than public business entities would not need significant additional time to implement them.

87. Regarding early adoption, 18 of the 20 respondents commented that it should be permitted for all entities. One of those 18 respondents (CL#13, an accounting firm) recommended that an entity that chooses to early adopt be required to adopt all the proposed new amendments at the same time. In other words, entities should not be allowed to early adopt only certain portions of the proposed new amendments because that could result in unnecessary complexity and comparability issues for financial statement users. One of the 18 respondents (CL#19, a state society of CPAs) commented that early adoption should not be permitted because there would be reduced comparability in financial reporting among entities.