

MINUTES



MEMORANDUM

**To:** Board Members  
**From:** FASB Staff  
**Subject:** Minutes of the September 4, 2019 Board Meeting on Simplifications to Accounting for Income Taxes  
**Date:** September 5, 2019  
**cc:** Dawn Tosches

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue an Accounting Standards Update or a Statement of Financial Accounting Concepts.*

**Topic:** Simplifications to Accounting for Income Taxes  
**Basis for Discussion:** Board Memo No. 5, *Simplifications to Accounting for Income Taxes*  
**Length of Discussion:** 9:12 a.m. to 10:05 a.m. EDT  
**Attendance:**

Board members present: Golden, Cosper, Kroeker, Botosan, Buesser, Hunt, and Schroeder  
Board members absent: None  
Staff in charge of topic: Casas, Wyss, Fontaine, Harris, and Scheb  
Other staff at Board table: Kuhaneck  
Outside participants: None

**Type of Document and Timing Based on the Technical Plan:**

The Board discussed a summary of comments received on its May 2019 proposed Accounting Standards Update, Income Taxes (*Topic 740*): *Simplifying the Accounting for Income Taxes*. The Board's discussion focused on the following topics:

1. Redeliberation issues
2. Transition and effective date
3. Analysis of costs and benefits
4. Next steps.

**Tentative Board Decisions:**

The Board affirmed its decisions to remove the following exceptions from Topic 740, Income Taxes:

1. 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 (for example, discontinued operations or other comprehensive income)
2. Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment
3. Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary (therefore, an entity would have the ability to assert indefinite reinvestment for the entire basis difference of a subsidiary)
4. 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.

**(Vote: 7-0)**

The Board affirmed its decision that an entity should recognize a franchise tax that is partially based on income in accordance with Topic 740 and account for any incremental amount as a non-income-based tax. Related to its decision on a franchise tax that is partially based on income, the Board decided (1) to provide guidance on the need for a valuation allowance and (2) not to provide a scope exception for pass-through entities.

**(Vote: 7-0)**

The Board affirmed its decision that an entity should evaluate when a step up in the tax basis of goodwill should be considered part of the initial recognition of book goodwill and when it should be considered a separate transaction. The Board also decided not to explicitly expand the scope of the proposed amendments to all transactions that result in a step up in the tax basis of goodwill.

**(Vote: 7-0)**

The Board affirmed its decision that an entity is not required to allocate the consolidated amount of current and deferred tax expense to legal entities that are not subject to tax in their separate financial statements. However, an entity may 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. The Board also decided to allow an entity to make the election on an entity-by-entity basis.

**(Vote: 6-1)**

The Board affirmed its decision that an entity should 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.

**(Vote: 7-0)**

The Board affirmed its decision to make a Codification improvement for income taxes related to employee stock ownership plans. The Board also reversed its decision to supersede the illustrative example in paragraph 323-740-55-8 and instead decided to correct an error in the illustrative example on investments in qualified affordable housing projects accounted for using the equity method.

**(Vote: 7-0)**

#### *Transition and Effective Date*

The Board reversed its decision that would have required an entity to apply the amendment to franchise taxes that are partially based on income on a retrospective basis. Rather, the Board decided to allow an entity to apply the amendment on either a retrospective basis or a modified retrospective basis.

**(Vote: 5-2)**

The Board affirmed its decisions that an entity should apply the remaining amendments as follows:

1. Retrospectively, for the election to forgo the allocation of consolidated taxes to legal entities that are not subject to tax in their separate financial statements
2. Using a modified retrospective approach for ownership changes to a foreign equity method investment or subsidiary
3. Prospectively for all other amendments to Topic 740.

**(Vote: 7-0)**

The Board also affirmed the proposed transition disclosures.

**(Vote: 7-0)**

The Board decided that the amendments should be effective for:

1. *Public business entities*: Fiscal years beginning on or after December 15, 2020, and interim periods within those fiscal years.
2. *All others*: Fiscal years beginning on or after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

**(Vote: 5-2)**

The Board decided to permit early adoption of the amendments, including early adoption in an interim period.

**(Vote: 7-0)**

*Analysis of Costs and Benefits*

The Board concluded that it has received sufficient information and analysis to make an informed decision on the expected costs of the changes and that the expected benefits would justify the expected costs of the amendments included in a final Update.

**(Vote: 7-0)**

*Next Steps*

The Board directed the staff to draft a final Update for vote by written ballot.

**(Vote: 7-0)**

**General Announcements:** None.