FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Disclosure Framework—Disclosure Review: Income Taxes

February 12, 2020

Meeting Purpose

1. The February 12, 2020 meeting is a non-decision-making meeting. The purpose of this handout is to (a) provide a summary of comments from the 42 letters received in response to the revised proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*, which was published for comment on March 25, 2019, and (b) serve as a basis for the Board's discussion of that comment letter feedback.

2. This handout is organized as follows:

   (a) Issue background

   (b) Comment letter demographics

   (c) Summary of comments received.

Questions for the Board
1. Does the Board have questions or comments on the comment letter feedback received or need further information from stakeholders on the comment letter feedback in any of the following areas: a. Replacing the term *public entity* with *public business entity* b. Disaggregation of pretax income (or loss) from continuing operations c. Disaggregation of income tax expense (or benefit) d. Disaggregation of income taxes paid e. Unrecognized tax benefit disclosures f. Valuation allowance g. Effective tax rate reconciliation h. Carryforwards—public business entities and other than public business entities

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

i. Interim income taxes paid

j. Indefinite reinvestment

k. Other disclosure considerations

l. Transition

m. Effective date and early adoption?

2. Does the Board have any feedback on the staff's plan for redeliberations and next steps?

Issue Background

3. The Board considered amendments to the disclosure requirements in Topic 740, Income Taxes, as part of the disclosure framework project to improve the effectiveness of disclosures about income taxes. In March 2014, the Board issued a proposed FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, which was finalized in August 2018. Before Chapter 8 was finalized, the Board decided to test the concepts in that Chapter by analyzing the effectiveness of disclosure requirements on income taxes (in addition to other Topics).

4. In July 2016, the Board issued a proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes,* with a comment period that ended on September 30, 2016. The Board received 58 comment letters in response to the July 2016 proposed Update. The Board discussed feedback from those comment letters at a Board meeting held on January 25, 2017; however, no technical decisions were made at that meeting. After the Board discussed comment letter feedback, the project was put on hold because of the potential for tax reform in the United States.

5. On December 22, 2017, the U.S. federal government enacted a tax bill, 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), which made substantial changes to the taxation of U.S. business entities. The staff reviewed the changes resulting from the tax law and performed research and outreach to determine whether additional amendments should be considered for the disclosure requirements in Topic 740.

6. During a November 2018 Board meeting, the Board considered comment letter feedback on the July 2016 proposed Update as well as the effect of the Tax Cuts and Jobs Act to make decisions on changes to the disclosure requirements in Topic 740. In March 2019, the Board issued a revised proposed Update to reflect those decisions.

7. The amendments in the revised proposed Update would:

(a) Replace the term *public entity* that is currently in Topic 740 with the term *public business entity* as defined in the Master Glossary of the *FASB Accounting Standards Codification®*.

(b) Add the following proposed disclosures for all entities:

(i) Income (or loss) from continuing operations before income tax expense (or benefit) and before intra-entity eliminations disaggregated between domestic and foreign

(ii) Income tax expense (or benefit) from continuing operations disaggregated between federal, state, and foreign

(iii) Income taxes paid disaggregated between federal, state, and foreign.

(c) Add the following proposed disclosures for public business entities:

(i) The line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits

(ii) The amount and explanation of the valuation allowance recognized and/or released during the reporting period

(iii) The total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards.

(d) Eliminate the requirement for all entities to (i) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or (ii) make a statement that an estimate of the range cannot be made.

(e) Modify the existing rate reconciliation requirement for public business entities to be consistent with U.S. Securities and Exchange Commission (SEC) Regulation S-X 210.4-08(h), *Rules of General Application—General Notes to Financial Statements: Income Tax Expense*. 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. The proposed amendments would further modify the requirement to explain the change in an amount or a percentage of a reconciling item from year to year.

(f) Explicitly require a public business entity to disclose the amounts of federal, state, and foreign carryforwards (tax effected before any valuation allowance) by time period of expiration for each of the first five years after the reporting date, a total for any remaining years, and a total for carryforwards that do not expire. A public business entity also would be required to disclose the valuation allowance associated with the total tax-effected

amounts of federal, state, and foreign carryforwards. An entity other than a public business entity would be required to disclose the total amounts of federal, state, and foreign credit carryforwards and the total amounts of other federal, state, and foreign carryforwards (not tax effected), separately for those carryforwards that do not expire and those that do expire, along with their expiration dates (or a range of expiration dates).

(g) Clarify that the disclosure of income taxes paid during the period under Topic 230, Statement of Cash Flows, is required for interim periods.

(h) Remove the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

8. The comment period for the revised proposed Update ended on May 31, 2019.

9. On August 17, 2018, as part of its disclosure effectiveness initiative, the SEC voted to adopt amendments to its disclosure requirements that it said were duplicative, overlapping, or outdated in light of other SEC disclosure requirements, generally accepted accounting principles (GAAP), or changes in the information environment. There is an active project on the FASB's technical agenda to address the disclosure referrals from the SEC, but the Board concluded that the following tax-related referred disclosures should be considered as part of the disclosure framework—disclosure review: income taxes project.

(a) Disaggregation of income (or loss) before income tax expense (or benefit)

(b) Disaggregation of income tax expense (or benefit)

(c) Income tax rate reconciliation.

10. Additionally, the Board's tentative decision to align the income tax rate reconciliation disclosure requirements in paragraph 740-10-50-12 with the SEC's disclosure requirements was made at the October 21, 2015 meeting, which was before the formal disclosure referral from the SEC. As a result of the Board's decision, the proposed amendment was included in the July 2016 proposed Update.

Comment Letter Demographics

11. The 42 respondents to the revised proposed Update are summarized by type as follows:

Respondent Type	
Association Group	15
Auditor	8

Preparer	11
User	7
Academic	1
Total:	42

12. The association group is further broken down as follows:

Respondent Type	
Professional Association	3
Preparer Association	8
State Society of Certified Public Accountants (CPAs)	4
Total:	15

13. The 7 financial statement users are further described as follows:

(a) One investment bank

(b) Three individuals

(c) One nongovernmental organization

(d) One group of 49 investors

(e) One group of 13 U.S. senators.

Summary of Comments Received

14. Questions 1–3 in the revised proposed Update ask respondents to broadly consider whether the amendments in the revised proposed Update would:

(a) Add or reduce decision-useful information

(b) Be operable and auditable

(c) Impose significant incremental costs.

15. In response to those questions, feedback was received on many of the proposed disclosures that were addressed in other questions. Therefore, this handout will discuss comment letter feedback organized by each of the proposed disclosure amendments. This handout also will describe responses to Questions 4–9 in the revised proposed Update, which relate to specific

proposed disclosures. Finally, this handout will separately describe responses to Questions 10 and 11 in the revised proposed Update, which relate to transition and effective date.

General Comments and Feedback

16. Several comment letter respondents (across all respondent types) specified that the amendments in the revised proposed Update generally result in more meaningful, effective, and decision-useful information. Comments included the following:

    (a) One preparer association indicated that the proposed amendments to the existing tax disclosures are necessary because of changes in the global environment.

    (b) A user specified that the proposed amendments would fall short in some areas (specifically the lack of country-by-country disaggregation) but indicated that the improvements represent an advancement and align GAAP with SEC requirements.

    (c) An auditor remarked that the proposed amendments would marginally improve existing disclosures.

17. Many respondents (across all respondent types) commented on whether decision-useful information was added or reduced as a result of the proposed amendments. Of those, several respondents indicated that the proposed amendments would provide decision-useful information, while several others generally disagreed and indicated that the proposed amendments would (a) result in less decision-useful information, (b) not result in additional decision-useful information, or (c) provide more information than is needed by investors (that is, disclosure overload). While some respondents indicated that the information is more granular than that needed by investors, which is consistent with the disclosure overload assertion, a user indicated that the revised proposed Update falls short of providing the information necessary for users to make sound investment decisions.

18. Several respondents specifically commented that, in most cases, the proposed amendments would be operable and auditable. For example, one preparer generally agreed but specified that, although operable and auditable, the overall expected costs associated with the proposed amendments would not outweigh the expected benefits.

19. Other comments included the following:

    (a) One preparer association indicated that the proposed disclosures could restrict a financial statement preparer's ability to determine the best way to communicate relevant information to users of its statements. That preparer association suggested that a less prescriptive and more principles-based approach would enable preparers to present information in the manner best suited for their specific circumstances.

(b) Another preparer association also requested that, during redeliberations, the Board consider not only how the additional information can be used but also how it could be misused.

Replacing the Term *Public Entity* with the Term *Public Business Entity*

20. Currently, some disclosure requirements in Topic 740 are required for *public entities* and some are required for *nonpublic entities*. The amendments in the revised proposed Update would replace the term *public entity,* currently used in Topic 740, with the term *public business entity* as defined in the Master Glossary of the Codification.

21. The revised proposed Update included a question on whether respondents agree with this change in scope:

> **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.

Stakeholder Feedback

22. Most respondents (representing all respondent types) responded to Question 9 and broadly supported replacing the term *public entity* with the term *public business entity*. Comments included the following:

    (a) Several respondents, including two preparers, a preparer association, a state society of CPAs, and an auditor, noted that the change in scope would improve consistency in the Codification.

    (b) A preparer and a preparer association indicated that the proposed change in scope would not create a significant change in practice.

    (c) However, one preparer disagreed with this proposed amendment on the basis that it would require companies to include the proposed disclosures of entities not under their control solely because the companies' financial information or financial statements are included in their filings.

Disaggregation of Pretax Income (or Loss) from Continuing Operations

23. The amendments in the revised proposed Update would require all entities to disclose income (or loss) from continuing operations before income tax expense (or benefit) and before intra-entity eliminations disaggregated between domestic and foreign. The SEC currently requires disclosure of income (or loss) from continuing operations before income tax expense (or benefit) but does not specify if the amounts should be before or after intra-

entity eliminations. To understand whether it would be operable for entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations, the revised proposed Update included the following question:

> **Question 4:** One of the proposed amendments would require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign, which initial feedback indicated would reduce diversity in practice. Would this proposed amendment be operable? Should the Board specify whether the disclosed amounts should be before or after intra-entity eliminations? Why or why not?

Stakeholder Feedback

24. Most comment letter respondents provided specific feedback on at least one aspect of the proposed amendment that would require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign.

Disaggregation of Pretax Income

25. Many respondents across all respondent types provided explicit feedback on the proposed amendment that would require the disaggregation of pretax income (or loss) from continuing operations between domestic and foreign. Of those respondents, most expressed support for the proposed amendment while a few (a professional association, a preparer association, and a preparer) did not support the disaggregation of pretax income. Of those respondents that did not support the proposed amendment, the preparer association indicated that the requirement does not add value in cases of non-U.S. domiciled multinationals. Additionally, the professional association suggested that private companies should not be required to provide the disclosure because it would not offer decision-useful information to users of private company financial statements. The association explained that, according to paragraph BC89 in the revised proposed Update:

> Private company users…typically focus on (a) information related to tax payments due according to the tax return, (b) compliance with taxing authorities…, and (c) income taxes paid in the aggregate.

Accordingly, the association suggested that disaggregation between federal and state does not appear to address areas of focus for private company financial statement users.

Before Intra-Entity Eliminations

26. Most respondents provided specific feedback on the proposed requirement to disclose pretax income (or loss) from continuing operations before intra-entity eliminations. Of those respondents, several supported the proposed amendment. One auditor specified that it supported the proposed amendment because the disaggregated domestic and foreign

components would more closely align to the actual amounts of domestic and foreign tax expense (or benefit) if they are presented before intra-entity eliminations. Another auditor in support of the proposed amendment recommended that there also should be a requirement to disclose the amount of the intra-entity eliminations and total pretax income (or loss) from continuing operations to provide users with information for analyzing an entity's pretax income.

27. However, most of those respondents (preparers, auditors, professional and preparer associations, and a user) did not support the proposed requirement to disclose pretax income (or loss) from continuing operations before intra-entity eliminations. While some of those respondents agreed that the proposed amendment would be operable and would provide more comparable and decision-useful information, several noted that the proposal would require significant enhancements to processes, procedures, and controls that would outweigh any perceived benefits.

28. In addition, not all respondents agreed that the proposed amendment would provide more comparable and decision-useful information. Several respondents (preparers, auditors, and a preparer association) raised a specific issue about occasions in which entities declare and pay dividends from members of the consolidated financial statement group to their parent entities. In those instances, requiring an entity to disclose pretax income from continuing operations before intra-entity eliminations would result in multiple occurrences of the same earnings/dividends being passed "up the chain," which would reduce the correlation between the disaggregated domestic and foreign components and the associated domestic and foreign tax expense. One of those auditors indicated that a similar issue would exist for branches in which operations are taxed in more than one country.

29. One professional association further indicated that the Board's assertion that the correlation between foreign and domestic components would be improved is not realistic following the enactment of the Tax Cuts and Jobs Act. Specifically, the professional association noted that the global intangible low-taxed income (GILTI) provisions would subject U.S. multinational business entities to U.S. income taxes on earnings that would be reported as non-U.S. pretax income under the proposed disclosure requirement. Additionally, one preparer noted that the correlation also can be affected by intercompany activities such as dividends and intercompany sales of foreign subsidiaries. Specifically, that preparer noted that some entities record intra-entity activity through pre-tax income on a legal entity basis to streamline the consolidation process but highlighted that those transactions may never result in any associated tax consequence. As a result, in such situations, the disclosure of pre-tax income before eliminations would not result in a better correlation between income tax expense and pre-tax income.

30. Several respondents (auditors, a preparer association, and a professional association) advised that today's diversity in practice would not be reduced by specifying whether income from continuing operations should be considered before or after intra-entity eliminations unless the Board provides additional guidance on how entities should determine when pretax income should be reported as a component of domestic or foreign pretax income from continuing operations. One of the auditors further explained that SEC registrants making the disclosure today apply judgment to define their foreign operations and indicated that, regardless of the decision on this issue, judgment will continue to lead to diversity in this area without additional guidance. The auditor and the preparer association suggested that if the Board decides to move forward with its proposal, additional guidance may be needed to address complexities caused by transactions such as intra-entity transfers of inventory in which income tax consequences are deferred until the inventory is sold to a third party. In addition, the preparer association and a professional association noted that the proposed disclosure could result in further diversity in instances such as when acquired basis adjustments from a business combination are not pushed down to a legal entity level under separate jurisdictions.

31. Several respondents also indicated that, rather than providing more decision-useful information, the proposed amendment would be misleading. For example, a preparer and a preparer association indicated that instances may occur in which users are misled by foreign entities appearing to experience growth due to income from internal activities (for example, a gain related to an intra-entity sale of an asset). A professional association also indicated that the proposed amendment could be misleading because requiring entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations would disclose a measure of earnings that is not typically utilized by management.

32. Several other respondents commented that the proposed amendment would be costly because entities would need to significantly modify their tax and enterprise resource planning (ERP) systems. For example, one preparer indicated that its systems automatically perform many intra-entity eliminations and noted that, to comply with the proposed amendment, it would have to unwind those eliminations. Another preparer indicated that its system currently does not distinguish between foreign and domestic when eliminating intra-entity transactions. A preparer association further noted that some systems automatically commingle intra-entity eliminations with other consolidating reclassification adjustments (for example, IFRS Standards to GAAP adjustments). An auditor noted that, in its opinion, the current diversity in practice relates to the operability challenges that would be encountered in modifying processes and accounting systems to conform to differing practices. In terms of operability and cost, another preparer association concluded that the proposed amendment may be difficult because, under current GAAP, companies are required to eliminate intra-entity

transactions in consolidations. However, the proposed disclosure would require companies to change existing processes, controls, and systems to present pretax income (or loss) before eliminations. The preparer explained that different ERP systems use different methods for handling intra-entity eliminations for various types of transactions and noted that companies may have consolidations or eliminations ledgers that include more than just intra-entity eliminations, which would require significant effort to separate those amounts.

33. Several respondents also highlighted costly challenges with the proposed amendment from issues other than those related to systems modifications. For example:

(a) An auditor noted that if an entity reports pretax income outside of continuing operations (for example, in discontinued operations), the entity will need to separately track intra-entity eliminations on the basis of how the source of income or loss is presented in the financial statements.

(b) Another auditor commented that costs could be incurred because separate financial statements inclusive of intra-entity transactions are not typically prepared unless there are contractual or regulatory requirements to do so.

(c) A preparer association indicated that the proposed amendment would likely increase audit costs because, while auditors usually do not test elimination entries, they would now need to audit the underlying data and results.

(d) Another preparer association highlighted that the proposed amendment could be operationally challenging for companies that have intra-segment transactions between foreign and domestic entities within the same reporting segment. To illustrate the operational difficulty, the respondent provided the example of an intra-segment sale of a perpetual software license. In this transaction, the selling entity records the intra-entity sale upfront, while the purchasing entity records the corresponding intra-entity expense over time through the capitalization of the software. The respondent further noted that in this fact pattern a common method would be to record matching revenue and expense entries within the reporting segment and that the proposed amendment would require both entities within the consolidating group to present a transaction that previously had not been accounted for or disclosed on a standalone basis and the proposed amendment would force a new process for elimination.

34. Many respondents agreed that there is current diversity in practice related to the issue but commented that the proposed amendment may be unnecessarily difficult and costly for entities to apply. Conversely, several respondents, including preparer associations, a professional association, and a preparer, specified that they are not aware of diversity and

indicated that current practice is pretax income (or loss) from continuing operations *after* intra-entity eliminations.

35. Most of the respondents that disagreed with the proposed amendment commented on whether there should be a specification (*before* or *after* intra-entity eliminations) and, if so, what the specification should be. A majority of those respondents indicated that they either preferred no specification or suggested an accounting policy election (with many suggesting a related disclosure). Comments included the following:

    (a) One auditor noted that, while it had suggested including a specification in its comment letter to the July 2016 proposed Update, further research and consideration has led to a change in opinion. Specifically, the auditor noted that it is concerned with the cost-benefit considerations related to the variety of ways in which companies maintain their separate jurisdictional records and the number of interpretational issues that the Board would need to resolve.

    (b) One auditor recommended generally requiring the information to be presented before intra-entity eliminations but allowing modifications or exceptions to the model, depending on individual facts and circumstances (with appropriate disclosures).

    (c) Two preparers and one preparer association preferred the information to be presented *after* intra-entity eliminations.

Disaggregation of Income Tax Expense (or Benefit)

36. The amendments in the revised proposed Update would require all entities to disclose income tax expense (or benefit) from continuing operations disaggregated between federal, state, and foreign. The proposed disclosure of income tax expense (or benefit) from continuing operations disaggregated between domestic and foreign is currently required by the SEC. Based on user feedback stating that the proposed disclosure would provide decision-useful information, the revised proposed Update included the following question about whether it would be operable to provide even more granular disaggregation of income tax expense (or benefit):

> **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?

Stakeholder Feedback

37. Most comment letter respondents provided specific feedback on at least one aspect of the proposed amendment that would require all entities to disclose income tax expense (or benefit) from continuing operations disaggregated between federal, state, and foreign.

Disaggregation of Income Tax Expense (or Benefit)

38. Most of the respondents that provided specific feedback on the amendment in the revised proposed Update that would require all entities to disclose income tax expense (or benefit) from continuing operations disaggregated between federal, state, and foreign expressed their overall support, noting that it would be operable and would result in decision-useful information for users.

39. Many of those respondents (auditors, a preparer association, and a preparer) supported the proposed amendment but suggested that the Board consider several clarifications about the disaggregation by state requirement. Comments included the following:

    (a) One preparer suggested that the Board clarify how disaggregation by state would apply to non-U.S. jurisdictions. Specifically, the respondent recommended that state disaggregation only apply for U.S.-domiciled entities because application to foreign entities would not be appropriate or consistent because many countries do not have an equivalent jurisdictional level.

    (b) One preparer association suggested that the Board change *federal, state, and foreign* to *federal or national, domestic states and localities, and foreign* to better align with SEC Regulation S-X.

    (c) An auditor suggested using the term *domestic state or region* in place of the term *state* in order to include all subnational income taxes in a company's country of domicile, even when that country does not use the term *state*.

    (d) Another auditor suggested that the term be changed to *state and local* to clarify how local taxes should be classified.

40. A few preparers and preparer associations that generally supported the disaggregation also suggested that the Board consider further aligning the proposed disclosure to SEC Regulation S-X by adding the "5 percent rule," which removes foreign or other income taxes that are less than 5 percent of the total tax expense from separate disclosure.

    (a) A preparer association indicated that a requirement to disaggregate foreign or other income taxes below the 5 percent threshold would not be cost beneficial.

(b) Another preparer association noted that, without considering materiality of state taxes (that is, not including the 5 percent rule), the proposed disclosure would be a significant undertaking for some entities to operationalize. The preparer association gave the example of a large multinational company with significant operations and several (immaterial) tax-paying companies across the United States and noted that those companies often report external financial information on a segment or business measurement basis, each consisting of several geographies. To disaggregate by state, significant and costly system and process changes would be required if materiality is not considered.

41. A few other respondents (a professional association, a preparer, and a state society of CPAs) were not supportive of disaggregating income tax expense (or benefit) between federal, state, and foreign. Comments included the following:

(a) A preparer indicated that decision-useful information would not be added by requiring entities to disaggregate at such a granular level. The preparer further noted that the annual tax expense recorded within income taxes may not be comparable to the disaggregated pre-tax values proposed.

(b) The state society of CPAs expressed concern with requiring all entities to disclose income tax expense by state and noted that (i) state taxes are often immaterial and (ii) to comply, companies would have to prepare their tax returns earlier.

(c) The state society and a professional association further commented that requiring the earlier preparation of tax returns would be problematic for small and/or private companies with limited resources.

Country-by-Country Disaggregation

42. Almost all the total user respondents expressed a desire to expand the proposed disclosure of income tax expense (or benefit) to require country-by-country financial information.

(a) One user indicated that country-by-country information would be useful in assessing the location of business activity and profits and the potential presence and risks of aggressive tax strategies.

(b) Another user noted that country-by-country information is necessary for policymakers to examine economic trends and address important public policy issues. Furthermore, the user stated that the G-20 countries have already adopted requirements for large companies to provide country-by-country information to tax authorities and the additional cost to make the information public would be relatively small.

(c) Users indicated that there is a global movement toward increased corporate tax transparency and country-by-country reporting, and one user noted that by not including country-level disclosures, the Board lags behind the worldwide movement. The user further emphasized that comments from a wide variety of investment professionals, financial analysts, not-for-profit organizations, and even the FASB's Investor Advisory Committee (IAC) have indicated the importance of income tax data when valuing entities, identifying tax risks, assessing sustainable corporate tax practices, and making informed investor decisions.

43. Each of those users provided its reasons for why investors need information on a country-by-country basis to effectively make decisions.

(a) One user indicated that the aggregate totals of a corporation's non-U.S. tax data would be of limited utility to investors and analysts because it would not enable a user to understand the countries where an entity is doing business, how much tax it is paying in those countries, how much of an entity's income is attributed to tax havens, or the extent to which the entity is risking tax enforcement actions.

(b) Another user further commented that consequences related to a government's actions against high-risk corporate tax practices can be severe and highlighted that country-level information is needed for investors to properly assess a largely hidden risk.

44. A couple of users commented on the assertion in the basis for conclusions of the revised proposed Update, which states that requiring country-by-country disaggregation would result in significant cost and complexity.

(a) One user indicated that the revised proposed Update draws the conclusion that expected costs would outweigh expected benefits without providing any research or empirical evidence and noted that there is existing evidence showing that country-by-country tax reporting in other countries has not resulted in disproportionate costs.

(b) Another user asserted that even if there are additional costs to companies in preparing the information, it would be worth it to provide investors with the decision-useful information they need. Without this information, the user indicated that it is not possible to gain an understanding of the risks associated with investing in a company.

45. A couple of other users indicated that many of the identified costs can be justified.

(a) One user noted that if the proposed amendments would require a company to reassess its tax strategies, it may be because, in management's view, its current practices cannot survive the scrutiny of investors, which is not a true cost.

(b) Another user commented on the assertion that the proposed disclosure could lead to higher taxes due to additional information provided to taxing authorities, individuals, and public interest groups and highlighted that the identified cost is not part of the mandate or responsibility of the FASB.

(c) A similar argument was made by one academic; however, the academic noted that the FASB should disregard any arguments about the potential benefits of country-by-country reporting on tax enforcement because the FASB should have no role in tax enforcement.

(d) One user also noted that there may not be significant incremental cost for most preparers because, while it is not currently a requirement, many companies should be or are already determining country-by-country disaggregation as part of the normal management of their global operations. In response to the concern that the relevant information may not be required to be calculated until after the financial statement disclosure is due, the user suggested that the Board should require the disclosure on a delayed basis and highlighted that receiving the information on a delayed basis would still be helpful for users because information is most useful when looking at the general trends of a company's taxes.

Disaggregation by Major Tax Jurisdiction

46. During initial deliberations, one Board member acknowledged the cost and complexity concerns related to disaggregation on a country-by-country basis but, to meet the needs of users, supported a more granular geographic breakdown of income tax expense (or benefit). The Board member suggested researching whether disaggregation based on major tax jurisdiction would be a feasible alternative, and Question 5 was included in the revised proposed Update to gather that feedback.

47. Most respondents specifically commented on the question in the revised proposed Update about the usefulness and operability of potential disaggregation based on major tax jurisdiction.

(a) One respondent, a user, noted that while the information that would be provided by disaggregating income tax expense (or benefit) from continuing operations by major tax jurisdiction may not be as useful as if it was disaggregated on a country-by-country basis, it would still be a substantial improvement.

(b) Several respondents, including auditors, preparers, and state societies of CPAs, indicated that it would be operable to disaggregate on the basis of major tax jurisdiction.

(c) An auditor and a preparer commented that while a proposed amendment to disaggregate by major tax jurisdiction may be operable for many entities, it would likely require new processes and controls to aggregate the information.

(d) Auditors and a state society of CPAs indicated that disaggregating on the basis of major tax jurisdiction would provide decision-useful information to financial statement users.

48. Several auditors, a preparer, a preparer association, and a professional association suggested that the Board should clarify several issues if it proceeds with the potential proposed amendment. Specifically, those respondents recommended that the Board explain how an entity would determine its major tax jurisdictions and whether the definition of major tax jurisdiction would apply only to foreign tax jurisdictions or all jurisdictions. They also indicated that further detail would be needed to clarify the treatment of branches and other disregarded entities. One preparer specified that, depending on the definition of a major tax jurisdiction, the volume of information required from preparers could be excessive.

49. The majority of respondents that addressed Question 5 did not support a potential disclosure that would require entities to disaggregate income tax expense (or benefit) by major tax jurisdiction and generally cited cost and operational complexity (accompanied by limited additional benefits) as reasons why they do not support the potential disclosure.

(a) An auditor noted that the same concerns raised by stakeholders in response to country-by-country disaggregation also would exist if the disclosure threshold were changed to a major tax jurisdiction threshold.

(b) Another auditor indicated that, absent additional information, disaggregating on the basis of major tax jurisdiction may result in financial statement users drawing inaccurate conclusions about an entity's tax-paying profile. That auditor also expressed concern with the cost and complexity of providing information at an even more granular level.

(c) A preparer association noted that disaggregating by major tax jurisdiction would result in significant costs for entities with complex legal entity structures (for example, utilities that consolidate state-specific subsidiaries in order to operate under multiple state regulatory commissions).

(d) A state society of CPAs and a professional association suggested that, while public companies would be able to adapt, the potential disclosure would not be operable in the typical time periods necessary for private company financial statements to be made available for issuance.

(e) A preparer noted that the potential disclosure would introduce a new level of reporting beneath segment reporting and suggested that the current segment reporting

requirements be the lowest level of disaggregation if additional income tax disclosures are required.

(f) An auditor commented that, if required, it may be more appropriate to include the disaggregated information in the Management's Discussion and Analysis (MD&A) section of an entity's financial reports.

(g) Preparer associations asserted that information at this level of granularity should be disclosed to taxing authorities but not to the public. Specifically, one of the preparer associations noted that according to the October 2015 Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) Final Report on Action Item 13, *Guidance on Transfer Pricing Documentation and Country-by-Country Reporting*, all participating countries (including the United States) agreed that country-specific tax information would not be disclosed to the public.

Disaggregation of Income Taxes Paid

50. The amendments in the revised proposed Update would require all entities to disclose income taxes paid disaggregated between federal, state, and foreign in each annual period.

Stakeholder Feedback

51. Most comment letter respondents provided specific feedback on the proposed amendment that would require all entities to disclose income taxes paid disaggregated between federal, state, and foreign. Of those respondents, many expressed support for the proposed disaggregation of income taxes paid in each annual period. Comments included the following:

(a) One user, in response to the argument that information about income taxes paid can be misleading for users, noted that users understand that the longer term trends are more important than year-to-year fluctuations. That user further noted that users of financial statements can look at the trends over several years to obtain critical decision-useful information and suggested that if the concern is related to the potential for information to be misleading, the proposal could be amended to require that income taxes paid be additionally disaggregated by taxes paid for the current and prior years.

(b) Users also expressed interest in additional disclosures requiring disaggregation of income taxes paid on a country-by-country basis and noted that because of recent standards set by the OECD there would not be a significant incremental cost because many companies already have to file country-by-country reports to the Internal Revenue Service (IRS).

(c) An auditor and a preparer association suggested that the Board clarify what should be included in the disclosure of income taxes paid (for example, refunds and deposits for disputes).

52. However, most comment letter respondents did not support the proposed amendment that would disaggregate income taxes paid in each annual period, largely because disclosing the information at that level of granularity would be costly for preparers and would not produce information that is useful, predictive, or consistent for users of financial statements. In addition, respondents indicated that the information may be misleading to users. Comments included the following:

(a) One preparer noted that the information would be potentially misleading because the timing of cash taxes paid often does not correlate to pretax income (or loss) or income tax expense (or benefit) because of the effect of uncertain tax positions, audit settlements, litigation outcomes, and the timing of cash tax due dates in each jurisdiction.

(b) One preparer specified that income taxes paid often are not indicative of annual tax payments to a particular jurisdiction and suggested that such amounts should not be used as a basis for forecasting future cash flows. That preparer further noted that the proposed amendment would result in information that cannot be meaningfully compared across global reporting entities.

(c) Many of the respondents (preparers and preparer associations) cited cost considerations as their rationale for not supporting the proposed amendment. Those preparer associations noted that for multinational companies, especially those with nonintegrated subsidiaries and decentralized operations, the collection of these data at a more granular level would be time consuming because the data are not readily available within ERP systems.

(d) Similarly, the preparer respondents also identified the collection and aggregation of data as a significant potential cost related to this proposed amendment. One preparer suggested that it would be costly because it is an entirely manual time-intensive and labor-intensive process, while the other preparer indicated that the cost would stem from the requirement to modify the reporting system to disclose the disaggregated information. That same preparer further stated that other reporting regulations have acknowledged the complexity of gathering the information and that they allow 150 days after the annual reporting period to file the reports; however, the preparer did not identify those specific reporting regulations. The preparer noted that, as a result, reporting such information within the SEC’s 60-day filing period for the Form 10-K would not be practicable.

(e) A professional association and a state society of CPAs suggested that requiring disaggregation by state poses additional complexities. Specifically, they noted that disaggregation by state is of limited use and payments made to states often are immaterial. They also indicated that variation in corporate taxes from state-to-state could affect comparability. Both respondents cited the limited resources of smaller firms and private companies as another reason the Board should reconsider the proposed amendment. The state society of CPAs commented that the disclosure of state income tax payments will require entities to prepare their tax returns much earlier, likely along a timeline that would overlap with when the smaller firms are already using their limited resources to complete their audits.

(f) Overall, those respondents that did not support the proposed amendment to disaggregate income taxes paid asserted that the additional cost and procedures would not be justified for a disclosure that they view as not useful, and potentially misleading, to users of financial statements.

Unrecognized Tax Benefit Disclosures

53. The amendments in the revised proposed Update would require public business entities to disclose the line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of those unrecognized tax benefits. The amendments in the revised proposed Update also would eliminate the requirement for all entities to (a) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or (b) make a statement that an estimate of the range cannot be made.

Stakeholder Feedback

54. Several comment letter respondents addressed the proposed amendment that would require public business entities to disclose the line items in the statement of financial position in which unrecognized tax benefits are presented and the related amounts of those unrecognized tax benefits. An auditor supported this proposed disclosure and recommended that the Board also consider requiring this disclosure in interim periods. However, the other respondents (preparers, an auditor, and a preparer association) explained that they did not support it for several reasons:

(a) A couple of preparers and the preparer association explained that this disclosure would not provide any incremental benefit to users. Specifically, the preparer association and one preparer noted that users of financial statements utilize the disclosures of unrecognized tax benefits to assess how aggressive an entity is with its tax positions and

they suggested that the information provided to users in this proposed amendment is unnecessary to make informed investment decisions because the tabular disclosure currently required by paragraph 740-10-50-15A provides sufficient information to users. The preparer association also explained that it did not support the disclosure because (i) there are other items included in the line items in which unrecognized tax benefits would be recognized and more information would be required for users to reconcile the complete changes of the line item and (ii) unrecognized tax benefits may be presented as either current income taxes payable or noncurrent income taxes payable; this disaggregation could lead to investor confusion on how to discern current and noncurrent classification and its implications on future settlements or statutes of limitations lapsing.

(b) The auditor highlighted that there could be confusion and operability concerns surrounding the use of the word *presented*. Specifically, it questioned whether the disclosure would be operable in cases when there is no line item within the statement of financial position in which unrecognized tax benefits are *presented*. The auditor further noted that it is concerned about what it means to be *presented* when the effect of the accounting for the uncertain tax position is to reduce or eliminate an asset in its entirety. To address the issue, the auditor suggested a drafting change requiring the disclosure of the line items that would increase or decrease if unrecognized tax benefits are recognized rather than requiring disclosure of the line items in which the unrecognized tax benefits are *presented*.

55. Many respondents addressed the proposed amendment that would eliminate the requirement to disclose possible changes in the unrecognized tax benefit balance in the next 12 months. Of those respondents, the majority supported the Board's decision to remove the disclosure requirement on the basis that it is difficult to reliably predict changes to unrecognized tax benefits and therefore may not provide meaningful information to investors. An auditor supported the decision to remove the disclosure but indicated that it may not sufficiently reduce costs for preparers because similar disclosures would still be required in accordance with paragraph 275-10-50-8. That paragraph requires an entity to disclose when it is reasonably possible that an estimate included in the financial statements will change and that the change will be material to the financial statements. Therefore, that auditor recommended that, in addition to removing the disclosure requirement, the Board also consider clarifying how the guidance in Topic 275, Risks and Uncertainties, applies to unrecognized tax benefit disclosures.

Valuation Allowance

56. The amendments in the revised proposed Update would require a public business entity to disclose the amount and explanation of the valuation allowance recognized and/or released during the reporting period.

Stakeholder Feedback

57. Many comment letter respondents addressed, and either conditionally or partially supported, the proposed amendment to disclose the amount and explanation of valuation allowances recognized and/or released during the reporting period. Comments included the following:

    (a) An auditor acknowledged that this disclosure may already be required in Schedule II under Rule 12-09, *Valuation and Qualifying Accounts*, of SEC Regulation S-X. However, that auditor supported the proposed amendment on the basis that adding this disclosure in the income tax footnote would be an improvement. That auditor also suggested that it would be useful for companies to disclose disaggregated information on the increases and decreases in valuation allowances by jurisdiction (that is, federal, foreign, and state and local). However, other comment letter respondents indicated that entities are not required to and, in practice, do not allocate their valuation allowance to specific jurisdictions.

    (b) Two preparers and a preparer association supported the proposed amendment only if the Board clarifies that this disclosure is only required for significant, material changes to an entity's valuation allowance.

58. However, the majority of respondents did not support this proposed amendment. Many of those respondents indicated that the explanation of what caused the recognition or release of a valuation allowance is already addressed by MD&A requirements or the existing effective tax rate reconciliation.

    (a) One preparer explained that SEC filers already are required to provide disclosures related to the amount of, and explanation for, a valuation allowance recognized or released during the reporting period. Other respondents explained that the nature of this disclosure is more appropriate in MD&A.

    (b) A preparer association indicated that this disclosure could be too long and confusing to provide valuable information to investors. Many of those respondents that did not support this proposed amendment indicated that to improve it, the Board should require a public business entity to explain the valuation allowance recognized and/or released during the reporting period only when there are circumstances that result in a change in judgment about the beginning-of-the-year valuation allowance or because

of transactions or other major events that occur during the period (for example, a business combination or the disposal of a division of the entity).

(c) An auditor suggested that, in its view, while the disclosure is not necessary for any entity, if the Board proceeds with the proposed amendment there would be no basis for exempting entities other than public business entities.

(d) Another auditor stated that explanations for changes in the valuation allowances that are solely a result of the entity's normal operations during the year may not provide decision-useful information about income taxes.

Effective Tax Rate Reconciliation

59. The amendments in the revised proposed Update 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. The proposed amendments would further modify the requirement to explain the change in an amount or a percentage of a reconciling item from year to year.

60. The revised proposed Update included the following question related to the proposed amendments for determining reconciling items in the effective tax rate reconciliation:

> **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.

Stakeholder Feedback

Rate Reconciliation Threshold

61. Most respondents addressed Question 6 in the revised proposed Update. Of those respondents (representing each type of respondent), more than half supported the proposed amendment that would align the effective tax rate reconciliation threshold with SEC Regulation S-X 210.4-08(h) at 5 percent of pretax income because of the consistency with existing SEC requirements. Many respondents acknowledged that bright-line thresholds are not often used in the Codification but noted the benefit of aligning the threshold with SEC requirements. Comments included:

(a) One preparer association explained that consistency is important to improving the overall disclosure effectiveness and the efficiency in preparing disclosures.

(b) A state society of CPAs noted that aligning GAAP with the SEC regulations is more important than reducing the percentage threshold for reconciling items.

(c) One user observed that a threshold of 1 percent or 3 percent would be preferable but, at a minimum, the 5 percent threshold should be maintained rather than considering a higher threshold.

(d) Another user indicated that the rate reconciliation is one of the most useful disclosures about income tax.

62. Several respondents (preparers, auditors, and a professional association) conditionally supported the proposed amendment by explaining that it is reasonable to align the 5 percent threshold but the Board should consider whether a different threshold would be more appropriate because potentially immaterial or insignificant reconciling items would be disclosed given the change in the statutory federal income tax rate from 35 percent to 21 percent. Comments included:

(a) One auditor stated that with U.S. tax reform and the pervasiveness of companies with U.S. operations domiciled in low-tax jurisdictions, the current 5 percent threshold in SEC Regulation S-X results in disclosing reconciling items that may be immaterial to the financial statements.

(b) A few respondents recommended that a qualitative threshold be considered. The qualitative threshold would align with the Board's broader objective to permit preparers to exercise discretion as discussed in Chapter 8 of Concepts Statement 8.

(c) One auditor explained that while it prefers that public business entities that are not SEC filers be permitted to apply judgment in identifying significant reconciling items, if the Board determines that a quantitative threshold is necessary, the threshold should be consistent with the threshold in existing SEC guidance.

(d) A professional association added that it agrees with the notion of aligning SEC disclosures and GAAP requirements; however, a bright-line requirement may not allow a public business entity to appropriately determine what information is material, relevant, and decision useful.

63. However, several other respondents disagreed with the proposed amendment. Many of those respondents would support a higher threshold because a 5 percent threshold would yield disclosure of immaterial items, given the lower statutory federal income tax rate of 21 percent.

(a) Some respondents (an auditor, a preparer, a preparer association, and a state society of CPAs) suggested that 10 percent may be an appropriate threshold because it would yield reconciling items greater than 2 percent of pretax income, which is similar to the effect of reconciling items disclosed with a 5 percent threshold on the previous statutory federal income tax rate of 35 percent.

(b) One auditor that supported a higher threshold also suggested that the reconciliation include dollar amounts rather than percentages to prevent the disclosure of reconciling items purely on the basis of fluctuations of pretax income.

(c) One preparer association that supported a higher threshold also suggested a fixed rate of 1.75 percent of pretax income—which is equal to the reconciling items disclosed with a 5 percent threshold on the previous statutory federal income tax rate of 35 percent—because a fixed rate would alleviate the need to reconsider the threshold as a result of future statutory federal income tax rate changes.

(d) One auditor and one preparer association would prefer the flexibility to disclose significant items without a bright-line threshold.

64. Two auditors also suggested that the Board clarify when an entity is required to reconcile to an income tax rate other than the rate of its country of domicile versus when an entity may do so. The current language in paragraph 740-10-50-12 states that an entity must *normally* use the rate of its country of domicile. Those auditors observed that such clarification would reduce diversity in practice and increase comparability. One of those auditors recommended that the Board provide objective criteria to clarify when a departure from the rate in the country of domicile is appropriate.

Explanation of Year-over-Year Changes

65. Many respondents addressed the proposed amendment to disclose explanations of year-to-year changes in reconciling amounts or percentages. The majority of respondents disagreed with the proposal because existing SEC Regulation S-K disclosure requirements for MD&A provide the necessary information and additional explanations would be redundant. Several respondents also noted that changes in normal business activity or pretax income may be the only explanation for a change in a reconciling item and that such information would already be evident to users. An auditor that disagreed suggested that the Board clarify the types of reconciling items that would require explanation if the proposed amendment is finalized. A preparer and a professional association suggested that explanations could be provided only for significant items.

66. Several respondents conditionally supported the proposed amendment and provided the following comments:

(a) One preparer suggested that an explanation of year-to-year changes in the aggregate rather than separately explaining each reconciling item would help a user better understand the overall changes in the effective tax rate.

(b) Another preparer suggested that only significant changes that are precipitated by tax transactions, changes in tax law, or other events that are not reflected in pretax income be disclosed.

(c) One professional association suggested a similar alternative for entities other than public business entities (that is, providing explanations of year-over-year changes as a result of significant changes in operations).

(d) One auditor suggested that an explanation only be required upon a significant change in the amount or percentage of a reconciling item. That auditor also recommended that the Board provide an example in the final Update to illustrate the expected level of detail, which would promote comparability between disclosures.

Carryforwards

67. The amendments in the revised proposed Update would reduce diversity in practice by explicitly requiring a public business entity to disclose the amounts of federal, state, and foreign carryforwards (tax effected before any valuation allowance) by time period of expiration for each of the first five years after the reporting date, a total for any remaining years, and a total for carryforwards that do not expire. A public business entity also would be required to disclose the valuation allowance associated with the total tax-effected amounts of federal, state, and foreign carryforwards as well as the total amount of unrecognized tax benefits that offsets the deferred tax assets attributable to carryforwards. An entity other than a public business entity would be required to disclose the total amounts of federal, state, and foreign credit carryforwards and the total amounts of other federal, state, and foreign carryforwards (not tax effected), separately for those carryforwards that do not expire and those that do expire, along with their expiration dates (or a range of expiration dates).

Stakeholder Feedback

68. Most respondents provided feedback on at least one of the four proposed amendments on carryforward disclosures. An auditor broadly noted that the proposed amendments do not specify which periods an entity should include when disclosing the disaggregation of carryforwards and suggested that the Board require such information only as of the latest balance sheet date. Another auditor suggested that the Master Glossary definition of the term *carryforwards* be updated to include the interest expense carryforward that was added by the Tax Cuts and Jobs Act.

Time Periods of Expiration

69. Most of the respondents (preparers and preparer associations) that commented on the proposed amendment, which would require public business entities to disclose carryforwards by time period of expiration, disagreed with it. Those respondents explained that carryforward expiration dates do not accurately represent when a carryforward will be utilized and that providing such information may be misleading to users. Respondents also explained that the effect of carryforward expiration dates is already incorporated through the existing requirement to evaluate carryforwards for realizability when determining whether valuation allowances are necessary. Several respondents suggested that the current flexibility to disclose information on carryforward expirations using a method that is most helpful to an entity's investors is preferred. A preparer noted that it would be costly to provide such detail and suggested disclosing the time period of expiration in groups of years instead. A preparer association recommended that the Board require disclosure of federal, state, and foreign carryforwards on an aggregate tax-effected basis rather than disaggregated by period of expiration. Conversely, an auditor agreed with the proposed amendment on time periods of expiration.

Valuation Allowance Attributable to Carryforwards

70. Most of the respondents (preparers, auditors, and preparer associations) that commented on the proposed amendment that would require public business entities to disclose the amounts of valuation allowance recognized for carryforwards disagreed with it. Those respondents explained that the proposed amendment to disclose the amount of valuation allowance related specifically to carryforwards would require scheduling and Topic 740 does not generally require scheduling of deferred taxes unless there is a specific need to do so to determine the appropriate measurement (paragraph 740-10-55-15). Respondents further explained that it would be costly to perform the detailed scheduling analysis for purposes of disclosure only and that additional guidance would be necessary to determine an appropriate method of allocating the valuation allowance. An auditor noted that allocating the valuation allowance would be inherently arbitrary and likely provides little decision-useful information to users. Conversely, another auditor was supportive of the proposed amendment, but also acknowledged the allocation issue and recommended that the Board provide guidance on how valuation allowances should be allocated between each specific deferred tax asset.

Unrecognized Tax Benefits Offsetting Carryforwards

71. The majority of the respondents (preparers, auditors, and preparer associations) that commented on the proposed amendment that would require public business entities to disclose the total amount of unrecognized tax benefits that offsets deferred tax assets

attributable to carryforwards disagreed with it. Those respondents explained that the existing unrecognized tax benefit disclosures provide sufficient information to users and that disclosing the gross amount of deferred tax assets (that is, before unrecognized tax benefits) may be misleading and confusing to users. Specifically, one auditor explained that an unrecognized tax benefit means that the related deferred tax asset was not recognized for financial reporting purposes. Therefore, requiring the disclosure of the unrecognized tax benefit implies that the Board's expectation is that the carryforwards disclosed in the table would be based on the tax returns rather than the financial reporting amounts.

72. One preparer expressed concern that the presentation of the deferred tax asset carryforwards gross of unrecognized tax benefits contradicts the intent of the accounting for uncertain tax positions, which is predicated on only recognizing benefits that meet the recognition threshold. Another preparer expressed concern that the proposed amendment would provide taxing authorities with prejudicial information when considered in conjunction with the existing tabular reconciliation of unrecognized tax benefits and other required tax forms. One preparer association also observed that the identification of the total unrecognized tax benefits that offset the deferred tax assets for carryforwards is redundant with the proposed disclosure of amounts and relevant line items in the statement of financial position in which the unrecognized tax benefits are presented. Conversely, an auditor supported the proposed amendment.

Carryforward Disclosures for Entities Other Than Public Business Entities

73. The proposed amendments would require entities other than public business entities to disclose the total amounts of federal, state, and foreign credit carryforwards and the total amounts of other federal, state, and foreign carryforwards (*not tax effected*), separately for those carryforwards that do not expire and those that do expire, along with their expiration dates (or a range of expiration dates). All the respondents (a mix of auditors, preparer associations, a professional association, and a state CPA society) that commented on that proposed amendment disagreed with it. Those respondents recommended that the Board align the proposed amendment to disclose the total amounts of federal, state, and foreign credit carryforwards and the total amounts of other federal, state, and foreign carryforwards (*tax effected*) with the requirement for public business entities. In other words, respondents indicated that the carryforward amounts should be disclosed on a tax-effected basis. Several of those respondents noted that the information should be available to entities other than public business entities because it would be necessary for financial reporting. Several respondents (auditors and a state society of CPAs) observed that the difference in presentation between public and other than public business entities may be confusing to users. A couple of respondents (an auditor and a professional association) also noted that

exceptions for entities other than public business entities are often provided with the goal of simplification and do not often result in different measurement techniques. Specifically, the professional association noted that it is unusual to have all companies subject to a disclosure requirement, with private companies using a different measurement. Stakeholder feedback was limited to the alignment of disclosing carryforward amounts on a tax-effected basis. Comment letter respondents did not express concerns with the proposal that would require entities other than public business entities to disclose expiration dates (or a range of expiration dates) for carryforward amounts, which differs from the proposed requirement for public business entities to disclose carryforward amounts by time period of expiration for each of the first five years after the reporting date, a total for any remaining years, and a total for carryforwards that do not expire.

Interim Income Taxes Paid

74. The amendments in the revised proposed Update would clarify that the disclosure of income taxes paid during the period under Topic 230 is required for interim periods.

Stakeholder Feedback

75. Several respondents commented on the proposed amendment to disclose income taxes paid in interim periods. Of those, several supported the proposed amendment, but most did not. The respondents that supported the proposed amendment (a professional association, a preparer association, and an auditor) explained that the information is likely decision useful to investors and it would be beneficial to include in interim financial statements. However, a professional association explained that it is unclear whether the proposed interim disclosure of income taxes paid should be disaggregated in accordance with the proposed income taxes paid disclosure for annual periods. That professional association indicated that there would be limited benefit to disaggregating income taxes paid in interim periods.

76. In response to the proposal to disaggregate income taxes paid between federal, foreign, and state and local for *annual* periods, many respondents expressed broad concerns about disclosing income taxes paid (see paragraphs 51 and 52 for stakeholder feedback on that proposed amendment). Most of the respondents that did not support the interim period requirement explained that many of the same issues presented for the disaggregation of income taxes paid in annual periods would be exacerbated by the compressed timeline of interim filing requirements. One preparer noted that tax payments are not always made in quarterly installments, which would create significant volatility in the amounts disclosed quarterly and reduce the usefulness of the information. Another preparer also noted that the variability of quarterly payments may cause financial statement users to misestimate a

company's full-year expected cash tax liability. An auditor questioned whether the interim requirement would provide users with additional decision-useful information because it may not correlate with the limited income tax measures disclosed on an interim basis and the period-over-period change may not be comparable. A preparer association agreed with other stakeholders that the interim disclosure may not provide meaningful information to investors, but also indicated that it may not be feasible for an entity to gather information on tax payments from all relevant jurisdictions in time to comply with interim filing requirements.

Indefinite Reinvestment

77. The amendments in the revised proposed Update would remove the requirement in paragraph 740-30-50-2(b) to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

Stakeholder Feedback

78. Several respondents commented on the proposed amendment. All those respondents supported the Board's decision that would remove the requirement in paragraph 740-30-50-2(b) on the basis that the disclosure is costly to prepare and significantly less relevant after considering the effects of the Tax Cuts and Jobs Act, which introduced provisions to tax the cumulative earnings and profits of foreign subsidiaries that had not been repatriated as of the date of enactment (that is, a one-time transition tax) and generally allows entities to repatriate earnings from foreign subsidiaries without incurring U.S. federal income taxes.

Other Disclosure Considerations—Whether to Add or Remove

79. The revised proposed Update also included the following two questions about whether other disclosures should be added to or removed from Topic 740.

> **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.
>
> **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.

Stakeholder Feedback

Respondents' Recommendations for Additional Disclosures

80. Most of the comment letter respondents (representing all respondent types except users) that responded to Question 7 stated that they did not identify any additional disclosures that should be required by Topic 740. However, several other respondents recommended additional disclosures that the Board could consider adding to Topic 740.

81. One user disagreed with the Board's decision to remove from the July 2016 proposed Update the requirement to disclose enacted changes in tax laws that are likely to have an effect on an entity in a future reporting period. That user explained that disclosure of such information would enable investors to better estimate the effect of changes in tax laws or rates in jurisdictions in which entities have significant operations.

82. Other users recommended that the Board require disaggregation of an entity's total unrecognized tax benefit between federal, foreign, and state and local. Currently, GAAP requires a rollforward of unrecognized tax benefits but does not require unrecognized tax benefits to be disaggregated. One of those users indicated that requiring such disaggregation would allow investors to determine whether entities are adequately considering the potential risks of aggressive offshore tax avoidance positions. The other user indicated that disaggregating unrecognized tax benefits between federal, foreign, and state and local would provide investors and other users with decision-useful information while imposing minimal additional cost on preparers.

83. One user also recommended that the Board require an entity to disclose its domestic tax expense on foreign-sourced earnings. The user explained that, in the absence of disclosures of the amount of indefinitely reinvested earnings and the estimated amount of tax owed upon repatriation of those earnings, investors could use the suggested disclosure as a proxy for assessing the sustainability of the tax rate on foreign earnings and, in turn, how aggressively entities are using offshore tax avoidance methods. That user also explained that the disclosure of domestic tax expense on foreign-sourced earnings would allow users to understand whether an entity's domestic tax expense is being driven by its foreign or domestic earnings.

84. Paragraph 740-10-50-17 requires certain disclosures for the separate financial statements of an entity that is a member of a group that files a consolidated tax return. Although that paragraph was not affected by the revised proposed Update, an auditor suggested that the Board clarify whether an entity that is a member of a group that files a consolidated tax return but also prepares separately issued financial statements should comply with the requirements in paragraph 740-10-50-17 in addition to or instead of other disclosure

requirements in Topic 740. That auditor noted that financial reporting may vary significantly depending on how an entity interprets the guidance in that paragraph.

85. Currently, an entity is required to describe tax years that remain subject to examination by each major tax jurisdiction. A professional association noted that this disclosure is required under the heading *Unrecognized Tax Benefit Related Disclosures* (see paragraph 740-10-50-15) and, therefore, it only would be required when unrecognized tax benefits are present at an entity. That professional association indicated that there is diversity in practice about when an entity must provide this disclosure (that is, some entities may provide this disclosure although they do not have unrecognized tax benefits). The professional association explained that this confusion has created peer review issues for certain audit firms. To reduce this diversity in practice, the professional association recommended that the Board clarify that the disclosure of tax years that remain subject to audit by each major tax jurisdiction is required only when the entity has unrecognized tax benefits.

86. At the November 14, 2018 Board meeting, the Board decided not to require any additional disclosures for any provisions of the Tax Cuts and Jobs Act, including GILTI, the base erosion anti-abuse tax (BEAT), or foreign-derived intangible income (FDII). However, an auditor suggested that the Board consider adding a requirement to disclose the effect of those three tax provisions (GILTI, BEAT, and FDII) if that effect is material and not otherwise apparent in the rate reconciliation or other disclosures. The auditor explained that understanding the effect of these tax law provisions would provide decision-useful information because investors are focused on an entity's international footprint and tax planning.

87. Section 162(m), *Deductibility of Executive Compensation*, of the Internal Revenue Code imposes a $1 million limit on the deductibility of compensation paid to certain executives (referred to as covered employees) by a public business entity. The Tax Cuts and Jobs Act amended Section 162(m) such that compensation paid to additional executives is subject to the limitation, and exceptions to the limitation were removed for certain forms of compensation. As a result of the amendments, an auditor recommended that the Board consider requiring disclosure of an entity's accounting policy about recording deferred tax assets associated with compensation paid to covered employees. That auditor further explained that 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 financial statements especially when considering the divergence in practice regarding the accounting method used.

88. In the effective tax rate reconciliation, some public business entities include a reconciling item titled *foreign rate differential.* An auditor noted that at times, it is unclear what tax effects are included in that reconciling item. For example, some entities only may include differences

between foreign statutory tax rates and domestic statutory tax rates, while other users may include other differences in foreign tax laws or U.S. taxes on foreign earnings (for example, GILTI or Subpart F income). That auditor recommended that the Board clarify that the foreign rate differential should include only the effects on an entity's effective tax rate of differences between the domestic federal statutory tax rate and the income tax rate in the applicable foreign jurisdiction(s), multiplied by pretax income (or loss) from continuing operations in each respective foreign jurisdiction.

89. A preparer observed that additional disclosures about the application of the interest expense disallowance rules (as amended by the Tax Cuts and Jobs Act) may be useful for companies with both regulated operations and nonregulated operations once the associated tax regulations are finalized.

Respondents' Recommendations for Disclosure Removals

90. Most respondents provided feedback on Question 8. The majority of those comment letter respondents (representing all respondent types except users) indicated that they did not identify any disclosures that should be removed from Topic 740. However, a few respondents suggested the removal of or amendment of certain disclosures.

91. A preparer and a preparer association indicated that the Board should remove the existing requirement in paragraph 740-30-50-2(c), which requires an entity to disclose the amount of unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures or a statement that a determination is not practicable. Those respondents indicated that the determination of such amounts is costly because of the inherent complexity and the theoretical nature of the calculations. In addition, an auditor recommended that the Board modify the requirement in paragraph 740-30-50-2(c) to require disclosure of the tax consequences of future remittances of accumulated unremitted foreign book earnings for which a deferred tax liability has not been recognized (for example, withholding tax liabilities) rather than the total amount of unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries. That auditor indicated that its suggested disclosure would be more practicable and would provide additional decision-useful information by disclosing to financial statement users the potential exposure to additional tax liabilities as a result of any changes in the entity's assertion related to undistributed foreign earnings. Those respondents collectively agreed with the Board's proposal to remove paragraph 740-30-50-2(b), which requires an entity to disclose the cumulative amount of each type of temporary difference for which a deferred tax liability has not been recognized because the entity has asserted indefinite reinvestment and agreed with the conclusion that the significance of disclosures about the tax consequences of indefinite reinvestment would be reduced as a result of the Tax Cuts and Jobs Act.

Transition

92. The revised proposed Update would require that an entity apply the proposed amendments prospectively. The revised proposed Update included the following question about transition:

> **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.

Stakeholder Feedback

93. Most respondents (representing all respondent types except users) addressed Question 10 in the revised proposed Update and supported the Board's decision that would require an entity to apply the proposed amendments prospectively. Those respondents indicated that retrospective transition would impose additional costs without providing decision-useful information. For example, a preparer indicated that to retrospectively apply the proposed amendments, it would need to manually adjust prior-year system information because the data needed to comply with the proposed disclosures was not captured. A preparer association that supported prospective transition noted that restating prior periods would be less useful because of tax law changes enacted by the Tax Cuts and Jobs Act.

94. Several respondents (auditors and a professional association) supported prospective transition with an option for an entity to apply the proposed amendments retrospectively. An auditor that supported prospective transition also noted that it did not recommend, but would be open to, providing an option for retrospective transition. Another auditor recommended that the Board allow an entity to apply certain proposed amendments prospectively and other proposed amendments retrospectively on the basis of the entity's judgment. A state society of CPAs recommended that the Board require an entity to apply the proposed amendments that would require the entity to disaggregate pretax income (or loss), income tax expense (or benefit), and income taxes paid between domestic and foreign retrospectively because comparability is particularly important for those disclosures. That respondent indicated that other disclosures should be applied prospectively.

95. Conversely, a couple of preparer associations recommended that the Board require an entity to apply all the proposed amendments *retrospectively* and asserted that the benefits of comparability exceed the costs to apply the proposed amendments retrospectively.

Effective Date and Early Adoption

96. The Board did not propose an effective date for the proposed amendments or decide whether an entity should be permitted to adopt the proposed amendments early because it wanted to

consider the comments received on the proposed amendments before making those decisions. The Board also did not decide whether entities other than public business entities should be provided with additional time to implement the proposed amendments. The revised proposed Update included the following question about effective date and early adoption:

> **Question 11:** How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.

Stakeholder Feedback

97. Most respondents addressed Question 11 in the revised proposed Update; however, comment letter respondents did not address all aspects of the question. Of those respondents that addressed the amount of time that would be necessary to implement the proposed amendments, most respondents (a state society, preparer associations, auditors, and preparers) indicated that an entity should have at least one year to adopt the proposed amendments. However, a preparer indicated that if the Board requires an entity to disclose the valuation allowance associated with carryforwards or pretax income before intra-entity eliminations, then the Board should allow greater than one year to adopt the proposed amendments. Respondents that recommended at least one year to adopt the proposed amendments noted that an entity would need this time to change processes, controls, and to allow for additional data collection, analysis, and review. Those respondents also explained that they would need time to address systems modifications, including time to redesign and test internal controls.

98. Several respondents (preparer associations, a state society, and a preparer) indicated that the Board should allow an entity two years to adopt the proposed amendments. One preparer association noted that an entity would need this time to create new processes and address system limitations.

99. Additionally, several other respondents (a preparer, an auditor, and a professional association) indicated that significant time would be necessary to adopt the proposed amendments depending on whether certain requirements are included in the final Update, while several other respondents (a preparer, an auditor, and a preparer association) indicated that an entity would not require a significant amount of time to adopt the amendments in the revised proposed Update. One preparer noted that the amount of time needed to adopt the proposed amendments only would be insignificant if the Board allowed an entity to disclose pretax income (or loss) either before intra-entity eliminations or after intra-entity eliminations.

100. A couple of respondents (auditors) suggested that additional time to implement may be needed for public business entities that are not currently considered public entities (see paragraph 22 for stakeholder feedback on the proposed change from the term *public entity* to the term *public business entity*). Additionally, one of the respondents observed that not all *public business entities* (as defined in the Master Glossary) are SEC filers and, therefore, they may need to adjust current financial reporting processes to capture the necessary data to comply with the new requirements.

101. Many respondents 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. Most of those respondents (preparers, state CPA societies, auditors, and a professional association) supported providing an additional year, and one respondent (a state CPA society) supported providing two additional years for entities other than public business entities to adopt the amendments in the revised proposed Update. Those respondents noted that entities other than public business entities often do not have the same level of in-house tax expertise or resources as do public business entities. Other respondents indicated that an additional year would be helpful to allow entities other than public business entities to learn from the disclosures made by public business entities. In addition, an auditor noted that because certain of the proposed amendments would align with SEC disclosure requirements, most entities other than public business entities (that are not SEC filers) may require more time than public business entities that already provide those disclosures.

102. A few other respondents (preparer associations and an auditor) did not support providing additional time for entities other than public business entities to adopt the amendments in the revised proposed Update. A couple of those respondents (both preparer associations) clarified that the effective date should be aligned for all entities only if all entities are given two years to adopt the proposed amendments.

103. All of the respondents that commented on whether early adoption should be permitted supported early adoption for all entities. A professional association suggested that the Board allow private companies to early adopt the proposed amendments that would reduce costs without early adopting other proposed amendments. For example, the professional association indicated that private companies should be permitted to early adopt only the proposed amendment that would remove the requirement to disclose reasonably possible changes in the unrecognized tax benefit balance. That professional association indicated that this type of relief would be similar to the transition guidance for the amendments in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-*

10): Recognition and Measurement of Financial Assets and Financial Liabilities, which allowed private companies to early adopt certain, but not all, amendments in that Update.

FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

PCC Issue No. 2018-01, "Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards"

February 12, 2020

Meeting Purpose

1. At the December 16, 2019 Private Company Council (PCC) meeting (the December 2019 PCC meeting), PCC members and the Board continued discussions of PCC Issue No. 2018-01, "Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards," and the PCC voted to direct the staff to draft a proposed Accounting Standards Update (proposed Update) for a practical expedient to determine the current price input into an option pricing model used to calculate the grant-date fair value of an equity-classified share-option award (the practical expedient). The PCC decided that the practical expedient should allow a nonpublic entity to determine the current price input in accordance with certain valuation procedures in Internal Revenue Code Section 409A and the associated Treasury Regulations (referred to collectively as Section 409A).

2. The February 12, 2020 Board meeting is a decision-making meeting. The Board will discuss the practical expedient that was voted on by the PCC. The staff will ask the Board to decide whether it endorses the PCC decision to move forward with a proposed Update.

Question(s) for the Board
1. Does the Board endorse the PCC's decision to proceed to a proposed Update for the proposed practical expedient that would allow a nonpublic entity to use a valuation procedure meeting the rebuttable presumption of reasonableness in Section 409A to determine the current price input into an option pricing model used to calculate the grant-date fair value of an equity-classified share-option award?
2. What comment period does the Board want to require?

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

PCC Decision 1: Reference Valuation Procedures in Section 409A

3. At the December 2019 PCC meeting, the PCC discussed a practical expedient that aligns the measurement philosophy for determining the underlying share price with the measurement philosophy articulated in Section 409A. The PCC decided that the staff should proceed toward drafting a proposed Update based on valuation procedures in Section 409A.

4. The PCC discussed the valuation procedures in Section 409A and decided that the practical expedient should only reference those procedures meeting the rebuttable presumption of reasonableness in paragraph 1.409A-1(b)(5)(iv)(B)(2) of Section 409A. When a valuation qualifies for the presumption of reasonableness it is presumed to be a reasonable application of a reasonable valuation method.

5. Section 409A states that using any of the following three specified valuation methods will qualify for the presumption of reasonableness:
   a. A valuation by an independent appraisal (that is, a valuation specialist) within the preceding 12 months
   b. A valuation based on a formula that, if used as part of a nonlapse restriction with respect to the stock, would be considered to be the fair market value of the stock
   c. A valuation made reasonably and in good faith and evidenced by a written report that considers the relevant factors of illiquid stock of a start-up corporation.

Basis for the PCC's Decision

6. At the December 2019 PCC meeting, the PCC provided the following points as the basis for expecting that the practical expedient would reduce costs associated with determining the current price input:
   a. Nonpublic entities would satisfy both GAAP and tax requirements utilizing one valuation
   b. Section 409A valuations have a 12-month shelf life and are only adjusted when subsequent information exists that may materially affect the value of the corporation
   c. There should be a decrease in required documentation and audit procedures needed to substantiate a nonpublic entity's current share price input.

PCC Decision 2: Scope of the Practical Expedient

7. At the December 2019 PCC meeting, the PCC decided that the scope of the practical expedient should include equity-classified share-option awards issued to both employees and nonemployees.

PCC Decision 3: Application of the Practical Expedient

8. The PCC decided to allow nonpublic entities to apply the practical expedient on an award-by-award basis.

PCC Decision 4: Transition and Effective Date

Transition

9. The PCC decided that the practical expedient should be applied on a prospective basis.

Effective Date

10. The PCC decided that the practical expedient should be applied prospectively for all qualifying awards granted during fiscal years beginning on or after the effective date and in interim periods within the following years consistent with the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, and that early adoption should be permitted. The effective date would be determined after the PCC considers stakeholder feedback on a proposed Update.