



October 3, 2016

Ms. Susan M. Cospers, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Re: **File Reference No. 2016-270**, Proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework – Changes to the Disclosures for Income Taxes*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB) Exposure Draft (ED) of the Proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework – Changes to the Disclosures for Income Taxes*.

The IMA is a global association representing over 80,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy, Financial Reporting Committee).

On the one hand, the Committee generally believes that the ED could improve the effectiveness of income tax disclosures by converging with certain requirements of the Securities and Exchange Commission (SEC) and by providing some information that enables users to understand the integration of income taxes among the balance sheet, income statement and cash flow statement. Income taxes are the product of vexing jurisdictional regulations wherever a company maintains a presence and, as a result, existing disclosure requirements are extensive. On the other hand, the ED adds many more disclosures than it deletes. To the extent material, we believe that some of the proposed incremental disclosures are currently being made and therefore are operational and auditable. However, the FRC is concerned that other proposed disclosures are overkill and present operational challenges. Further, we are not convinced that users would receive predictive information from these proposed disclosures. Therefore, we are not sure the ED represents an overall improvement. The comments below highlight our support and concerns.

### **Foreign Earnings and Indefinitely Reinvested Undistributed Foreign Earnings**

We support the proposals in paragraphs 740-10-50-10A and 10B of the ED to disclose the pretax income (loss) and income tax expense (benefit) from continuing operations disaggregated between domestic and foreign as we believe such disclosures are already being made by most companies to the extent material.



We do not support the proposed disclosure in paragraph 740-10-50-25 of income taxes paid disaggregated between domestic and foreign. Year over year variability between domestic and foreign would not be uncommon for any number of reasons (including, simply the timing of payments) and would require qualitative explanatory disclosures that could be confusing. Given the variability, our user members do not believe such disclosure would have any predictive value or result in more-effective, decision-useful information about income taxes. The requirement (also in paragraph 740-10-50-25) to disclose foreign income taxes paid to any individual country, if significant, is subject to even more variability and, accordingly, more confusing and of less value to users. Tax payments to an individual country do not provide information about the risk or exposure to additional tax in a particular country, nor do they provide information on whether the current tax rate is sustainable. Further, we are concerned about the term “significant”. We question why “material” was not proposed as the threshold. If the disclosure is retained, the threshold should be determined excluding the impact of refunds.

We support the proposal in paragraphs 740-10-50-1A (g) and 740-30-50-3 to disclose the causes of changes regarding indefinitely reinvested undistributed foreign earnings and believe that such disclosure is currently made, if material. However, some members are concerned with the operability in situations where the changes may involve unannounced actions requiring confidentiality, such as a need to repatriate foreign earnings in anticipation of an unannounced business acquisition or entrance into a new market.

We do not support the proposal in paragraph 740-10-50-24 to disclose the aggregate of foreign held cash, cash equivalents and marketable securities. While generated by concerns regarding the Accounting Principles Board Opinion No. 23 exception, we do not believe this disclosure should be included in a project related to income tax disclosure. There is not necessarily any correlation between foreign held cash, cash equivalents and marketable securities and the amount of taxes that would be due on the repatriation of foreign earnings. We find that to the extent relevant, disclosure of foreign held cash and cash equivalents is found in discussions about cash or liquidity. Foreign held cash balances have been the subject of the SEC staff inquiries. This is a good example of disclosure that the FASB staff and SEC staff should work on together. We recommend that the joint effort start with defining the objective of the proposed disclosure. See further discussion in Other Topics below.

### **Unrecognized Tax Benefits**

We support the requirement in paragraph 740-10-50-15A c. to break down the amount of unrecognized tax benefits by balance sheet line item. We are not clear what the FASB intends with the requirement in that paragraph to disclose the benefits not included in the balance sheet as existing requirements include both gross unrecognized tax benefits and the related valuation allowances. Thus, amounts not included in the balance sheet are already disclosed.

We are opposed to the proposed disclosure (in paragraph 740-10-50-15A a.3.) of settlements of unrecognized tax benefits disaggregated between those that used existing deferred tax assets and those that required cash. This proposed disclosure presents operational complications for many preparers. Further, the current roll forward of unrecognized tax benefits required for public business entities provides robust disclosures of the underlying balances, and the statement of cash flows requires disclosure of cash taxes paid. We are not aware of any other balance sheet items – assets or liabilities – that require not only roll-forward schedules but also full reconciliations of cash and non-cash impacts.



Finally, we are not aware of any compelling reasons as to why or how users need this information to understand the integration of income taxes among the balance sheet, income statement and cash flow statement. We see this proposed disclosure as an example of the type of disclosure that contributes to disclosure overload. Accordingly, to the extent there is any limited value of disaggregated cash and noncash settlements of unrecognized tax benefits that value does not overcome operational complexities.

The FRC also supports the deletion in paragraph 740-10-50-15d. of information regarding the increases or decreases in the amounts of unrecognized tax benefits within 12 months from the reporting date due to the difficulty in estimation and our belief that forward-looking information should not be required in financial statements.

### **Tax Rate Reconciliations**

The Committee supports the proposal in paragraph 740-10-50-12 to require disclosure of a reconciliation of the difference between the amount computed by multiplying pretax income (loss) by the applicable federal statutory rate and the actual rate. Such disclosure provides users with key information in understanding a company's income taxes and, therefore, is currently disclosed by most companies. Further, such disclosure converges with the SEC requirements.

Because of the importance of the rate reconciliation to a user's understanding of income taxes, Committee members involved with private companies believe that the disclosure is also important to private company users and a numerical reconciliation should be required for all entities.

However, the more than 5% of pretax income (loss) threshold for reconciling items is problematic as the threshold can result in an unnecessarily large number of line items when pre-tax income (loss) is relatively small. We urge the FASB staff to work with the SEC staff as discussed below to align the requirement around a threshold for reconciling items that reflects materiality to the company.

### **Tax Carryforwards**

We do not support the requirement in paragraph 740-10-50-6A a. and b. to disclose pre-tax and tax effected amounts of carryforwards disaggregated by federal, state and local jurisdiction and further disaggregated by expiration date. We believe that this proposal is not effective or decision useful and is another example of disclosure overload. Pre-tax and tax effected information is redundant. Bottom line, users care about deferred tax assets for carryforwards (net of valuation allowances) by year of expiration as those amounts may help predict future cash flows. We believe that the disclosure requirements in paragraph 740-10-50-8A for private companies, net of valuation allowances (with the disclosure proposed in 740-10-50-6A c.) are sufficient for public business entity users.

### **Government Assistance**

The FRC does not believe that the proposed government assistance disclosures in paragraph 740-10-50-23 are operable because the scope is unclear. The "broadly available" scope exclusion needs to be refined, as does the definition of a "legally enforceable agreement". For example, if the government assistance is an incentive arrangement available to any qualifying companies but only one or two companies meet the qualifications, is that "broadly available"? Does "broadly available" include



government programs that involve some degree of discretion by the government? If the government assistance is available to many companies but must be confirmed via a letter from a jurisdiction to a particular company, is that letter a “legally enforceable agreement”? If the government assistance is available to any company but requires an application and involves some negotiation with government authorities, is that process a “legally enforceable agreement”? Consider the recommendation in our letter dated February 8, 2016 on the Proposed Accounting Standards Update — *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* (Government Assistance Proposal) regarding exclusions for broad economic or public policy program assistance.

More importantly, as noted in our February 8 Government Assistance Proposal comment letter, we believe that the proposed rate reconciliation requirement renders a separate requirement for government assistance redundant. If government assistance is material to a company, it will be included as a reconciling item. Further, to the extent the underlying concern being addressed by this proposed disclosure is sustainability of the current tax rate, such concern is forward looking and included in the SEC’s Management’s Discussion and Analysis (MD&A) disclosure framework.

### **Other Topics**

Regarding the proposed requirement in paragraph 740-10-50-22 to disclose information about the probable impact of enacted changes in tax laws, we are concerned about disclosure of forward-looking information in footnotes and believe that any disclosure should be limited to factual information about the law change only. Potential future impacts on future tax rates or liabilities are dependent on a multitude of future variables. MD&A is the appropriate location for such forward-looking information.

Finally, as part of the SEC’s Disclosure Effectiveness project, the Committee recommends that the SEC staff work with the FASB staff on converging disclosure requirements. This ED is an opportunity to engage in that convergence effort.

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We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

Nancy J. Schroeder, CPA  
Chair, Financial Reporting Committee  
Institute of Management Accountants  
nancy@beaconfinancialconsulting.com