

## EITF ABSTRACTS

Issue No. 00-16

**Title:** Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation

**Date Discussed:** July 19–20, 2000

**References:** FASB Statement No. 5, *Accounting for Contingencies*  
FASB Statement No. 43, *Accounting for Compensated Absences*  
FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*  
FASB Statement No. 123, *Accounting for Stock-Based Compensation*  
FASB Statement No. 123 (revised 2004), *Share-Based Payment*  
FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*  
FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*  
APB Opinion No. 25, *Accounting for Stock Issued to Employees*

### ISSUE

1. Topic No. D-83, "Accounting for Payroll Taxes Associated with Stock Option Exercises," requires that payroll taxes incurred in connection with stock-based compensation be recognized as an expense, but it does not address the timing of that expense recognition. Costs incurred by companies for employer payroll taxes on employee stock-based compensation have become more significant for U.S. companies as a result of the increased use of options as a form of employee compensation and the rapid growth in the market value of underlying stocks in certain market sectors. Consequently, the predominant current practice of recognizing those costs when the event that triggers payment to the taxing authority occurs (for an option, that event is employee exercise), has been called into question.

2. This Issue addresses how an entity should account for employer payroll taxes on stock-based compensation under Opinion 25 and Statement 123. That stock-based

compensation may be in the form of options to buy the employer entity's stock, restricted stock awards, stock appreciation rights, or other arrangements covered by that literature. This Issue does not address the accounting consequences under Opinion 25 of an employer recovering from employees some or all of the employer's obligation for those payroll taxes.

3. The issue is when an employer should recognize a liability and corresponding cost for employer payroll taxes on employee stock compensation.

### **EITF DISCUSSION**

4. The Task Force reached a consensus that a liability for employee payroll taxes on employee stock compensation should be recognized on the date of the event triggering the measurement and payment of the tax to the taxing authority (for a nonqualified option in the United States, generally the exercise date). [Note: See STATUS section.]

### **STATUS**

5. Statement 123(R) was issued in December 2004. It replaces Statement 123, supersedes Interpretation 28, and supersedes Opinion 25. Statement 123(R) does not change the consensus reached in this Issue.

6. No further EITF discussion is planned.