

## EITF ABSTRACTS

Issue No. 95-20

**Title:** Measurement in the Consolidated Financial Statements of a Parent of the Tax Effects Related to the Operations of a Foreign Subsidiary That Receives Tax Credits Related to Dividend Payments

**Date Discussed:** November 15-16, 1995

**References:** FASB Statement No. 109, *Accounting for Income Taxes*  
APB Opinion No. 23, *Accounting for Income Taxes—Special Areas*

### ISSUE

In Issue No. 95-10, "Accounting for Tax Credits Related to Dividend Payments in Accordance with FASB Statement No. 109," the Task Force addressed the accounting in the separate financial statements of a foreign enterprise for the tax benefits of future tax credits that will be realized in the foreign tax jurisdiction when dividends are paid. In those foreign tax jurisdictions, enterprises that pay dividends from previously undistributed income receive a tax credit (or tax refund) equal to the difference between (1) the tax computed at the "undistributed rate" in effect the year the income is earned for tax purposes and (2) the tax computed at the "distributed rate" in effect the year the dividend is distributed. In Issue 95-10, the Task Force reached a consensus that the tax benefits of the tax credits should be recognized as a reduction of income tax expense in the period the tax credits are included in the enterprise's tax return and that, in its separate financial statements, the enterprise should measure the tax effects of temporary differences using the undistributed rate.

The issue is whether the consensus in Issue 95-10 also should apply to the consolidated financial statements of a parent that includes a foreign subsidiary that receives a tax credit for dividends paid, if the parent expects to remit the subsidiary's earnings. That is, if the parent has not availed itself of the exception for foreign unremitted earnings in

Opinion 23, should the tax effects related to the operations of the foreign subsidiary be recognized in the parent's consolidated financial statements based on the foreign tax jurisdiction's distributed or undistributed rate?

### **EITF DISCUSSION**

The Task Force reached a consensus that in the consolidated financial statements of a parent, the future tax credit that will be received when dividends are paid and the deferred tax effects related to the operations of the foreign subsidiary should be recognized based on the distributed rate if the parent is not applying the indefinite reversal criteria of Opinion 23. However, the undistributed rate should be used in the consolidated financial statements to the extent that the parent has not provided for deferred taxes on the unremitted earnings of the foreign subsidiary as a result of applying the indefinite reversal criteria of Opinion 23.

### **STATUS**

No further EITF discussion is planned.