# FASB Interpretation No. 29

Note: This Interpretation has been completely superseded

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## Reporting Tax Benefits Realized on Disposition of Investments in Certain Subsidiaries and Other Investees

an interpretation of APB Opinions No. 23 and 24

February 1979

Financial Accounting Standards Board
of the Financial Accounting Foundation
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**FASB Interpretation No. 29**

# Reporting Tax Benefits Realized on Disposition of Investments in Certain Subsidiaries and Other Investees

**an interpretation of APB Opinions No. 23 and 24**

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# FIN 29: Reporting Tax Benefits Realized on Disposition of Investments in Certain Subsidiaries and Other Investees

## an interpretation of APB Opinions No. 23 and 24

### FIN 29 Summary

Because of divergent practices in reporting tax benefits realized on dispositions of certain investments, the FASB was asked to clarify the reporting of those benefits. This Interpretation requires tax benefits realized on disposition of investments in certain subsidiaries and other investees relating to a difference between the accounting and tax basis of the investment to be classified the same as the classification accorded the gain or loss on disposition of the investment (for example, as results of continuing operations, as extraordinary, or as disposal of a segment of a business).

## INTRODUCTION

1. The FASB has been asked to clarify the reporting of income tax benefits realized by an investor from the disposition of an investment in certain subsidiaries and other investees. [1] Losses of a subsidiary or other investee that have been included in the investor's financial statements may have created a difference [2] between the accounting basis and the tax basis of the investment in the subsidiary or other investee because the investor could not deduct those losses for income tax purposes. No recognition is given to the tax effect relating to the difference between the accounting basis and the tax basis in the years prior to disposition of the investment if realization of the tax benefit is not assured beyond any reasonable doubt. Upon disposition of the investment, a question arises as to whether tax benefits realized on disposition of the investment relating to a difference between the accounting basis and the tax basis of the investment in the subsidiary or other investee should be reported in the investor's financial statements as an extraordinary credit or as a reduction of income taxes on continuing operations. Appendix A provides additional background information about this matter.

## INTERPRETATION

2. The accounting for the effect of a difference between taxable income and pretax accounting income as stated in paragraphs 11 and 17 of *APB Opinion No. 23*, "Accounting for Income Taxes—Special Areas," and paragraph 9 of *APB Opinion No. 24*, "Accounting for Income Taxes—Investments in Common Stock Accounted for by the Equity Method (Other than Subsidiaries and Corporate Joint Ventures)," applies to an investor's accounting for the operating losses and the related tax benefits of operating loss carrybacks or carryforwards that may be realized by a subsidiary, a corporate joint venture, or other investee under applicable tax laws and regulations and does not apply to tax benefits that may be realized by the investor from disposition of the related investment. An investor shall classify tax benefits realized [3] on disposition of an investment relating to a difference [4] between the accounting basis and the tax basis of the investment in the subsidiary or other investee in the same manner as the classification accorded the gain or loss on disposition of the investment.

3. If reporting tax benefits in accordance with paragraph 2 of this Interpretation creates a significant variation in the customary relationship between income tax expense and pretax accounting income, that fact shall be disclosed in accordance with paragraph 63(c) of *APB Opinion No. 11*, "Accounting for Income Taxes."

## EFFECTIVE DATE AND TRANSITION

4. The provisions of this Interpretation shall be effective for dispositions of investments in certain subsidiaries and other investees occurring after March 31, 1979. Earlier application is encouraged. Reclassification in previously issued financial statements is permitted but not required.

*This Interpretation was adopted by the affirmative votes of five members of the Financial Accounting Standards Board following submission to members of the Financial Accounting Standards Advisory Council and the Screening Committee on Emerging Problems. Mr. Walters dissented.*

Mr. Walters dissents because he believes that, in combination, paragraphs 11 and 17 of *APB Opinion No. 23*, paragraph 9 of *APB Opinion No. 24*, and paragraphs 45 and 61 of *APB Opinion No. 11* specify that a realized tax benefit attributable to prior years' losses of a subsidiary or investee shall be reported as an extraordinary credit. The APB left this specification intact when it overtly excluded *APB Opinion No. 11* from the modifications made by *APB Opinion No. 30*. He therefore believes the assertion in paragraph 2 of this Interpretation that this treatment "does not apply to tax benefits that may be realized by the investor from disposition of the related investment" is an amendment of *APB Opinions No. 23* and *24*. Aside from the validity of the Interpretation, he believes that a tax benefit arising from prior years' losses in a liquidated investment has no place in results of continuing operations. In his view this Interpretation detracts from the usefulness of financial reporting.

*Members of the Financial Accounting Standards Board:*

Donald J. Kirk, *Chairman*
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

## Appendix A: BACKGROUND INFORMATION

5. Paragraph 11 of *APB Opinion No. 23* states:

> The tax effect of a difference between taxable income and pretax accounting income attributable to losses of a subsidiary should be accounted for in accordance with the Board's conclusions on operating losses in paragraphs 44 through 50 of *APB Opinion No. 11*.

Paragraph 17 of Opinion No. 23 applies the same provision to an investment in a corporate joint venture that is accounted for by the equity method. Paragraph 9 of *APB Opinion No. 24* has an identical provision for losses of an investee other than a subsidiary or corporate joint venture.

6. Paragraphs 44 through 50 of *APB Opinion No. 11* address the accounting for operating loss carrybacks and carryforwards. Paragraph 45 states: "When the tax benefits of loss carry*forwards* are not recognized until realized in full or in part in subsequent periods, the tax benefits should be reported in the results of operations of those periods as extraordinary items."

7. *APB Opinion No. 30*, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," requires income taxes applicable to a disposal of a segment of a business and to an extraordinary item to be associated with the gain or loss on disposal of the segment or the extraordinary item reported in an income statement.

8. The following three approaches have been suggested to the Board for classification of tax benefits realized on disposition of an investment relating to a difference between the accounting basis and the tax basis of an investment in the subsidiary or other investee:

a. Report the tax benefits as a reduction of income taxes from continuing operations for the current period, because the benefits are attributable to a decision made and an action taken (i.e., disposition of an investment) in the current period.
b. Classify the tax benefits in the investor's financial statements the same as the classification accorded the gain or loss on disposition of the related investment (for example, as a reduction of income taxes on continuing operations, as extraordinary, or as disposal of a segment of a business).
c. Report the tax benefits as an extraordinary credit in accordance with paragraph 45 of *APB Opinion No. 11* because the difference in bases "is attributable to losses of an investee," as referred to in paragraphs 11 and 17 of *APB Opinion No. 23* and paragraph 9 of *APB Opinion No. 24*.

9. A draft of a proposed Interpretation on "Reporting Tax Benefits Realized on Disposition of Investments in Certain Subsidiaries and Other Investees" was issued on September 22, 1978. The Board received 22 letters of comment in response to the proposed Interpretation. Virtually all respondents expressed agreement with the proposed Interpretation. However, a few respondents questioned whether the proposed Interpretation amounted to an amendment of *APB Opinions No. 23* and *24*, and the Board concluded that it does not. The Board believes that Opinions No. 23 and 24 address the reporting of operating losses and related tax benefits of operating loss carrybacks or carryforwards available to a subsidiary or other investee but does not address the reporting of tax benefits realized by an investor from disposition of the related investment. The Board believes that the differences between tax benefits arising from the utilization by an investee of its tax loss carryforwards and the tax consequences to an investor upon disposition of its investment justify differences in reporting.

## Footnotes

FIN29, Footnote 1--The term "subsidiary or other investee," as used in this Interpretation, refers to a subsidiary that files separate income tax returns (whether consolidated or accounted for by the equity method for financial reporting) or to a corporate joint venture or other nonsubsidiary investee accounted for by the equity method.

FIN29, Footnote 2--A "difference between the accounting basis and the tax basis of the investment in the subsidiary or other investee," as used in this Interpretation, refers to a difference attributable to prior year losses of a subsidiary or other investee that have been included in the investor's financial statements and could not be deducted by the investor for income tax purposes.

FIN29, Footnote 3--The term "tax benefits realized" as used in this Interpretation refers to either realization by inclusion in an income tax return or the determination that realization is assured beyond any reasonable doubt.

FIN29, Footnote 4--See footnote 2.