May 31, 2019

Technical Director
File Reference No. 2019-500
FASB
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes

Dear Technical Director:

Pfizer Inc. is a research-based, global biopharmaceutical company headquartered in New York. We discover, develop, manufacture and market leading medicines, vaccines and medical devices, as well as many of the world’s best-known consumer healthcare products. In 2018, we reported revenues of $54 billion, pre-tax income from continuing operations of $12 billion and total assets of $159 billion.

Pfizer supports the Board’s efforts to improve disclosure guidance; however, we do have some concerns and suggestions related to the proposed disclosures that are discussed in our attached responses to the Board’s Questions for Respondents. Overall, we believe that much of the information requested will lead to higher levels of investor confusion as a result of the complex nature of accounting for taxes and its intersection with tax initiatives and tax legislation that can dramatically alter future cash flows, thereby leading an investor to inappropriate conclusions regarding those cash flows.

Taxes within global companies are extremely complex due to the number of jurisdictions and local laws, regulations and interpretations, varying tax rates and the tax systems that are involved. Further complicating the dynamic when attempting to provide disclosures about the past to predict future outcomes is that the taxes recorded today are subject to change through both external actions which are outside of our control and our internal actions. As a multinational company, we do not believe that the proposed additional disclosures will permit even a sophisticated user of the financial statements, to make any reasonably reliable prediction about the sustainability of tax rates or the amount, timing or uncertainty of future cash flows. We appreciate that a user may find such predictions to be useful, but when we are asked in investor calls or meetings about such matters, we generally only predict a tax rate for the current year given all the dynamics of the situation.
We appreciate the opportunity to provide feedback on this proposed accounting standards update and would be pleased to discuss our perspectives on these issues with you at any time.

Very Truly Yours,

[Signature]

Loretta Cangialosi
Senior Vice President and Controller

cc: Frank A. D’Amelio
    Executive Vice President and Chief Financial Officer
ATTACHMENT – Questions for Respondents

**Question 1:** Would the amendments in this proposed Update that add or modify disclosure requirements result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

We support the Board’s broad simplification initiative; that is, to reduce the cost and complexity in financial reporting while maintaining or improving the usefulness of the information provided to users of financial statements. However, we believe the proposed amendments are in conflict with the overall principles of the Income Tax Simplification Project by being more burdensome without providing more meaningful information. Moreover, as described below, we believe the proposed amendments would result in less effective decision-useful information being provided to investors and may add additional cost to the preparation of financials as such information is not currently captured in a manner which would permit the disclosures to be prepared.

The proposed update would require disclosures related to income taxes paid, disaggregated between federal, state and foreign. This proposed amendment will create information that cannot be meaningfully compared across global reporting entities as two entities with different countries of domicile would not provide consistent data sets for comparison. Our industry includes market participants which are not U.S. entities and therefore the tax regimes are very different.

We question whether the proposed requirement to disclose income taxes paid, disaggregated between federal, state and foreign, provides decision-useful information for users of our financial statements. The income taxes we pay to any particular jurisdiction varies annually as a result of continual economic, business and operational changes, as well as our efforts to efficiently run our operations. In addition, as is normal when dealing with tax authorities, we may settle large single or multiple tax years with taxing authorities and those income taxes we pay are not indicative of annual tax payments to the jurisdiction nor should such amounts be used as a basis for an investor or financial statement user’s forecast of future cash flows. Therefore, we do not see a benefit to providing users with further detail of taxes paid by jurisdiction because there is no discernable pattern or trend. We also note that the breakdown of taxes paid between domestic and foreign income taxes will not agree to our accrual for income taxes between domestic and foreign because there are differences in timing between when income taxes are paid and when they are accrued. We would expect this information will leave users questioning what those differences are by jurisdiction providing unnecessary confusion and requests for additional levels of granular
information. Tax payments are not always made in quarterly installments (e.g., advanced tax payments, refund claims and amended returns, overpayments applied from one year to the next, and payments relating to tax amnesty programs), creating significant volatility in the quarterly amount disclosed thereby reducing its meaningfulness and creating the need to add additional explanatory content to keep the quarterly fluctuation from being misleading. Additionally, we note that we disclose total cash taxes paid as a part of the supplemental disclosures for the statement of cash flows. Separately disaggregating this amount could add confusion and not provide additional meaningful or useful information for investors.

The Board also proposed an updated carryforwards’ disclosure because it would make the disclosure more comparable across entities and more beneficial to users. We do not believe it is relevant to users to have the expiration amounts listed by year for the five succeeding years since the amounts shown as expiring over each year of the succeeding five-year period may be offset by a valuation allowance. Hence, readers of our financial statements may incorrectly infer that these deferred tax assets expiring over the short-term represent a potential income tax expense when in fact, there is no asset recorded on our balance sheet. Further, we consider expiration dates when making judgments about the amount of valuation allowance that we should record. We are concerned that some users may use this additional disclosure to make incorrect judgements about the realizability of our deferred tax assets without adequate information. On some occasions, we utilize our carryforwards just prior to expiration. We would not want readers to make inaccurate judgments about the realizability of our deferred tax assets by utilizing this information, which is limited due to its nature. Furthermore, many net operating loss (“NOL”) carryforwards from foreign jurisdictions do not expire, and post-2017 U.S. federal NOL carryforwards no longer expire. As such, we believe the carryforward disclosure may be less relevant going forward. For these reasons, we cannot support the adoption of this proposed disclosure.

We believe the Board could achieve better disclosure by clarifying the existing disclosure requirements, rather than adding the multiple presentations proposed. Specifically, we understand that today’s guidance for disclosure of tax carryforwards may not be applied uniformly in practice and that some companies may be disclosing the tax effect of loss and credit carryforwards reported or to be reported on their tax returns and other companies may be disclosing the tax effect of carryforwards recognized for financial reporting purposes. The FASB could retain the existing requirement and simply clarify that reporting entities should disclose the tax-effected amounts reported (or to be reported), on their tax returns.

**Question 2:** Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?
We believe there is a lack of clarity in certain areas of the proposed guidance that would undermine operability and auditability of the disclosures. For example, the Board proposed an updated carryforwards’ disclosure because it would make the disclosure more comparable across entities and more beneficial to users. Within the Basis for Conclusions, the Board even noted that “preparers indicated that the disclosure would not be costly” (BC71). However, we do not agree with this assessment. We reiterate our position from our September 30, 2016 comment letter that this proposal would multiply the amount of information to be disclosed and audited, which would require that this information be tracked, collected and aggregated in a manner not otherwise needed, thus requiring additional systems capability, internal controls, and review by management. While we recognize the Board’s attempt to achieve greater transparency, the proposed amendments do not add meaningful, decision-useful information, and will require additional processes, time and costs to collect the information. The income tax accounting standards provide for a valuation allowance determination that, if made properly, would render the proposed carryforward information not meaningful. Tax return carryforwards do not necessarily reflect expected impacts on the effective tax rate or cash flows.

**Question 3:** Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

We believe the proposed disclosure requirements for tax payments by quarter and carryforwards place a significant undue burden on preparers with little benefit to users of financial statements. We believe the proposed disclosures, if adopted, will result in disclosure of detailed information that will lengthen our tax footnote substantially and unduly emphasize information that will not allow an investor to draw any meaningful conclusions. Adding such information to quarterly statements simply multiplies the burden.

Today the requirement is to disclose the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes. Broadly, the entire proposal would multiply the amount of information to be disclosed and audited, which would require that this information be tracked, collected and aggregated in a manner not otherwise needed, thus requiring additional systems capability, controls, and review by management. As we noted before, we believe the additional disclosures would not provide additional value to investors, and therefore, the added time, effort, or expense involved in the financial reporting is unwarranted.

**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?

We believe disclosing pretax book income before eliminations is onerous and does not provide decision-useful information to investors about multinational entities participating in a global economy. It will create added cost and complexity to unwind all intra-entity eliminations that are currently performed automatically within our consolidation systems. Disclosing pretax income before intra-entity eliminations would substantially increase total amount of pre-tax income disclosed and users of financial statement will then be requesting a reconciliation of the eliminations to get to pre-tax income after intra-entity eliminations because they will be unable to understand what is included within the eliminations. We do not believe that such detail is providing decision useful information to a user but rather is only adding to a burden for preparers and confusion for users. For example, global companies with tiered structures holding foreign operations can have a dividend that is paid up a chain of multiple entities and eliminated numerous times over. Tracking such activity solely for purposes of a tax footnote disclosure when it may not have any material tax consequences would not justify the costs. Further, paragraph 21 of the Basis of Conclusions states that, “the amount before intra-entity eliminations would have a more direct relationship with income tax expense (or benefit), which would provide more decision-useful information to financial statement users.” This may not always be the case. Some intercompany activity (e.g., dividends, intercompany sales of foreign subsidiaries) may be recorded through pre-tax income on a legal entity basis as a way to streamline the consolidation process but may not result in a tax consequence. In those instances, disclosing pre-tax income before eliminations would not result in a better relationship between income tax expense and pre-tax income. In addition, the pre-tax income reported in our tax footnote will not tie to our consolidated pre-tax income leading to further confusion for investors. Therefore, we would prefer the Board specify after intra-entity eliminations.

**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?

We already comply with the disclosure requirement to disaggregate our income tax expense (or benefit) from continuing operations between domestic and foreign consistent with current SEC disclosure rules. However, we would not support a proposal to require further disaggregation of income tax expense by foreign jurisdiction. This type of proposal would be overly burdensome for preparers, while creating information that investors cannot meaningfully compare across reporting entities. Additionally, inconsistencies could arise for multinational companies about how significant foreign
jurisdictions are defined. We are concerned that without further clarification that there will be a lack of consistency in application of the guidance by preparers, external auditors and regulators.

**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.

Yes, we believe the Board should consider a higher threshold associated with the rate reconciliation provided the SEC eliminates its disclosure requirements. We would not want there to be a lower threshold for SEC reporting. Materiality has changed post-Tax Cuts and Jobs Act as a result of the reduction of the U.S. tax rate from 35% to 21%. With the reduction in overall U.S. tax rate, preparers are finding more reconciling items meeting the 5% threshold, which is not consistently providing decision-useful information to users of the financial statements. Given these observations, we would recommend a higher threshold than 5%, and we would suggest a threshold in the range of 8-10%. We note that a threshold of 8.3% would yield disclosure of items that were required when the threshold was 5% and the U.S. statutory tax rate was 35%.

We concur with the decision in the proposal to not require separate disclosure of the specific effect of GILTI, BEAT or FDII on the effective tax rate unless they meet the specified disclosure threshold. Many preparers have indicated that separate presentation of those provisions would not provide useful information to preparers because of their interconnectedness. Requiring disclosures for those specific provisions in the tax bill would be inconsistent with how other aspects of tax law, such as Subpart F income, are treated.

**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.

We have none to suggest at this time.

**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.
We have one suggestion at this time. We concur with the proposal to eliminate the disclosure requirement of the cumulative amount of temporary difference that is indefinitely reinvested under ASC 740-30-50-2(b). By the same reasoning, we believe the Board should also remove the disclosure requirement under ASC 740-30-50-2(c) (i.e., the amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that are indefinitely reinvested or a statement that the amount of unrecognized deferred tax liability is impracticable to determine). Given that 1) a high percentage of companies disclose the amount is impracticable to determine, 2) post-U.S. Tax Reform any liability is likely less material and also impracticable to determine, and 3) any amount computed is only hypothetical, we believe this disclosure should also be eliminated.

**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.

We have no issue with the proposal at this time.

**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.

We believe it would take a considerable amount of time to implement the proposed changes, as it would require changes to systems, processes, controls, and additional data collection, analysis, and review. We believe that requiring retrospective application would exacerbate the situation.

**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.

We believe it would take a considerable amount of time to implement the proposed changes, as it would require changes to systems, processes, controls, and additional data collection, analysis, and review. We believe that it will take at least one year to get ready for this.