May 28, 2015

Technical Director
File Reference Nos. 2015-200 - I and 2015-210 - II
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116


Dear Technical Director:

I appreciate the opportunity to comment on this proposed accounting standards update. My perspective is from a practical, company controller’s point of view.

Overall, I believe the current practice of income tax accounting and related financial reporting for income taxes, although complex, is actually well understood by the accounting profession and the professionals who work in that area every day. I find that most challenges in the tax financial reporting world faced by companies occur simply due to a lack of professional education and exposure to these areas of financial reporting. Changing the accounting standards will not alleviate the fundamental issue of lack of education in this area and will, I believe, create even more confusion because those who are already knowledgeable in accounting for income taxes must deviate from reasonably sound economic past practices and principles.

To me, the proposed accounting standards update should not deviate from the basic economic financial reporting assumptions that accrual accounting is superior to cash basis accounting and intra-entity transactions should not be reflected in the consolidated financial operating results of operations (income statement and comprehensive income) of an entity until realized through a future third-party transaction or other future use of the benefits derived from the structured economic purpose of a transaction. If accounting standards deviate from those economic viewpoints, then a whole host of new financial reporting engineering opportunities will present themselves, as they always seem to do in the United States, that will strive to increase future reported operating results in a manner that clearly ignores the significant costs created by prior period tax-structured intra-entity transactions.

For example, if a reporting entity makes a payment for an asset that provides future economic benefits, the company normally capitalizes the upfront cost of the asset and amortizes it over the expected future period to be benefited. If an intra-entity transfer creates certain future income tax reporting benefits in the form of a lower future effective tax rate (similar to the benefits of an intangible asset) at a specified cost today, why should the cost be fully recognized today on a cash basis without any capitalization and future amortization against the benefits realized in future periods that are derived from the current transaction? This will most certainly occur where highly valuable intangible assets, like pharmaceutical intellectual property, will be sold in an intra-entity transfer from a high tax country like the United States to a low tax country like Ireland. Under the proposed accounting standards update, a U.S. reporting entity would
recognize immediately, on a cash basis, the taxes paid in the United States upon an intra-entity transfer of the asset, and then report future consolidated earnings from the use of the asset without the burden of any amortization of the investment or capitalized cost. This financially engineered action will result in materially greater future GAAP earnings. The large current income tax expense, which I call “the investment,” in the transaction year will most certainly be called out by the reporting entity as a “non-GAAP” charge, and then easily forgotten by investors in the future. If that is truly what the economics reflect and the accounting profession believes is the preferred financial reporting answer, then why do we not just use cash basis accounting for all transactions?

In addition to the above, it does not seem logical to delink the consolidated financial reporting deferral of the pre-tax effects of intra-entity transfers from their cash tax effects. For example, the sale of intellectual property to/from intra-entities does not result in a consolidated step up on the balance sheet for the current fair value of the asset, but the proposed current accounting update would require the immediate recognition of the cash income tax consequences on the income statement. I can’t see how that can be easily explained to accounting students and professionals based on consolidated financial reporting economic theory. This is clearly an area where the IASB and FASB have previously disagreed, and for good reason.

For the question of deferred income taxes on the balance sheet, I enthusiastically embrace the concept of the use of a single long-term account instead of trying to classify short-term and long-term portions of deferred income tax assets and liabilities. I believe that there is simply too much work (cost) required to determine the reversing current and long-term portions of tax attributes for assets and liabilities with associated deferred income taxes since many of those reversals do not relate to the underlying pre-tax balance sheet reporting classification of the assets.

That said, I will now summarize my position for the questions posed by this accounting standards update based on my “overall” viewpoints.

**Question 1:** Should the current and deferred income tax consequences of an intra-entity asset transfer be recognized when the transfer occurs?

No. Such recognition violates the long standing practice of accrual accounting versus cash accounting principles and economic deferral of consolidated financial reporting results for intra-entity transactions until realized through a third-party transaction. Recognizing the tax costs or benefits of such intra-entity transactions will lead to new categories of financially engineered transactions in order to take advantage of the immediate recognition of current income taxes.

**Question 2:** If the income tax consequences should not be recognized when the transfer occurs, should the income taxes payable or paid upon transfer be expensed as incurred?

No. For the same reasons discussed in Question 1 above. The consolidated tax consequences of intra-entity transfers should be deferred and recognized over the estimated future benefit period derived from the economic purpose of the transfer, either on a straight line basis or another appropriate allocation method based on the timing of when expected benefits are derived. The current period cash income tax consequences and related deferred income taxes should be
adequately disclosed in the cash flow statement and discussed in the operating results and liquidity sections of the management discussion and analysis sections of the reporting entity’s financial statements.

**Question 3:** Should the proposed guidance be applied on a modified retrospective basis?

With respect to the balance sheet classification of deferred income tax assets and liabilities, retrospective application should be applied as it should be easily recalculated. I am not in favor of the other proposed guidance changes, but if the FASB proceeds with those changes, modified retrospective is preferred.

Are the transition disclosures appropriate? No comment.

**Question 4:** Should the amendments in this proposed Update be effective for:

a. Public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2016

b. All other entities for annual periods beginning after December 15, 2017, and interim periods in annual periods beginning after December 15, 2018, with early adoption permitted, but not before the effective date for public business entities?

As long as the proposed changes in the accounting standards for leases are not implemented at the same time, this timing for the effective dates seems fine.

**Question 5:** What would be the expected transition costs of adopting the guidance in the proposed Update? What would be the expected recurring costs of applying the proposed guidance compared with the costs of applying current GAAP?

No comment.

Thank you for your consideration.

James F. Barlow

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(Principal Accounting Officer)
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