May 29, 2015

Technical Director
File Reference No. 2015-200 and 2015-210
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Submitted via email to director@fasb.org

   I. Intra-Entity Asset Transfers and
   II. Balance Sheet Classification of Deferred Taxes

Dear Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee has reviewed the proposed Exposure Draft (the ED), Income Taxes (Topic 740): (1) Intra-Entity Asset Transfers and (2) Balance Sheet Classification of Deferred Taxes, issued by the Financial Accounting Standards Board (the Board). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism and advocating members’ interests. The VSCPA membership consists of more than 12,000 individual members who actively work in public accounting, private industry, government and education. We acknowledge that the Board has issued the ED in effort to reduce the complexity associated with applying the accounting and disclosure for these two areas of Topic 740. The VSCPA appreciates the work the Board has undertaken on this effort and the opportunity to respond to the ED.

The VSCPA offers the following comments related to the “Questions for Respondents” section of the ED:

I. Intra-Entity Asset Transfers
   File Reference No. 2015-200

Question 1: Should the current and deferred income tax consequences of an intra-entity asset transfer be recognized when the transfer occurs? If not, why?

Yes. We support the Board’s proposed Update, which would require that an entity recognize the current and deferred income tax consequences of an intra-entity asset transfer when the transfer occurs. Our position is based on the following ideas:

- By eliminating the current exception for recognizing the income tax consequences, the standard diverges from a principles-based approach and issues specific guidance which can be misconstrued and creates diversity in practice. The resulting confusion decreases value to users of financial statements.
- The proposed Update is consistent with other areas of consolidation accounting; i.e., the tax consequences can be eliminated at consolidation.
- Tracking the tax consequences between the intra-entity transfer and ultimate recognition, with the existing exception, creates practical bookkeeping issues that do not add value.
- The update would more closely align the accounting for the tax consequences with tax laws in jurisdictions that recognized the individual legal entities within a consolidated entity.
- The improved alignment with IAS 12, Income Taxes, also serves as a benefit of the Update.

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? If not, how should income taxes payable or paid be recognized?
As noted in our response to question 1 above, we believe the recognition should occur when the transfer takes place.

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

Yes. Utilizing the modified retrospective basis is reasonable. The suggested disclosures to the financial statements will provide the necessary discussions that explain:

- The change in the accounting principle
- The impact of that change
- The significant variances for the periods presented

Permitting prepares to provide restated retrospective financial statements would also be a reasonable option and provide for more comparable financial statements for certain entities. However, adequate and complete disclosure will be the most useful information during transition.

**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?**

We agree with the effective dates proposed in the Update. In addition, providing the same effective date for both of the proposed Updates in the ED will simplify the disclosures for prepares as well as for users of financial statements, versus adopting the Updates during different periods.

**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?**

There will be an initial cost of adoption, as with any change. After the accounting and reporting is normalized, the simplification should have cost benefits, as tracking the tax consequences between intra-entity transfer and ultimate sale to a third-party will no longer be required.

**II. Balance Sheet Classification**

**File Reference No. 2015-210**

**Question 1: Should all deferred income tax liabilities and assets be presented as noncurrent in a classified statement of financial position? If not, why, and what alternatives should the Board consider, and what is the conceptual basis for the alternatives?**

We agree that all deferred income tax liabilities and assets be presented as noncurrent in a classified statement of financial position. Current balance sheet geography for deferred income tax accounts takes users of the financial statements to various areas of the balance sheet. Aggregating these accounts as noncurrent items would eliminate confusion and inconsistencies. Some deferred income tax liabilities and assets follow the underlying liability or asset presentation, while others are not reflective of the underlying transactions. Under the Update, they would be consistently reported as noncurrent.

**Question 2: Should the proposed guidance be applied on a prospective basis?**

We agree with the Board’s suggested implementation using a prospective basis. While mandatorily requiring retrospective application could be onerous for some financial statement prepares, permitting a retrospective application should not be excluded. Under either approach, transaction guidance within the existing disclosure requirements adequately informs users of the financial statements to the changes in presentation created by this Update.

**Question 3: 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?**

We agree that the effective dates for both public business entities and other entities for this Update are reasonable. As with our response to Question 4 of Update No. 2015-200, we believe requiring the same effective dates for both Updates in this ED is appropriate.

**Question 4: 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?**

We anticipate the transition costs associated with adopting this Update to be limited and not significant to financial statement preparers.

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We support and applaud the Board’s efforts with regard to its Simplification Initiative and believe these proposed accounting standards updates will help the Board in achieving this objective.

Again, the VSCPA appreciates the opportunity to respond to the ED. Please direct any questions or concerns to VSCPA Government Affairs Director Emily Walker at ewalker@vscpa.com or (804) 612-9428

Sincerely,

Charles M. Valadez, CPA, CGMA
Chair

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