To the Major Projects and Technical Activities Director:

This narrative is in response to the issuing of a Proposed Accounting Standards Update on the subject of income taxes (Topic 740) and the initiative of the F.A.S.B. to reduce complexity in accounting standards, financial computations and financial statement presentation assertions and items for tax. This Simplification Initiative, was established with the purpose of reducing the costs and complexity associated with the presentation of tax and related accounting assertions while maintaining their informational value and usefulness to the users of financial statements prepared in conformity with GAAP. This commenter overall agrees with the proposed simplification amendments to the provisions of Topic 740 in the removal of exceptions involving

i. The incremental approach to intraperiod tax allocation when there is a loss from continuing operations and a gain from other items; ii. The requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; iii. The ability not to recognize a deferred tax liability when a foreign equity method investment becomes a subsidiary (the new rules concerning ii. and iii. here as applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption); and iv. The general methodology for calculating taxes in an interim period when the year-to-date loss exceeds the anticipated loss for the year. This commenter also agrees with the proposed Topic 740 modifications to allow different and simplified financial disclosure treatment of a. A franchise tax or similar tax that is partially based on income in accordance with Topic 740 and new rules to be applied on a retrospective basis for all periods presented; b. Goodwill concerning the basis of goodwill in business combinations and separate transactions; c. The requirement for tax allocation in consolidations and any election regarding tax allocation to disregarded entities; d. The required tax disclosures for business entities given current changes in the law that affect tax rates and computations, and interim disclosures; and e. taxes related to employee stock ownership plans, and the accounting treatment of qualified affordable housing projects under the equity method. Responses and formalized comments to the matters in this proposed Accounting Standards Update follow here, and an effort is made to reasonably identify and explain the issue or issues invited by individual questions:

**Question 1:** Do you agree that the amendments in this proposed Update would simplify the accounting for income taxes? If not, please explain which proposed amendment(s) you disagree with and why.

This commenter overall agrees with the efforts of the F.A.S.B. to simplify accounting treatment of different items, especially in what concerns disclosure rules. In all respects, however, the nature of the accounting treatment and disclosure of items in the financial statements mirrors the simplicity or complexity of the assertions and items at hand. Income taxes and tax treatment of financial statement items and assertions in the financial statements have to do mostly with retrospective accounting treatment that is historical, and as such is not an area of responsibility for the economic and financial successes of the entity. Business operations of
most successful entities in business are complicated and the related accounting is comprised of the application of rules that are also complex. The dialog as to whether this should be a greater responsibility for tax accounting or for financial accounting, whether the entity’s operations have to do with business production or strictly fiscal considerations, and related disclosure treatment related to these, and these being complex or simplified is resolved most possibly and probably given the determination of the actual, legal purpose of the business and its policies in its founding charter. With agreement stated as to the proposed changes to Topic 740 by this commenter, this commenter also states categorically that simplifying accounting treatment for its own sake to give preparers a “free ride” on items and assertions should not be the underlying goal or purpose outright of the proposed changes – simplicity in economic and financial activities and business operations in their accounting treatment should allow for simplicity mirroring simplicity and complexity, complexity as well in the application of accounting treatment and disclosure rules in accordance with GAAP.

**Question 2:** Do the proposed amendments maintain or improve the usefulness of information provided to users? Alternatively, would the proposed amendments result in the elimination of decision-useful information? Please explain why or why not. The simplification efforts in the matters at hand concerning intraperiod tax allocation, goodwill in consolidations and separately in other transactions; equity and consolidation treatment of investments and [foreign] subsidiaries, the treatment of losses given other items including gains, interim tax allocation and computations, [possible recognition of] deferred items, tax computations under current and new legislation; franchise and non – income tax computations; and application of the rules on a prospective or retrospective basis, and other matters do appear to improve the usefulness of information provided to users of financial statements who, e.g., are not privy to detailed business matters nor to management information, nor privy to further detailed financial considerations nor disclosure rules for the entities encompassed by the proposed update. The proposed disclosure changes do appear to improve the lot of non – financial people who read financial statements and this might reflect changes in the overall constituency of financial statement users as a group. One might consider that changing the treatment and disclosure rules for a transaction or item in the name of simplicity will improve the quality of decision – useful information as desired for some, and take away from that of other financial statement users, possibly in favor of non – financial people and investors or other non – financial stakeholders. Parenthetically, and to perhaps improve the usability of financial statements of public issuers and other affected entities, this commenter suggests per discretion that the financial statement adjustment would carry more weight if disclosure of the adjustment changes invited by the amendments to Topic 740 were listed as a single extraordinary item on the income statement instead of a computed and then inserted amount to retained earnings. Such a disclosure, as an extraordinary item in the statement of income and expenses of the entity, would not detract from the value and importance of the implementation of these matters and their effect on income as such entries to retained earning often have a tendency to do. A direct entry inserted into retained earnings, and this without proper tax preference status of the adjustment(s), would negatively affect the representational faithfulness and fair presentation of the financial statements, and this itself depending upon materiality, relevance and reportability concerns of the computation(s) according to the proposed update.

**Question 3:** Are the proposed amendments operable and auditable? If not, which aspects pose operability or auditability issues and why? Would any of the proposed amendments impose significant incremental costs? If so, please describe the nature and extent of the additional costs.
Presumably, in the event there is documentation maintained by the entity that vouches the financial statement disclosures to source documents, the audit concerns around the proposed rules are easily assuaged. It might be also the amendments to Topic 740 are operable to the extent only the financial statement preparers and auditors comprehend the old accounting treatments in these matters and the new, proposed rules at the same time. One might also consider that financial statement preparers, when faced with new territory in accounting treatments do their best in “what is fair”, though this is not always congruent and might not be in these matters identified completely with what here is “operable”, whereas “fairness” in the application of these new rules, and in efforts at compliance, might be considered and at times incorrectly, a proxy for the operability of these rules. To the extent the rules are operable and a “fairness” criteria as applied to the changes is not congruent with operability of the new standards, actual additional costs are to be incurred by preparers, auditors, filers and the like to properly and appropriately conform with the new rules and in the establishment of policies, procedures and practices that should be in place and that systemically comply and complete the obligations of the entity to follow the proper, proposed amendments.

**Question 4:** Are the transition requirements and transition disclosures for the proposed amendments appropriate? If not, what transition approach or transition requirements would be more appropriate and why?

The transition to the new rules should begin as soon as implementation of the proposed rules is feasible, entities are ready with their computations and this includes the modified retrospective, prospective computations, and tax computations for the current tax law changes in the interim, all, have been prepared and audited; though the deadline for transition should not be later than one year after the year in which the proposed changes are implemented. One year ex post implementation of the new rules should be sufficient for purposes of conformity with these changes in Topic 740.

**Question 5:** How much time would be needed to adopt the proposed amendments? Should early adoption be permitted? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Why or why not?

Compliance with the eight or nine specific and detailed requirements of these proposed changes to Topic 740 will take less time for some entities and more time for others. Again, adoption of the proposed changes should be no later than one year ex post the implementation year of these rule changes, and with early adoption an alternative to any final deadline. Accounting simplification rules, when proper, are as is typical, eagerly accepted and implemented. These rule amendments, if eagerly awaited and implemented properly, should have an early adoption alternative for public issuers and perhaps an extended deadline with an early adoption alternative for private companies, small business and others per petition and discretion of regulators.

By,

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