June 28, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Sent via email to: director@fasb.org, File Reference No. 2019-700


Dear Technical Director:

CliftonLarsonAllen LLP appreciates the opportunity to comment on the Financial Accounting Standards Board’s May 14, 2019, Exposure Draft, Proposed Accounting Standards Update, *Simplifying the Accounting for Income Taxes*.

We support the Board’s objective to reduce complexity in accounting standards (the Simplification Initiative) while maintaining or improving the usefulness of the information provided to users of the financial statements.

We have provided our responses to the questions for respondents included in the exposure draft in the attachment.

Sincerely,

CliftonLarsonAllen LLP
Exposure Draft: Simplifying the Accounting for Income Taxes

CliftonLarsonAllen LLP is pleased to provide the following responses to the questions in the proposed Accounting Standards Update.

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.

Amendments to Remove Exceptions to ASC 740
   • CLA comment: We agree the amendments would simplify the accounting for income taxes.

Other Amendments to Simplify Accounting for Income Taxes
   • CLA comment: We agree the amendments would simplify the accounting for income taxes.

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.

Amendments to Remove Exceptions to ASC 740

   i. Remove exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items.
      
      CLA comment: The usefulness of information may not be improved by the amended provision, but the usefulness would be maintained.

   ii. Remove exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment.
      
      CLA comment: The usefulness of information is expected to improve because comparability across investments will be enhanced.

   iii. Remove exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary.
      
      CLA comment: The usefulness of information is expected to improve because comparability across subsidiary entities will be enhanced.

   iv. Remove exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.
      
      CLA comment: In practice, we have seen this exception overlooked on several occasions, and although removing the exception would not necessarily improve the usefulness of information, usefulness would be maintained.
Other Amendments to Simplify Accounting for Income Taxes

i. Require that an entity recognize a franchise tax (or similar tax) that is partially based on income in accordance with Topic 740 and account for any incremental amount incurred as a non-income-based tax.

CLA comment: The usefulness is improved because the income tax expense (current and deferred) will be based on taxes directly based on income, while prior guidance resulted in the potential understatement of income-based tax (in situations under which a capital-based tax was higher than income-based tax).

ii. Require that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction.

CLA comment: Proposed amendment would potentially improve the usefulness of information because the economic consequences of separate transactions are more accurately reflected.

iii. Specify that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements but that an entity may elect to do so for a legal entity that is disregarded by the taxing authority.

CLA comment: Proposed amendment would maintain the usefulness of information. Allocation of the tax liability to separate financial statements of a disregarded entity does not represent a legal obligation by the non-taxable entity. For consolidated groups in which formal tax sharing agreements are in place, the ability to make an election to allocate tax may be appropriate for internal use. However, if an entity is disregarded, potential investors would theoretically be making decisions based on the consolidated financial statements that include the overall expected tax position of the taxpaying group as a whole.

iv. Require that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.

CLA comment: The proposed amendment improves the usefulness of information because it allows for better alignment of the overall tax impact related to a change in tax law and/or rates (i.e., deferred and current tax impact recognized in same period).

v. Make minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.
CLA comment: Proposed amendment would maintain or improve the usefulness of information provided to users.

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.

Amendments to Remove Exceptions to ASC 740

i. Remove exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items.

   CLA comment: Amendment would be operable and auditable and would likely result in reduced compliance costs for companies for which this provision is applicable.

ii. Remove exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment.

   CLA comment: Amendment would be operable and auditable and would likely result in reduced compliance costs for companies for which this provision is applicable.

iii. Remove exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary.

   CLA comment: Amendment would be operable and auditable and would likely result in reduced compliance costs for companies for which this provision is applicable.

iv. Remove exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

   CLA comment: Amendment would be operable and auditable and would not likely result in additional incremental costs.

Other Amendments to Simplify Accounting for Income Taxes

i. Require that an entity recognize a franchise tax (or similar tax) that is partially based on income in accordance with Topic 740 and account for any incremental amount incurred as a non-income-based tax.

   CLA comment: Proposed amendments are operable and auditable and may reduce compliance costs because the revised evaluation procedures related to identifying franchise versus income-based tax is more logical and eliminates the potential need for scheduling reversals of temporary differences.
ii. Require that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction.

   **CLA comment:** Amendment would be operable and auditable. Management will be required to perform additional analysis when determining whether a step up in tax basis is the result of a separate transaction or related to the original business combination which could potentially increase compliance costs.

iii. Specify that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements but that an entity may elect to do so for a legal entity that is disregarded by the taxing authority.

   **CLA comment:** Amendment would be operable and auditable and would not likely result in additional incremental costs. In fact, compliance costs would potentially be reduced because the exercise of allocating tax positions to non-taxable entities would be eliminated.

iv. Require that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.

   **CLA comment:** Amendment would be operable and auditable and would not likely result in additional incremental costs.

v. Make minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

   **CLA comment:** Amendment would be operable and auditable and would not result in additional incremental costs.

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?

   **Amendments to Remove Exceptions to ASC 740**

   i. Remove exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items.

      **CLA comment:** Transition requirements (prospective) are appropriate.
ii. Remove exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment.

    **CLA comment:** Transition requirements (modified retrospective) are appropriate.

iii. Remove exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary.

    **CLA comment:** Transition requirements (modified retrospective) are appropriate.

iv. Remove exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

    **CLA comment:** Transition requirements (prospective) are appropriate.

**Other Amendments to Simplify Accounting for Income Taxes**

i. Require that an entity recognize a franchise tax (or similar tax) that is partially based on income in accordance with Topic 740 and account for any incremental amount incurred as a non-income-based tax.

    **CLA comment:** We would prefer to see a modified retrospective transition approach because in our experience the resulting adjustment would be insignificant to the overall tax provision and the financial statements as a whole.

ii. Require that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction.

    **CLA comment:** Transition requirement (prospective) is appropriate.

iii. Specify that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements but that an entity may elect to do so for a legal entity that is disregarded by the taxing authority.

    **CLA comment:** Transition requirement (retrospective) would seem appropriate in order to fully represent relevant comparability of all periods presented.

iv. Require that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.

    **CLA comment:** Transition requirement (prospective) would be appropriate because it would not make sense to restate prior financial statements (retrospective) or adjust...
retained earnings (modified retrospective) for a change in tax law/rate that occurred in the current year/period.

v. Make minor Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

   **CLA comment:** Transition method (prospective) is appropriate.

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?

**Amendments to Remove Exceptions to ASC 740**

- **CLA comment:** Minimal time required to adopt and early adoption should be permitted. Private entities should be given at least one additional year to adopt the provisions of this Proposed Accounting Standards Update.

**Other Amendments to Simplify Accounting for Income Taxes**

- **CLA comment:** Minimal time required to adopt and early adoption should be permitted. Private entities should be given at least one additional year to adopt the provisions of this Proposed Accounting Standards Update.