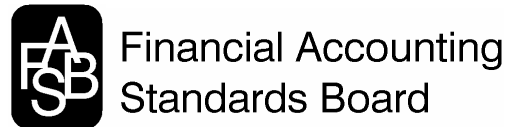


MINUTES



To: Board Members
From: Project Team—McGrath (ext. 443)
Subject: Minutes of the August 2, 2006 Board Meeting on Potential FSP: Texas Franchise Tax
Date: August 2, 2006
cc: Bielstein, Smith, MacDonald, Leisenring, Polley, Gabriele, Golden, Beswick, Sutay, Carney, Allen, Intranet

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.

Topic: Potential FSP: Texas Franchise Tax
Basis for Discussion: Board memorandum dated July 28, 2006
Length of Discussion: 10:45 a.m. to 11:00 a.m.

Attendance:

Board members present: FASB: Herz, Batavick, Crooch, Linsmeier, Seidman, and Young

IASB: Leisenring

Board members absent: Trott

Staff in charge of topic: Beswick

Other staff at Board table: Smith, Golden, McGrath

Outside participants: None

Summary of Decisions Reached:

The Board decided not to add a project to its agenda that would provide guidance on whether the recently enacted Texas Franchise Tax is an income tax that should be accounted for in accordance with FASB Statement No. 109, *Accounting for Income Taxes*.

Objective of Meeting:

The objective of this meeting was for the Board to consider whether to add a project to its agenda that would provide guidance on whether the recently enacted Texas Franchise Tax is an income tax that should be accounted for in accordance with Statement 109. This objective was accomplished.

Matters Discussed and Decisions Reached:

1. Mr. Beswick opened the meeting by explaining that on May 18, 2006, the Texas Governor signed into law a Texas Franchise Tax, which restructured the state business tax by replacing the taxable capital and earned surplus components of the tax with a new taxable margin component. The new franchise tax is effective for returns due on or after January 1, 2008. The staff received technical inquiries from constituents requesting the staff's opinion on whether the Texas Franchise Tax was an income tax that should be accounted for under Statement 109. After discussing the issue with constituents, the staff concluded that the Texas Franchise Tax is an income tax because the tax is based on a measure of income.

2. Mr. Beswick stated that the staff received an agenda request from a constituent requesting that the Board add a project to its agenda to provide guidance on whether the Texas Franchise Tax is an income tax that should be accounted for in accordance with Statement 109. The issue was discussed with the TA&I Committee on July 28. At this meeting, the staff reported on the results of the research it had performed during the technical inquiry process and its previous conclusion on the issue. The staff also reported that it had had discussions with the national accounting firms and other interested parties, which had concluded that the Texas Franchise Tax was an income tax. At the meeting,

the Committee concluded that the Texas Franchise Tax was an income tax that should be accounted for under Statement 109 and that there would not be diversity in the conclusions reached by preparers, auditors, and regulators on whether the Texas Franchise Tax was an income tax.

3. The Board unanimously decided not to add a project to its agenda that would provide guidance on whether the recently enacted Texas Franchise Tax is an income tax that should be accounted for in accordance with Statement 109.

4. Mr. Linsmeier expressed concern about whether the Texas Franchise Tax was sufficiently different from the Michigan Single Business Tax. One of the constituents' letters suggested that the Michigan Single Business Tax, which is similar in nature to the Texas Franchise Tax, is not always considered an income tax. Although Mr. Linsmeier agreed that the Board did not need to address the Texas Franchise Tax specifically, he was concerned about diversity of implementation in comparable circumstances.

Follow-up Items:

None.

General Announcements:

None.