FASB EXPOSURE DRAFT

*Proposed Accounting Standards Update*

Issued: July 26, 2016
Comments Due: September 30, 2016

# Income Taxes (Topic 740)

## Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 740 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2016-270, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

**Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update**

The Board invites comments on all matters in this Exposure Draft until September 30, 2016. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2016-270
- Sending a letter to “Technical Director, File Reference No. 2016-270, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.



FASB
FINANCIAL ACCOUNTING STANDARDS BOARD

# Proposed Accounting Standards Update

# Income Taxes (Topic 740)

# Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes

July 26, 2016

Comment Deadline: September 30, 2016

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# Summary and Questions for Respondents

## Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing the amendments in this proposed Update as part of the disclosure framework project. The objective and primary focus of the disclosure framework project are to improve the effectiveness of disclosures required by generally accepted accounting principles (GAAP) in the notes to financial statements by facilitating clear communication of information that is most important to financial statement users. Achieving the objective of improving the effectiveness of the notes to financial statements includes:

1. The development of a framework that promotes consistent decisions by the Board about disclosure requirements
2. The appropriate exercise of discretion by reporting entities.

In March 2014, the Board issued proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements.* That proposed Concepts Statement is intended to identify a broad range of possible information for the Board to consider when deciding on the disclosure requirements for a particular Topic. From that intentionally broad set, the Board would identify a more narrow set of disclosures about that Topic to be required on the basis of an evaluation of whether the benefits of entities providing the information justify the costs. The Concepts Statement, when finalized, would be used by the Board as a basis for establishing disclosure requirements in future accounting standards as well as for evaluating existing disclosure requirements.

The Board decided to test the guidance in the proposed Concepts Statement and improve the effectiveness of disclosure requirements by using that guidance to propose amendments to disclosures on inventory, income taxes, fair value measurements, and defined benefit pensions and other postretirement plans. The amendments in this proposed Update are the result of the Board's consideration of the proposed Concepts Statement as they relate to income tax disclosures.

In September 2015, the Board issued the proposed Accounting Standards Update, *Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material* (proposed Update on Topic 235), which would promote a reporting entity's use of discretion when evaluating disclosure requirements set forth by the Board. Appropriate application of the amendments in the proposed Update on Topic 235 would result in an entity providing material information while also allowing the entity to exclude immaterial information. Those amendments also would, among other things, clarify that a reporting entity may consider materiality when assessing disclosure requirements for both quantitative and qualitative information. The amendments in the proposed Update on Topic 235 have been considered by the Board in developing the amendments in this proposed Update. That is, the amendments in this proposed Update:

1. State that an entity need not provide required disclosures if they are immaterial
2. Eliminate phrases such as “an entity shall disclose at a minimum,” which make it difficult to justify omitting immaterial disclosures
3. Refer readers to Topic 235, Notes to Financial Statements (as would be amended by the guidance in the proposed Update on Topic 235), for discussion of the appropriate exercise of discretion.

While included in this proposed Update, those specific amendments are subject to redeliberations following the comment period for the proposed Update on Topic 235.

The Board anticipates that entities would incur moderate costs as a result of the amendments in this proposed Update while providing users with beneficial information that would justify those costs. An entity’s decision to omit immaterial disclosures (if it had not done so previously) may reduce the entity’s total cost of complying with the disclosure requirements, although in certain cases there may be costs incurred to assess whether a disclosure is immaterial.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities that are subject to income taxes.

Certain of the disclosures that would be required by the amendments in this proposed Update would not be required for entities other than public business entities.

## What Are the Main Provisions?

The amendments in this proposed Update would replace the term *public entity,* currently in Topic 740, Income Taxes*,* with the term *public business entity* as defined in the Master Glossary of the Accounting Standards Codification.

The amendments in this proposed Update would modify the current disclosure requirements for income taxes. The following additional disclosures would be required by Topic 740 for all entities on the basis of the proposed Concepts Statement, which includes cost and benefit considerations:

1. Description of an enacted change in tax law that is probable to have an effect on the reporting entity in a future period
2. Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
3. Income tax expense (or benefit) from continuing operations disaggregated between domestic and foreign
4. Income taxes paid disaggregated between domestic and foreign, and the amount of income taxes paid to any country that is significant to total income taxes paid
5. An explanation of circumstances that caused a change in assertion about the indefinite reinvestment of undistributed foreign earnings and the corresponding amount of those earnings
6. The aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries.

The following disclosures would be required for public business entities by Topic 740 on the basis of the proposed Concepts Statement, which includes cost and benefit considerations:

1. Within the reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, settlements using existing deferred tax assets separate from those that have been or will be settled in cash.
2. The line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits. If the unrecognized tax benefits are not presented in the statement of financial position, those amounts should be disclosed separately.
3. The amount and explanation of the valuation allowance recognized and/or released during the reporting period.
4. The total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards.

The proposed Concepts Statement would limit disclosure of future-oriented information to that which is used as inputs to measurements in the financial statements or in the notes to financial statements. As a result, the amendments in this proposed Update would eliminate the requirement for all entities to (1) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or (2) make a statement that an estimate of the range cannot be made.

The amendments in this proposed Update would modify the existing rate reconciliation requirement for public business entities to be consistent with U.S. Securities and Exchange Commission (SEC) Regulation S-X 210.4-08(h), *Rules of General Application—General Notes to Financial Statements: Income Tax Expense*. That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. The proposed amendments would further modify the requirement to explain the changes in those reconciling items from year to year.

The amendments in this proposed Update would reduce diversity in practice by explicitly requiring (1) a public business entity to disclose the amounts of federal, state, and foreign carryforwards (not tax effected) by time period of expiration for each of the first five years after the reporting date and a total for any remaining years and (2) an entity other than a public business entity to disclose the total amounts of federal, state, and foreign carryforwards (not tax effected) and their expiration dates. In addition, a public business entity would be required to disclose the amounts of deferred tax assets for federal, state, and foreign carryforwards (tax effected) before the valuation allowance. Those amounts would be further disaggregated by time period of expiration for each of the first five years after the reporting date and a total for any remaining years.

The amendments in this proposed Update would require an entity to disclose the description of a legally enforceable agreement with a government, including the duration of the agreement and the commitments made with the government under that agreement and the amount of benefit that reduces, or may reduce, its income tax burden. Under those agreements, the government would determine whether an entity will receive assistance and/or how much assistance an entity will receive even if the entity meets applicable eligibility requirements. This disclosure would not apply to circumstances in which the entity meets the applicable eligibility requirements that are broadly available to tax payers without specific agreement between the entity and the government.

The amendments in this proposed Update include language designed to promote an entity's use of discretion that reinforces that the entity can assess the applicability of disclosure requirements on the basis of whether the resulting information is material, thereby improving the effectiveness of the notes to financial statements.

## When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied prospectively.

The effective date will be determined after the Board considers stakeholder feedback on the proposed amendments.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Would the proposed amendments result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

**Question 2:** Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

**Question 3:** Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

**Question 4:** The Board is proposing that reporting entities disclose income taxes paid for any foreign country that is significant to total income taxes paid. The Board also considered requiring disclosure by significant country of income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations but decided that this disclosure would be costly and potentially not beneficial in assessing prospects for cash flows related to income taxes (see paragraph BC22 of this proposed Update). Are there other costs or benefits that the Board should consider regarding these potential disclosures? Are there other country-level disclosures that the Board should consider that may be more cost beneficial?

**Question 5:** The Board considered several disclosures on indefinitely reinvested foreign earnings (see paragraphs BC27–BC40 of this proposed Update). Is there other information that the Board should consider regarding these potential disclosures? Are there other disclosures about indefinitely reinvested foreign earnings that would be more cost beneficial?

**Question 6:** The proposed amendments would apply to all entities, except for the requirements in paragraphs 740-10-50-6A through 50-6B, 740-10-50-12, and 740-10-50-15A for which entities other than public business entities would be exempt. Do you agree with the exemption for entities other than public business entities? If not, please describe why and which disclosures should be required for entities other than public business entities.

**Question 7:** Are there any other disclosures that should be required by Topic 740 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

**Question 8:** Are there any other disclosure requirements retained following the review of Topic 740 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

**[Note: To see how the Board applied the decision questions from the [proposed Concepts Statement](#) to Topic 740, see *Decision Questions Considered in Establishing Disclosure Requirements* on this project's summary page on the FASB's website ([www.fasb.org](http://www.fasb.org)).]**

**Question 9:** Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.

**Question 10:** How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? If the answer is "yes" to either question, please explain why.

## Public Roundtable Meetings

The Board plans to hold public roundtable meetings on this proposed Update in conjunction with the overall disclosure framework project. The purpose of roundtable meetings is to listen to the views of, and obtain information from, interested stakeholders about this proposed Update.

# Amendments to the *FASB Accounting Standards Codification*®

## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–6. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Supersede the following Master Glossary terms from Subtopic 740-10 as follows:

~~**Nonpublic Entity (Definition 5)**~~

~~An entity that does not meet any of the following criteria:~~

~~a. Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally).~~
~~b. It is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).~~
~~c. Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.~~

~~**Public Entity (Definition 1)**~~

~~An entity that meets any of the following criteria:~~

~~a. Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally).~~
~~b. It is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).~~
~~c. Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.~~

## Amendments to Subtopic 740-10

3. Amend paragraphs 740-10-50-1, 740-10-50-3 through 50-16 and their related headings, and 740-10-50-20 and add paragraphs 740-10-50-1A through 50-1B, 740-10-50-6A through 50-6B, 740-10-50-8A, 740-10-50-10A through 50-10B, and 740-10-50-22 through 50-25 and the related heading, with a link to transition paragraph 740-10-65-5, as follows:

## Income Taxes—Overall

## Disclosure

**[Note: Paragraph 740-10-50-1 contains paragraph references from the proposed Accounting Standards Update, *Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material*.]**

**740-10-50-1** This Section provides guidance on the financial statement disclosure requirements relating to **income taxes** applicable to all entities. A reporting entity does not need to provide disclosures required by this Subtopic if the disclosures are immaterial. See paragraphs 235-10-50-7 through 50-9 for additional guidance on determining whether disclosures are material.

**740-10-50-1A** The objective of the disclosure requirements in this Section is to provide users of financial statements with information about the following:

a. Entity-specific factors, particularly the potential effects from changes in tax laws and other circumstances, of which a user is not expected to be aware
b. Explanation of how income taxes affect financial statement line items and assumptions that an entity makes in determining those line items
c. The various components of income taxes that are measured differently or could affect prospects for net cash flows differently
d. Causes of the changes in financial statement line items related to income taxes
e. The difference between expectations based on statutory rates and the effective rate
f. Acceptable alternative accounting policies or methods
g. Current circumstances related to undistributed earnings that are expected to affect the financial statements of the entity in the future.

**740-10-50-1B** For purposes of this Section, foreign income taxes or other foreign tax-related items are those related to any country outside of the reporting entity's home country.

**> Statement of Financial Position Related Disclosures**

**740-10-50-2** The components of the net **deferred tax liability** or **asset** recognized in an entity's statement of financial position shall be disclosed as follows:

a. The total of all deferred tax liabilities measured in paragraph 740-10-30-5(b)
b. The total of all deferred tax assets measured in paragraph 740-10-30-5(c) through (d)
c. The total **valuation allowance** recognized for deferred tax assets determined in paragraph 740-10-30-5(e).

The net change during the year in the total valuation allowance also shall be disclosed.

**740-10-50-3** An entity shall disclose ~~both of~~ the following:

a. <u>Subparagraph superseded by Accounting Standards Update No. 2016-XX.</u>~~The amounts and expiration dates of operating loss and tax credit **carryforwards** for tax purposes~~
b. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be credited directly to contributed capital (see paragraph 740-20-45-11).

**740-10-50-4** In the **event** that a change in an entity's tax status becomes effective after year-end in Year 2 but before the financial statements for Year 1 are issued or are available to be issued (as discussed in Section 855-10-25), the entity's financial statements for Year 1 shall disclose the change in the entity's tax status for Year 2 and the effects of that change~~, if material~~.

**740-10-50-5** An entity's **temporary difference** and carryforward information requires additional disclosure. The additional disclosure differs for ~~public~~**<u>public business entities</u>** and ~~nonpublic~~ entities <u>other than public business entities</u>.

**> > Public <u>Business</u> Entities**

**740-10-50-6** A ~~**public entity**~~**<u>public business entity</u>** shall disclose the approximate tax effect of each type of temporary difference and **{add glossary link}**carryforward**{add glossary link}** that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances).

<u>**740-10-50-6A** A public business entity shall disclose the following:</u>

<u>a.</u> <u>The amounts of federal, state, and foreign carryforwards (not tax effected) by time period of expiration for each of the first five years after the reporting date and a total for any remaining years.</u>
<u>b.</u> <u>The amounts of deferred tax assets for federal, state, and foreign carryforwards (tax effected) before the valuation allowance. Those amounts shall be further disaggregated by time period of expiration for each of the first five years after the reporting date and a total for any remaining years.</u>
<u>c.</u> <u>The total amount of unrecognized tax benefits that offsets the deferred tax asset attributable to carryforwards.</u>

See paragraphs 740-10-55-218 through 55-220 (Example 31) for an illustration.

**740-10-50-6B** A public business entity shall disclose the amount and explanation of the valuation allowance recognized or released during the reporting period.

**740-10-50-7** See paragraph 740-10-50-16 for disclosure requirements applicable to a public business entity that is not subject to income taxes.

**> > ~~Nonpublic~~ Entities Other Than Public Business Entities**

**740-10-50-8** ~~A **nonpublic entity**~~An entity other than a public business entity shall disclose the types of significant temporary differences and carryforwards but may omit disclosure of the tax effects of each type.

**740-10-50-8A** An entity other than a public business entity shall disclose the total amounts of federal, state, and foreign carryforwards (not tax effected) and their expiration dates. See paragraphs 740-10-55-218 through 55-219 and 740-10-55-220A (Example 31).

**> Income Statement Related Disclosures**

**740-10-50-9** The significant components of ~~income tax expense~~**income tax expense (or benefit)** attributable to continuing operations for each year presented shall be disclosed in the financial statements or notes thereto. Those components would include, for example:

a. **Current tax expense (or benefit)**
b. **Deferred tax expense (or benefit)** (exclusive of the effects of other components listed below)
c. Investment tax credits
d. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~Government grants (to the extent recognized as a reduction of income tax expense)~~
e. The benefits of operating loss carryforwards
f. Tax expense that results from allocating certain tax benefits directly to contributed capital
g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the entity
h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related **deferred tax asset** in future years. For example, any acquisition-date income tax benefits or expenses recognized from changes in the acquirer's valuation allowance for its previously existing deferred tax assets as a result of a business combination (see paragraph 805-740-30-3).

**740-10-50-10** The amount of **{remove glossary link}income tax expense (or benefit){remove glossary link}** allocated to continuing operations and the amounts separately allocated to other items (in accordance with the intraperiod tax allocation provisions of paragraphs 740-20-45-2 through 45-14 and 852-740-45-3) shall be disclosed for each year for which those items are presented.

**740-10-50-10A** Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign shall be disclosed.

**740-10-50-10B** Income tax expense (or benefit) from continuing operations disaggregated between domestic and foreign shall be disclosed.

**> Income Tax Expense Compared to Statutory Expectations**

**740-10-50-11** The reported amount of income tax expense may differ from an expected amount based on statutory rates. The following guidance establishes the disclosure requirements for such situations and differs for public business entities and ~~nonpublic~~ entities other than public business entities.

**> > Public Business Entities**

**740-10-50-12** A public business entity shall disclose a reconciliation between the amount of reported total income tax expense (or benefit) from continuing operations and the amount computed by multiplying the income (or loss) before tax by the applicable statutory federal income tax rate, showing the estimated reporting currency amount of each of the underlying causes for the difference. In situations in which the public business entity is a foreign entity, the income tax rate in that entity's country of domicile shall normally be used in making the above computation, but different rates shall not be used for subsidiaries or other segments of a public business entity. When the rate used by a public business entity is other than the U.S. federal corporate income tax rate, the public business entity shall disclose the rate used and the basis for using that rate. If no individual reconciling item amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate and the total difference to be reconciled is less than 5 percent of that computed amount, no reconciliation need be provided. Reconciling items that are individually less than 5 percent of the computed amount may be aggregated in the reconciliation. The reconciliation may be presented in percentages rather than in reporting currency amounts.~~using percentages or dollar amounts of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations.~~ The statutory tax rates shall be the regular tax rates if there are alternative tax systems.~~The estimated amount and the nature of each significant reconciling item shall be disclosed.~~ An explanation of the year-to-year changes in those reconciling items also shall be disclosed.

**> > ~~Nonpublic~~ Entities Other Than Public Business Entities**

**740-10-50-13** ~~A nonpublic~~An entity other than a public business entity shall disclose the nature of significant reconciling items but may omit a numerical reconciliation.

**> > All Entities**

**740-10-50-14** If not otherwise evident from the disclosures required by this Section, ~~all entities~~an entity shall disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented.

**> Unrecognized Tax Benefit Related Disclosures**

**740-10-50-15** An entity~~All entities~~ shall disclose ~~all of~~ the following at the end of each annual reporting period presented:

a. Subparagraph superseded by Accounting Standards Update No. 2009-06
b. Subparagraph superseded by Accounting Standards Update No. 2009-06
c. The total amounts of interest and penalties recognized in the statement of operations and the total amounts of interest and penalties recognized in the statement of financial position
d. Subparagraph superseded by Accounting Standards Update No. 2016-XX.~~For positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date:~~
   ~~1. The nature of the uncertainty~~
   ~~2. The nature of the event that could occur in the next 12 months that would cause the change~~
   ~~3. An estimate of the range of the reasonable possible change or a statement that an estimate of the range cannot be made.~~
e. A description of tax years that remain subject to examination by major tax jurisdictions.

**740-10-50-15A** ~~Public entities~~A public business entity shall disclose~~ both of~~ the following at the end of each annual reporting period presented:

a. A ~~tabular~~ reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include~~ at a minimum~~:
   1. The gross amounts of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period
   2. The gross amounts of increases and decreases in unrecognized tax benefits as a result of tax positions taken during the current period
   3. ~~The amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities~~ Settlements using existing

deferred tax assets separate from those that have been or will be settled in cash

4. Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations.

b. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.
c. The line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits. If the unrecognized tax benefits are not presented in the statement of financial position, disclose those amounts separately.

See Example 30 (paragraph 740-10-55-217) for an illustration of disclosures about uncertainty in income taxes.

**> Public Business Entities Not Subject to Income Taxes**

**740-10-50-16** A public business entity that is not subject to income taxes because its income is taxed directly to its owners shall disclose that fact and the net difference between the tax bases and the reported amounts of the entity's assets and liabilities.

**> Entities with Separately Issued Financial Statements That Are Members of a Consolidated Tax Return**

**740-10-50-17** An entity that is a member of a group that files a consolidated tax return shall disclose in its separately issued financial statements:

a. The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the above disclosures are presented.

**> Policy Related Disclosures**

**740-10-50-18** Acceptable alternative policy choices available to an entity require disclosure as follows in paragraphs 740-10-50-19 through 50-20.

**> > Interest and Penalty Recognition Policies**

**740-10-50-19** An entity shall disclose its policy on classification of interest and penalties in accordance with the alternatives permitted in paragraph 740-10-45-25 in the notes to the financial statements.

**> > Investment Tax Credit Recognition Policy**

**740-10-50-20** Paragraph 740-10-25-46 identifies the deferral method and the flow-through method as acceptable methods of accounting for investment tax credits. Whichever method of accounting for the investment credit is adopted, it is essential that full disclosure be made of the method followed and amounts involved~~, when material~~.

**> Other Disclosures**

**740-10-50-21** In addition to disclosures required by this Subtopic, disclosures regarding estimates meeting certain criteria are established in paragraph 275-10-50-8 for nongovernmental entities. See Example 31 (paragraph 740-10-55-218) for an illustration of disclosure relating to the realizability of a deferred tax asset under the requirements of Topic 275.

**740-10-50-22** An entity shall describe an enacted change in tax law that is **{add glossary link to 2nd definition}probable{add glossary link to 2nd definition}** to have an effect in a future period.

**740-10-50-23** An entity shall disclose the description of a legally enforceable agreement with a government, including the duration of the agreement and the commitments made with the government under that agreement and the amount of benefit that reduces, or may reduce, its income tax burden. Under those agreements, the government determines whether an entity will receive assistance or how much assistance an entity will receive even if the entity meets applicable eligibility requirements. This disclosure does not apply to circumstances in which the entity meets the applicable eligibility requirements that are broadly available to tax payers without specific agreement between the entity and the government.

**740-10-50-24** An entity shall disclose the aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries.

**> Income Taxes Paid**

**740-10-50-25** An entity shall disclose income taxes paid in accordance with paragraph 230-10-50-2. Those income taxes paid shall be disaggregated between domestic and foreign. An entity shall disclose the amount of income taxes paid to any country that is significant to total income taxes paid.

4. Amend paragraphs 740-10-55-217 through 55-220 and the related heading and add paragraph 740-10-55-220A, with a link to transition paragraph 740-10-65-5, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

### > > Example 30: Disclosure Relating to Uncertainty in Income Taxes

**740-10-55-217** This Example illustrates the guidance in ~~paragraph~~paragraphs 740-10-50-15 through 50-15A for disclosures about uncertainty in income taxes.

> The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 20X1. The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax returns for 20X2 through 20X4 in the first quarter of 20X7 that is anticipated to be completed by the end of 20X8. ~~As of December 31, 20X7, the IRS has proposed certain significant adjustments to the Company's transfer pricing and research credits tax positions. Management is currently evaluating those proposed adjustments to determine if it agrees, but if accepted, the Company does not anticipate the adjustments would result in a material change to its financial position. However, the Company anticipates that it is reasonably possible that an additional payment in the range of $80 to $100 million will be made by the end of 20X8.~~ A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows.

| | 20X7 | 20X6 | 20X5 |
|---|---|---|---|
| | | (in thousands) | |
| Balance at January 1 | $ 370,000 | $ 380,000 | $ 415,000 |
| Additions based on tax positions related to the current year | 10,000 | 5,000 | 10,000 |
| Additions for tax positions of prior years | 30,000 | 10,000 | 5,000 |
| Reductions for tax positions of prior years | (60,000) | (20,000) | (30,000) |
| Settlements that have been or will be settled in cash | ~~(40,000)~~ (15,000) | ~~(5,000)~~ (2,000) | ~~(20,000)~~ (5,000) |
| Settlements using existing deferred tax assets | (25,000) | (3,000) | (15,000) |
| Balance at December 31 | $ 310,000 | $ 370,000 | $ 380,000 |

> At December 31, the ending balance of unrecognized tax benefits presented by statement of financial position line item is as follows.

| | 20X7 | 20X6 |
|---|---|---|
| | (in thousands) | |
| Taxes payable | $ 30,000 | $ 40,000 |
| Deferred tax liability | 120,000 | 180,000 |
| Unrecognized tax benefits presented on the statement of financial position | 150,000 | 220,000 |
| Unrecognized tax benefits not presented on the statement of financial position | 160,000 | 150,000 |
| Total unrecognized tax benefits | $ 310,000 | $ 370,000 |

At December 31, 20X7, 20X6, and 20X5, there are $60, $55, and $40 million of unrecognized tax benefits that if recognized would affect the annual effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended December 31, 20X7, 20X6, and 20X5, the Company recognized approximately $10, $11, and $12 million in interest and penalties. The Company had approximately $60 and $50 million for the payment of interest and penalties accrued at December 31, 20X7, and 20X6, respectively.

**> > Example 31: Disclosure Relating to Realizability Estimates of Deferred Tax ~~Asset~~Assets and Carryforwards**

**740-10-55-218** This Example illustrates the guidance in paragraph 275-10-50-8 for disclosure relating to the realizability estimates of a deferred tax asset and in paragraphs 740-10-50-6A and 740-10-50-8A for disclosure relating to carryforwards.

**740-10-55-219** In this Example, Entity A develops, manufactures, and markets limited-use vaccines. The entity has a dominant share of the narrow market it serves. As of December 31, ~~19X4~~20X1, the entity has no temporary differences and has aggregate loss carryforwards of $12 million that originated in prior years and that expire in varying amounts between ~~19X5~~20X2 and ~~19X7~~20X9. As of December 31, ~~19X4~~20X1, the entity has a deferred tax asset of $4.8 million that represents the benefit of the remaining $12 million in loss carryforwards, and it has concluded at that date that a valuation allowance is unnecessary. Because of an uncertain tax position, as of December 31, 20X1, the entity has unrecognized tax benefits of $2 million that offset the deferred tax asset attributable to carryforwards. The loss carryforwards arose during the entity's development stage when it incurred high levels of research and development expenses prior to commencing sales. While the entity has earned, on average, $6 million income before tax (taxable income before carryforwards) in each of the last 5 years, future profitability in this competitive industry depends on continually developing new products. The entity has a number of promising new vaccines under development, but it is aware that other entities recently began testing vaccines that would compete with the vaccines being developed by the entity as well as products that will compete with the vaccines that are currently generating the entity's profits. Rapid introduction of competing products or failure of the entity's development efforts could reduce estimates of future profitability in the near term, which could affect the entity's ability to fully utilize its loss carryforward.

**740-10-55-220** If Entity A is a public business entity, illustrative~~Illustrative~~ disclosure for the entity follows.

| Expires during Fiscal Year | Loss Carryforwards (Not Tax Effected) | | | Deferred Tax Asset for Loss Carryforwards before Valuation Allowance (Tax Effected) | | | |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| | Federal | State | Foreign | Federal | State | Foreign | Total |
| 20X2 | $ 1,800 | $ 1,550 | $ 1,900 | $ 720 | $ 155 | $ 570 | $ 1,445 |
| 20X3 | 1,200 | 1,050 | 1,100 | 480 | 105 | 330 | 915 |
| 20X4 | 850 | 700 | 900 | 340 | 70 | 270 | 680 |
| 20X5 | 800 | 600 | 550 | 320 | 60 | 165 | 545 |
| 20X6 | 500 | 300 | 400 | 200 | 30 | 120 | 350 |
| Thereafter | 1,450 | 1,200 | 550 | 580 | 120 | 165 | 865 |
| Total | | | | | | | 4,800 |
| Unrecognized tax benefits at December 31, 20X1 | | | | | | | (2,000) |
| Total tax effect of carryforwards after unrecognized tax benefits | | | | | | | $ 2,800 |

~~The entity has recorded a deferred tax asset of $4.8 million reflecting the benefit of $12 million in loss carryforwards, which expire in varying amounts between 19X5 and 19X7.~~ Realization of the deferred tax asset is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

**740-10-55-220A** If Entity A is an entity other than a public business entity, illustrative disclosure for the entity follows.

The entity has $6.6 million, $5.4 million, and $5.4 million in federal, state, and foreign loss carryforwards (not tax effected), respectively, which expire at various points between 20X2 and 20X9.

Realization of the deferred tax asset is dependent on generating sufficient taxable income before expiration of the loss carryforwards. Although realization is not assured, management believes that it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

**740-10-55-221** In addition to other disclosures, information as to the amount of loss carryforwards and their expiration dates and the amount of any valuation allowance with respect to the recorded deferred tax asset is required under this Subtopic.

**740-10-55-222** The disclosure in this Example informs users that:

a. Realization of the deferred tax asset depends on achieving a certain minimum level of future taxable income within the next three years.
b. Although management currently believes that achievement of the required future taxable income is more likely than not, it is at least

reasonably possible that this belief could change in the near term, resulting in establishment of a valuation allowance.

5. Add paragraph 740-10-65-5 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2016-XX, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes***

**740-10-65-5** The following represents the transition and effective date information related to Accounting Standards Update No. 2016-XX, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes:*

a. The pending content that links to this paragraph shall be effective [date to be determined after exposure period].
b. Earlier adoption of the pending content that links to this paragraph [is/is not] permitted.
c. An entity shall apply the pending content that links to this paragraph prospectively.

## Amendments to Subtopic 740-30

6. Amend paragraphs 740-30-50-1 through 50-2 and add paragraphs 740-30-50-1A through 50-1B and 740-30-50-3, with a link to transition paragraph 740-10-65-5, as follows:

### Income Taxes—Other Considerations or Special Areas

### Disclosure

**> Undistributed Earnings of Subsidiaries and Corporate Joint Ventures**

**740-30-50-1** This guidance establishes disclosure requirements applicable to unrecognized deferred tax liabilities related to investments in subsidiaries and corporate joint ventures. A reporting entity does not need to provide disclosures required by this Subtopic if the disclosures are immaterial. See paragraphs 235-10-50-7 through 50-9 for additional guidance on determining whether disclosures are material.

**740-30-50-1A** The objective of the disclosure requirements in this Subtopic is to provide users of financial statements with information about the following:

a. Entity-specific factors, particularly the potential effects from changes in circumstances related to indefinitely reinvested earnings of subsidiaries and corporate joint ventures
b. The various components of income taxes that could affect prospects for net cash flows differently

c. Current circumstances related to undistributed foreign earnings that are expected to affect the financial statements of the entity in the future.

**740-30-50-1B** For purposes of this Section, foreign income taxes or other foreign tax-related items are those related to any country outside of the reporting entity's home country.

**740-30-50-2** ~~All of the~~The following information shall be disclosed whenever a **deferred tax liability** is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures:

a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable
b. The cumulative amount of each type of **temporary difference**
c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable. While paragraph 740-30-25-14 prohibits recognition of a tax **benefit** for tax deductions or favorable tax rates attributable to future dividends of undistributed earnings for which a deferred tax liability has not been recognized, favorable tax treatment would be reflected in measuring that unrecognized deferred tax liability for disclosure purposes.
d. The amount of the deferred tax liability for temporary differences other than those in (c) (that is, undistributed domestic earnings) that is not recognized in accordance with the provisions of paragraph 740-30-25-18.

**740-30-50-3** An entity shall disclose an explanation of circumstances that caused a change in assertion about the indefinite reinvestment of undistributed foreign earnings and the corresponding amount of those earnings. See paragraph 740-30-25-19 for the types of changes in assertions that may occur.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chair*
James L. Kroeker, *Vice Chair*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

# Background Information and Basis for Conclusions

## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing the amendments in this proposed Update as part of the disclosure framework project. The objective and primary focus of the disclosure framework project are to improve the effectiveness of disclosures required by GAAP in the notes to financial statements by facilitating clear communication of information that is most important to financial statement users. Achieving the objective of improving the effectiveness of the notes to financial statements includes:

a. The development of a framework that promotes consistent decisions by the Board about disclosure requirements
b. The appropriate exercise of discretion by reporting entities.

BC3. In March 2014, the Board issued a proposed FASB Concepts Statement on notes to financial statements. That proposed Concepts Statement is intended to identify a broad range of possible information for the Board to consider when deciding on the disclosure requirements for a particular Topic. From that intentionally broad set, the Board would identify a more narrow set of disclosures about that Topic to be required on the basis of an evaluation of whether the benefits of entities providing the information justify the costs. The proposed Concepts Statement, when finalized, would be used by the Board as a basis for establishing disclosure requirements in future accounting standards as well as for evaluating existing disclosure requirements.

BC4. The Board decided to test the guidance in the proposed Concepts Statement and improve the effectiveness of disclosure requirements by using that guidance to propose amendments to disclosures on inventory, income taxes, fair value measurements, and defined benefit pensions and other postretirement plans. The amendments in this proposed Update are the result of the Board's consideration of the proposed Concepts Statement as they relate to income tax disclosures.

BC5. The Board anticipates that entities would incur moderate costs as a result of the amendments in this proposed Update while providing users with beneficial information that would justify those costs. An entity's decision to omit immaterial disclosures (if it had not done so previously) may reduce the entity's total cost of complying with the disclosure requirements, although in certain cases there may be costs incurred to assess whether a disclosure is immaterial.

## Background Information

BC6. The following pronouncements established existing disclosure requirements for income taxes:

a. FASB Statement No. 109, *Accounting for Income Taxes*
b. APB Opinion No. 23, *Accounting for Income Taxes—Special Areas*
c. FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*
d. FASB Accounting Standards Update No. 2009-06, *Income Taxes (Topic 740): Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities.*

BC7. The disclosure framework is designed to identify a broad range of possibilities for the Board to consider when deciding on disclosures related to a particular Topic required under GAAP. From that intentionally broad set, the Board would identify a more narrow set of disclosures about that Topic to be required.

BC8. Cost is a pervasive constraint on information that can be provided by financial reporting. It is important that the benefits of reporting financial information justify the costs. This basis for conclusions explains the reasons why the Board decided that while some potential disclosures would be beneficial, in some cases, certain disclosures were not proposed because of costs and complexities that are not justified by the expected benefits of the disclosures.

BC9. In December 2013, the Board issued the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, which assists the Board and the Private Company Council in determining, among other things, whether and in what circumstances to provide alternative disclosure requirements for private companies reporting under GAAP. The Board also used that framework, in conjunction with feedback received from the Private Company Council on the Board's preliminary decisions for this proposed Update, to determine whether the disclosures discussed as part of the disclosure framework review of income taxes should be applicable to private companies.

BC10. The Board received extensive feedback before deciding on which amendments should be included in this proposed Update. The sources of that feedback include:

a. The Financial Accounting Foundation's January 2012 Post-Implementation Review Report on Interpretation 48 (PIR on Interpretation 48)

b. The Financial Accounting Foundation's November 2013 Post-Implementation Review of Statement 109 (PIR on Statement 109)
c. A workshop in December 2015 with users, preparers, and a practitioner
d. Outreach meetings with users, preparers, regulators, and practitioners
e. Meetings with FASB advisory groups.

BC11. When making decisions about the amendments in this proposed Update, the Board considered the feedback from all of the sources listed in paragraph BC10. That feedback indicated that users' primary areas of focus on taxes are:

a. The sustainability of an entity's tax rates
b. Tax consequences of remittance of undistributed foreign earnings
c. Tax exposure in significant countries.

## Disclosure Objectives and Immaterial Disclosures

BC12. In September 2015, the Board issued the proposed Update on Topic 235. The amendments in that proposed Update are intended to promote a reporting entity's use of discretion when evaluating disclosure requirements set forth by the Board. Appropriate application of the amendments in the proposed Update on Topic 235 would result in an entity providing material information while also allowing the entity to exclude immaterial information. Those amendments also would, among other things, clarify that a reporting entity may consider materiality when assessing disclosure requirements for both quantitative and qualitative information similar to any other accounting requirement. The amendments in the proposed Update on Topic 235 have been considered by the Board in developing the amendments in this proposed Update. That is, the amendments in this proposed Update:

a. State that an entity need not provide required disclosures if they are immaterial
b. Eliminate phrases such as "an entity shall disclose at a minimum," which make it difficult to justify omitting immaterial disclosures
c. Refer readers to Topic 235 (as would be amended by the guidance in the proposed Update on Topic 235) for discussion of the appropriate exercise of discretion.

While included in this proposed Update, those specific amendments are subject to redeliberations following the comment period for the proposed Update on Topic 235.

BC13. In addition, the Board identified the objectives for income tax disclosures in this proposed Update using the relevant decision questions from the proposed Concepts Statement. The objectives would provide preparers with insight on why the disclosures were deemed to be relevant by the Board, which may assist preparers in exercising discretion when complying with the disclosure requirements.

## Scope

BC14. Currently, some disclosure requirements in Topic 740 are required of public entities and some are required of nonpublic entities. In December 2013, the Board issued Accounting Standards Update No. 2013-12, *Definition of a Public Business Entity—An Addition to the Master Glossary* (Update 2013-12). The primary purpose of that Update was to amend the Master Glossary of the Accounting Standards Codification to include one definition of the term *public business entity* for future use in GAAP.

BC15. Research previously performed in connection with Update 2013-12 indicated that, under the amendment in that Update, certain community banks could be considered public business entities that may not have been considered public entities previously in Topic 740. Recent feedback from a number of community banks indicated that the additional disclosures currently required of public entities would not be costly because some of them already make those additional disclosures. Also, research previously performed indicated that the population of community banks that could fall into the definition of a public business entity would not be significant. Therefore, the Board proposed to replace the term *public entity* in Topic 740 with the term *public business entity* as defined in the Master Glossary of the Accounting Standards Codification.

BC16. All entities subject to income taxes, including not-for-profit entities and employee benefit plans, are within the scope of Topic 740. The Board decided that certain income tax disclosures would not be proposed for private companies (see paragraphs BC94–BC102 of this proposed Update).

BC17. Stakeholders indicated that other entities that are not public business entities, such as not-for-profit entities and employee benefit plans, generally do not engage in activities that result in a significant amount of unrelated business income taxes or do not have significant income tax activities. Therefore, the Board proposed that the amendments in this proposed Update related to private companies (see paragraphs BC94−BC102) should be extended to not-for-profit entities and employee benefit plans.

## Domestic and Foreign Tax Issues

BC18. Foreign activities of domestic companies have grown significantly since the standards that established tax disclosures were originally set. Therefore, consideration of whether the usefulness of existing disclosures could be improved is warranted. The PIR on Statement 109 indicated that financial statements might not be detailed enough for users to:

a. Analyze the cash effects associated with income taxes, particularly current-period taxes paid by jurisdiction (for example, domestic and foreign), and estimate future tax payments. That information is of particular concern to financial statement users who analyze nonpublic entities.
b. Analyze earnings determined to be indefinitely reinvested in foreign subsidiaries.
c. Determine what the tax effects of foreign earnings deemed to be indefinitely reinvested would be if those earnings were repatriated to the U.S. parent company.

BC19. As a result of the concerns raised in the PIR on Statement 109, increased foreign activities, and the application of the proposed Concepts Statement, the Board considered several potential new disclosures and modifications to existing disclosures that would provide users with information about sustainability of tax rates and, thus, give users additional information to make predictions about the amount, timing, and uncertainty of future cash flows.

BC20. The proposed Concepts Statement indicates that the Board should consider disclosure of certain income tax information disaggregated between domestic and foreign operations. That information could be beneficial in assessing the effects of those components on net cash flows (Decision Question L4 in the proposed Concepts Statement) and in understanding changes in entity-specific factors or sector-specific factors (Decision Question L6). Therefore, the Board proposed disclosing the domestic and foreign components of the following income tax information:

a. Income (or loss) from continuing operations before income tax expense (or benefit)
b. Income tax expense (or benefit) from continuing operations
c. Income taxes paid.

BC21. The Board considered further country-level disaggregation of the proposed requirements for foreign information listed in paragraph BC20. Users expressed a desire to have tax information related to foreign income taxes at a more granular level. They said that such information would further their understanding of exposures to various countries and whether their current tax rate is sustainable. The Board considered whether it would be cost beneficial to require that any of the foreign amounts be further disaggregated by country. Because income taxes paid is a number that is compiled for the current disclosure requirements of Topic 230, Statement of Cash Flows, reporting entities could provide that disclosure at a country-level amount at a relatively low cost. To be responsive to users' desire to have some insight into a reporting entity's country-level tax exposure, the Board proposed a disclosure of foreign income taxes paid for any country that is significant to total income taxes paid.

BC22. The Board also considered whether it would be cost beneficial to require that foreign income (or loss) from continuing operations or foreign income tax expense (or benefit) be further disaggregated by country. Stakeholders raised cost and complexity concerns about disaggregating foreign income (or loss) from continuing operations before income tax expense (or benefit) and foreign income tax expense (or benefit). Generally, income (or loss) from continuing operations before income tax expense (or benefit) is not compiled by country on a GAAP basis. Furthermore, many preparers stated that large multinational companies may have several foreign subsidiaries that consolidate into a holding company. As such, income (or loss) from continuing operations before income tax expense (or benefit) is consolidated at the holding-company level, and income tax expense (or benefit) from continuing operations is consolidated at the holding-company level using a blended rate. Disclosure at the holding-company level would not give users insight into tax exposure of the underlying foreign country. Also, taxes by country for the lower-level subsidiaries are not computed until months after financial statements are issued. Therefore, any disclosure required to be provided within financial reporting deadlines related to those subsidiaries would be either rough estimates or allocations of blended rates from the holding company that may not be a fair representation of the tax exposures in those countries. Therefore, a requirement to provide GAAP-based reporting at a country level would result in significant process and system changes.

BC23. Stakeholders also expressed concerns about the negative consequences that may arise from country-level disclosures, including the following:

a. One taxing authority using information about a different taxing authority to collect additional tax revenue
b. Individuals and public interest groups pressuring governments to increase taxes on a reporting entity because they perceive that other countries are receiving more tax revenues than their country
c. The perception that an entity is operating in a low-tax country for tax advantages when that is not the case
d. Potentially compromising the ability of one country to negotiate with other countries.

BC24. The Board acknowledged the cost and complexity concerns and the potential issues relating to the decision usefulness of information that were raised by stakeholders about the country-level disaggregation of foreign income (or loss) from continuing operations before income tax expense (or benefit) and foreign income tax expense (or benefit) from continuing operations. Accordingly, the Board did not propose that an entity make those additional disclosures.

BC25. The Board also considered proposing the following disclosure requirements but did not because of either cost and complexity concerns or lack of benefits from the resulting disclosures:

a. State-by-state information

b. Disaggregation of tax information that either is *significant* or meets numerical thresholds (percentage or absolute values)
c. Domestic tax expense recorded on foreign-sourced earnings.

BC26. The Board also considered proposing a qualitative disclosure explaining when income tax paid is low relative to the income (or loss) from continuing operations before income tax expense (or benefit) in a country because stakeholders noted that an entity’s most significant exposures are with that country. However, that disclosure would result in an entity having to determine whether income (or loss) from continuing operations before income tax expense (or benefit) in a country is significant, which would be costly and complex, as noted in paragraph BC22 of this proposed Update. The Board, therefore, decided not to propose this disclosure.

## Indefinitely Reinvested Foreign Earnings

BC27. Paragraph 740-30-50-2 requires the following disclosures when a deferred tax liability is not recognized for undistributed foreign earnings:

a. A description of the temporary differences for which a deferred tax liability was not recognized and the types of events that would cause those temporary differences to become taxable
b. The cumulative amount of each type of temporary difference
c. The amount of unrecognized deferred tax liability for the temporary differences related to earnings that are indefinitely reinvested, or a statement that the determination is not practicable
d. The amount of the deferred tax liability for temporary differences other than those in (c) (that is, undistributed domestic earnings) that is not recognized in accordance with the provisions of paragraph 740-30-25-18.

BC28. Many entities use the practicability exception in paragraph 740-30-50-2(c) and do not disclose the unrecognized deferred tax liability on indefinitely reinvested foreign earnings. The proposed Concepts Statement indicates that the Board should consider a disclosure of a tax obligation arising from past events that is expected to meet the criteria for recognition in the future (Decision Question O3). Therefore, the Board considered the following:

a. Removing the practicability exception (that is, requiring disclosure even if it is not practicable to do so)
b. Requiring an entity to calculate and disclose the unrecognized deferred tax liability on the basis of some set of simplified assumption that would need to be determined (see paragraph BC30 of this proposed Update)
c. Modifying the practicability exception to apply only to the portion of undistributed foreign earnings for which it is not practicable to calculate the unrecognized deferred tax liability.

BC29. Users stated that removing the practicability exception would be the most beneficial change for their analyses of undistributed foreign earnings. However, there are valid cost and complexity concerns that resulted in the existing practicability exception.

BC30. The Board considered proposing a disclosure of an amount based on a simplified calculation that would hypothetically assume that earnings were remitted under enacted tax law directly from the foreign country in which the assertion is made to the domestic parent. Several Board members said that this calculation would result in an amount that is not representative of the amount and timing of future cash flows, which may be misleading to a user. The Board expressed similar concerns on disclosing the liability for some of the indefinitely reinvested earnings that were practicable to calculate while excluding those earnings for which it was not practicable to calculate. Therefore, the Board did not propose a disclosure of an estimate of an amount based on simplified assumption.

BC31. The Board also considered a disclosure of the cumulative amount of undistributed foreign earnings that are indefinitely reinvested for any country that represents at least 10 percent of the total cumulative amount.

BC32. Users said that disclosing the indefinitely reinvested foreign earnings by country could help them assess tax strategies of reporting entities and would allow them to do additional research on the consequences of remitting amounts from certain countries. However, in more recent outreach, users said that they are more interested in understanding the tax consequences of remitting the earnings back to the United States and the sustainability of the tax structure than knowing where the earnings are located.

BC33. Preparers noted that disaggregating the indefinitely reinvested foreign earnings poses some challenges because it is difficult to identify the source country of the earnings. That is, companies invest in these earnings in other foreign operations, which could be hard to track, and the cash might not be kept in the country in which it was originally earned. Therefore, the Board did not propose a disclosure of the cumulative amount of undistributed foreign earnings that are indefinitely reinvested for any country that represents at least 10 percent of the total cumulative amount.

BC34. Users said that the disclosure of cash associated with indefinitely reinvested foreign earnings could be beneficial in making predictions about whether and when foreign earnings will be remitted and, if so, predicting the potential tax consequences. In terms of this analysis, cash equivalents, marketable securities, and loans also could be meaningful.

BC35. Preparer and practitioner stakeholders indicated that determining the amount of cash, cash equivalents, marketable securities, and loans associated with the indefinitely reinvested foreign earnings would be costly and complex because:

a. Those types of assets are fungible and do not relate in any specific way to indefinitely reinvested foreign earnings.
b. Assets are managed through a central treasury function.
c. The portion of the assets that relate to earnings versus contributed capital cannot be determined.
d. When assertions cover only a portion of a subsidiary's total undistributed earnings, it is impracticable to differentiate the assets.
e. Including loans between subsidiaries could be double counted.

BC36. A disclosure of the aggregate amount of foreign cash, cash equivalents, and marketable securities, however, would be less costly and would be a data point that could provide users with some information about potential exposures to taxes when combined with other information in the financial statements.

BC37. Some preparers said that disclosure of total foreign cash, cash equivalents, and marketable securities may be misleading because those assets are not always available to be distributed and might have encumbrances or other restrictions on them. For example, certain foreign countries have statutory restrictions on distributions or currency controls. While that does not directly relate to income taxes, the additional information could make the disclosure more useful.

BC38. The Board proposed a disclosure of cash, cash equivalents, and marketable securities held by foreign subsidiaries because the disclosure would provide a data point that, in combination with other financial and tax disclosures, would give a user a sense of exposure to income taxes in the least costly and complex way. The Board considered but did not propose disclosing the amount and description of encumbrances or other legal restrictions on the cash, cash equivalents, and marketable securities held by foreign subsidiaries, such as currency controls or temporary statutory restrictions on dividends, because a disclosure of that nature is outside the scope of the income tax disclosure project.

BC39. The proposed Concepts Statement indicates that the Board should consider disclosing (a) a change in entity-specific circumstances that could affect prospects for cash flows or (b) current circumstances that are expected to affect the financial statements of the entity in the future (Decision Questions L6 and O3). A change in an entity's assertion about undistributed foreign earnings could affect a user's assessment of prospects for cash flows. The SEC has issued comment letters requesting additional disclosure about the nature and amount of earnings remitted during the reporting period.

BC40. Users said that a disclosure of a change in the assertion on undistributed foreign earnings informs them about the likelihood of remittance of an entity's foreign earnings. Accordingly, the Board proposed that an entity should disclose an explanation of circumstances that caused a change in assertion about the indefinite reinvestment of undistributed foreign earnings and the corresponding amount of those earnings.

## Deferred Tax Liability for Undistributed Foreign Earnings by Country

BC41. Paragraph 740-10-50-6 currently requires a public entity to disclose the tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets before allocating the valuation allowance. The SEC also requires that disclosure as part of Regulation S-X 210.12-09, *Form and Content of Schedules—Valuation and Qualifying Accounts*. The proposed Concepts Statement indicates that the Board should consider a disclosure that disaggregates a line item in the financial statements that include components of different natures that could affect prospects for cash flows differently (Decision Question L4).

BC42. However, users indicated that the additional information they seek is focused on the undistributed foreign earnings for which there is no liability recorded. Therefore, the Board did not propose a disaggregation of the deferred tax liability for undistributed foreign earnings.

## Unrecognized Tax Benefits

BC43. Paragraph 740-10-50-15 requires that an entity disclose the total amount of interest and penalties related to unrecognized tax benefits that are recognized in both the statement of operations and the statement of financial position. Additionally, an entity must disclose the nature of and an estimate of those uncertain positions for which it is reasonably possible that the total amount of unrecognized tax benefits will change in the next 12 months and a description of tax years that remain subject to examination by major tax jurisdiction.

BC44. Paragraph 740-10-50-15A currently requires that a public entity disclose a tabular reconciliation of total amounts of unrecognized tax benefits at the beginning and end of each annual reporting period presented, which includes the following:

a. The gross amounts of increases and decreases in unrecognized tax benefits as a result of positions taken during a prior period
b. The gross amounts of increases and decreases in unrecognized tax benefits as a result of the tax positions taken during the current period
c. The amounts of decreases in the unrecognized tax benefits relating to settlement with taxing authorities
d. Reductions to unrecognized tax benefits as a result of a lapse in the applicable statute of limitations. Additionally, a public entity is required to disclose the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

## Disclosure on Unrecognized Tax Benefits That Could Significantly Change in the Next 12 Months

BC45. As described in paragraph BC43, paragraph 740-10-50-15 requires disclosure of unrecognized tax benefits that could change in the next 12 months. Disclosure of estimates of amounts and timing related to future events is consistent with the proposed Concepts Statement only if it is an input that explains a measurement in the financial statements or in notes to the financial statements. The disclosure required by paragraph 740-10-50-15(d) is inconsistent with the proposed Concepts Statement. Furthermore, the disclosure has limitations because an entity generally may know that an open tax issue is being resolved a couple of weeks to several months in advance of the settlement but may be unable to reasonably assess the likelihood of other settlements beyond that point. Therefore, the disclosure of estimates of changes in the next 12 months generally provides only estimated changes expected in the next 3 months. Accordingly, the Board did not propose that disclosure.

## Disaggregation of Unrecognized Tax Benefits

BC46. The proposed Concepts Statement indicates that the Board should consider a disclosure that disaggregates a line item in the financial statements that include components of different natures that could affect prospects for net cash flows differently (Decision Question L4). That could be a disaggregation of the unrecognized tax benefits by jurisdiction, tax issue, or scheduled expiration. During the deliberations of Interpretation 48, some users asked for unrecognized tax benefits to be disaggregated by (a) jurisdiction and (b) tax issue (for example, research credits and transfer pricing and so forth), while other users said the aggregate level of information was sufficient as long as a rollforward was provided.

BC47. During recent outreach, users said they do not use disclosures about unrecognized tax benefits for modeling purposes. They use the disclosures to assess how aggressive an entity is with its tax positions. Users said that disclosure of the aggregate unrecognized tax benefits is sufficient for their analyses.

BC48. Preparers noted that disaggregating unrecognized tax benefits by country would provide little benefit because the liability generally is offset by a tax credit. They said that disaggregating the unrecognized tax benefits by scheduled expiration would not be useful in assessing the timing of cash flows because (a) expiration dates often are extended and (b) settlements often are made before the expiration date and differ significantly from the amount reserved and disclosed. Finally, preparers noted that the disclosures would provide taxing authorities with prejudicial information.

BC49. The Board acknowledged the concerns of preparers and that most users are satisfied with the current disclosure of the aggregate of unrecognized tax benefits. Accordingly, the Board did not propose a disaggregation of the unrecognized tax benefits.

## Disaggregation by Measurement Method and Alternative Measure for Unrecognized Tax Benefits That Do Not Meet the More-Likely-Than-Not Threshold

BC50. The PIR on Interpretation 48 states that tax reserves are more consistent and comparable across reporting entities as a result of the application of that Interpretation. However, the PIR on Interpretation 48 concluded that the information provided by Interpretation 48 may not be useful in estimating future cash flows because the recognition and measurement provisions of Interpretation 48 employ "a benefit-recognition approach, not a best-estimate approach for liabilities to be settled." The benefit-recognition approach established by Interpretation 48 requires an entity to:

a. Reserve the entire tax position in its financial statements if there is no more than a 50 percent likelihood that the position will be sustained
b. Calculate the benefit of those tax positions that have a greater than 50 percent likelihood of being sustained by using a cumulative probability calculation.

BC51. The proposed Concepts Statement indicates that the Board should consider a disclosure of the components of a financial statement line item that are measured differently and also consider a disclosure of an alternative measure when that measure would be *clearly useful* in assessing prospects for cash flows (Decision Questions L9 and L15).

BC52. Disaggregating unrecognized tax benefits between the 100 percent reserved amount and the cumulative probability amount would not be very costly for preparers. Several preparers said that when they take an uncertain tax position, they reserve the full amount and take fewer of those positions than they had in the past.

BC53. Some users said that the disaggregated information about unrecognized tax benefits would help them better assess how aggressive an entity considers its tax positions, while others felt that the aggregate liability was adequate. Users who noted that the aggregate number was adequate said that increases and decreases in the balance potentially could indicate how aggressive an entity is being without having to know the two different measurement amounts.

BC54. Disclosure of the single best estimate, which is consistent with how many entities currently measure unrecognized tax benefits under International Financial Reporting Standards (IFRS), would be an alternative way to measure the liability. Because of the inherent subjectivity in trying to measure the unrecognized tax benefit as a most likely amount and because of the uncertainties in the timing of when those issues may be settled (if at all), it is not clear if the alternative measure would be *clearly useful* in assessing prospects for cash flows. Also, preparers are concerned about estimating the ultimate settlements and when or whether an audit will take place because those outcomes are not within the reporting entity's control.

BC55. The Board did not propose a requirement for an entity to further disaggregate its unrecognized tax benefits on the basis of measurement because the current aggregate liability seems adequate for the users to perform their analyses on unrecognized tax benefits. Also, the Board did not propose a requirement for an entity to disclose an alternative measure for unrecognized tax benefits because it is not clear whether the alternative measure would be *clearly useful*.

## Reconciliation of Unrecognized Tax Benefits

BC56. The proposed Concepts Statement indicates that the Board should consider disclosures about the causes of the changes in an entity's line item of an asset or a liability that are not easily understood by users and whether disclosure of the relationship between financial statement line items should be provided when the relationship is not otherwise apparent (Decision Questions L7 and L16). Therefore, the Board considered enhancements to the existing disclosure of the reconciliation of unrecognized tax benefits by:

a. Netting the amounts in the reconciliation against any items that may be used to offset the total unrecognized tax benefit
b. Disaggregating settlements within the reconciliation between those settlements using existing deferred tax assets separate from those that have been or will be settled in cash.

BC57. Paragraph 740-10-45-10A requires the unrecognized tax benefit to be shown net of carryforwards on the statement of financial position. On one hand, because an unrecognized tax benefit is presented net on the statement of financial position, several preparers recommended netting the items that could offset the unrecognized tax benefit. On the other hand, the Board also received preparer input indicating that providing the reconciliation on a net basis would decrease the utility of the reconciliation because:

a. The changes in uncertain tax benefits would be obscured by changes in assets available to offset the unrecognized tax benefits.
b. Settlements made with other assets, such as net operating losses, would result in amounts of the unrecognized tax benefits being undisclosed.
c. Users would have a harder time understanding management's success with its aggressive tax positions.
d. Net operating losses and other carryforwards could be used to reduce future taxable income, not necessarily to reduce a liability from an uncertain tax position.

Consequently, the Board did not propose that the reconciliation of the unrecognized tax benefits be provided on a net basis.

BC58. Several users and tax specialists indicated that separately disclosing cash settlements and noncash settlements of unrecognized tax benefits is beneficial because it would explain the consequences of an entity's tax strategies. Preparers indicated that separately disclosing cash settlements and noncash settlements would not be costly because entities track cash paid for income taxes. Therefore, the Board proposed a requirement that a public business entity should disclose the settlements using existing deferred tax assets separate from those that have been or will be settled in cash.

BC59. Unrecognized tax benefits can have an effect on various line items on the statement of financial position, including payables or deferred taxes. Additionally, unrecognized tax benefits might not be presented on the statement of financial position. Users said that providing the breakdown of the unrecognized tax benefit presented by statement of financial position line item would be beneficial. Without that disclosure, a reasonably informed investor could not discern how a line item within the statement of financial position is affected by unrecognized tax benefits. Therefore, the Board proposed a requirement that a public business entity should disclose the unrecognized tax benefit balance presented by statement of financial position line item. If the unrecognized tax benefit is not presented in the statement of financial position, the entity should disclose that amount separately.

## Income Taxes Paid by Tax Year

BC60. The proposed Concepts Statement indicates that the Board should consider a disaggregation of income taxes paid by the tax years to which those payments relate because the disaggregation could affect the assessments of the prospects for cash flows (Decision Question L4). The proposed Concepts Statement also indicates that the Board should consider a disclosure to disaggregate from income taxes paid those amounts attributable to interest and penalties (Decision Question L4).

BC61. Preparers indicated that disclosure of income taxes paid in the aggregate is of limited use because it includes audit settlements for previous reporting years, it combines payments for the current tax year and prior tax year, and there is diversity in practice on whether the disclosure includes refunds or penalties. Therefore, the Board considered whether taxes paid should be disaggregated by payments made for the current tax year, prior tax year, and other tax years (including audit settlements over multiple years, interest, and penalties) with separate disclosure of refunds received or refunds applied.

BC62. Preparer and practitioner stakeholders indicated that disaggregation of income taxes paid by the tax years to which they relate could be misconstrued by users. They noted that some foreign countries do not require estimated current-year tax payments. In some foreign countries, tax returns may not be filed regularly, and payments may not be made until the returns are filed. Those stakeholders were concerned that a user would perceive payments for previous years as an entity not meeting its income tax obligations. Furthermore, some preparers said that providing such a disclosure would be costly to allocate in cases in which there are lump-sum payments made related to multiple years. Others noted that tax departments would either know what periods the payments relate to or be able to allocate tax payments to time periods for reporting purposes.

BC63. Users have said that disclosing cash paid for interest and penalties related to income taxes would be helpful in assessing management's success in taking aggressive tax positions. Paragraph 740-10-50-15 requires an entity to disclose the total amount of interest and penalties recognized in the statement of operations and the total amount of interest and penalties recognized in the statement of financial position. Additionally, paragraph 740-10-50-19 requires an entity to disclose in the notes to financial statements its policy on classification of interest and penalties in accordance with paragraph 740-10-45-25.

BC64. Although some Board members believe that a disclosure of income taxes paid by time period would be useful, the Board did not propose a disclosure of income taxes paid by time period because existing disclosures and the amendments in this proposed Update would provide sufficient information for users to assess an entity's cash tax exposure. Furthermore, the Board believes that it could be complex to provide this disclosure because of issues such as times when a reporting entity's fiscal year differs from its tax year. Also, the Board did not propose a disaggregation of income taxes paid for interest and penalties because it believes that users can get a sense of aggressive tax positions from the current requirements.

## Change in Entity-Specific Factors

BC65. Paragraph 740-10-50-9 requires a disclosure of the significant components of income tax expense (or benefit) attributable to continuing operations, which includes adjustments of a deferred tax liability or a deferred tax asset for enacted changes in an entity's tax laws or rates or a change in the tax status. However, Topic 740 contains no specific disclosure requirements about tax law changes that are probable to affect the reporting entity in a future period.

BC66. The proposed Concepts Statement indicates that the Board should consider a disclosure of changes in entity-specific factors or their potential effects that a user would not be expected to be aware of (Decision Question L6). Changes in laws are provided as an example in the proposed Concepts Statement.

BC67. Some respondents to the Exposure Draft of Statement 109 recommended disclosure of additional information that might enable financial statement users to estimate the potential future effect of changes in tax laws or rates for each tax jurisdiction in which an entity has significant operations. At that time, the Board thought that such disclosure would require too much detail.

BC68. The Board considered the following potential disclosures:

a. A description of an enacted change in tax law that is probable to have an effect on the reporting entity in a future period
b. The amount at which a change in tax law would affect the current year's income tax if the law were effective as of the reporting date
c. A disclosure of whether a current circumstance exists that could cause a change in tax law.

BC69. Most users supported a disclosure that describes an enacted change in tax law that is probable to have an effect on a reporting entity in a future period. They said that it would give them an indication of the entity's tax exposure.

BC70. Preparers said that a disclosure that describes an enacted change in tax law that is probable to have an effect on the reporting entity in a future period would not be costly because they already make similar disclosures in either notes to the financial statements or the Management's Discussion and Analysis section of Form 10-K. Also, preparers noted that management plans for those changes and, therefore, has the required information. Some preparers expressed initial concerns about the large volume of tax law changes that occur and the volume of the resulting disclosures. However, the proposed disclosure requirements would not need to be made if the resulting disclosure is immaterial. Therefore, the Board proposed a requirement that an entity should disclose a description of an enacted change in tax law that is probable to have an effect on the reporting entity in a future period.

BC71. Although disclosing expected effects of an enacted change in tax law on future periods would be the most useful, paragraph D23 of the proposed Concepts Statement states that information of this type could have significant negative consequences and ". . . unknown future events . . . beyond management's control cause the most concern because some of that information may turn out to be materially different from the actual future events or conditions when they occur." Most of the comment letters on the proposed Concepts Statement indicated that the limitation on notes for future-oriented information was appropriate and that a disclosure of future-oriented information would be inappropriate for the notes to financial statements. However, a disclosure of what the effect of the change would have been on the current reporting period is not future oriented.

BC72. The Board did not propose a disclosure of what the effect of the change would have been on the current reporting period because some pro forma information does not necessarily provide a reasonable basis to inform users about the effect of the change in the future. Accordingly, the Board did not propose that an entity disclose the amount by which current-year income tax would change if the change in tax law were effective as of the reporting date.

BC73. Disclosure of a current circumstance that could have an effect on a reporting entity's tax expense is a type of future-oriented information that does not conflict with the proposed Concepts Statement. Information about the effect of specified future changes in existing conditions on specific line items, or on the entity as a whole, may be useful disclosures for the Board to consider in some cases and would not be expected to have the same negative consequences as other types of future-oriented information. For example, certain bills before the U.S. Congress that, if passed, would eliminate certain tax credits likely would have an effect on the reporting entity. However, there have been concerns raised in comment letters on the proposed Concepts Statement about a broad range of events and circumstances that could lead to changes in entity-specific circumstances. Preparers said that they are not confident they can track and report all of the circumstances that might have an effect on tax law and have that disclosure audited for completeness.

BC74. The Board acknowledges the concerns raised and also believes that the benefit of this potential disclosure is questionable. Accordingly, the Board did not propose that an entity should disclose whether a current circumstance exists that could cause a change in tax law.

## Deferred Tax Line Item

BC75. Paragraph 740-10-50-2 requires an entity to disclose total deferred tax assets, deferred tax liabilities, valuation allowance, and the net change during the year in the total valuation allowance. However, deferred taxes can be presented on multiple line items on the statement of financial position (for example, current deferred tax assets or liabilities, prepaid expenses, or income taxes receivable or payable), and users generally struggle with understanding the effect of taxes on the financial statements. The PIR on Statement 109 states that ". . . investors have some difficulty understanding income tax information provided in the financial statements and their level of satisfaction with that information varies."

BC76. The proposed Concepts Statement indicates that the Board should consider requiring disclosure of the relationship between financial statement line items if the relationship otherwise is not apparent (Decision Question L16).

BC77. Although that disclosure was indicated by the proposed Concepts Statement for consideration and some reporting entities currently disclose deferred taxes by statement of financial position line items, the Board did not propose a requirement for an entity to disclose deferred taxes by statement of financial position line items because (a) it expects the disclosure to be less beneficial after entities adopt the amendments in Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,* whereby all deferred tax assets and liabilities will have to be classified as noncurrent on the statement of financial position, (b) most users indicated that this disclosure would not add much value to their analyses, and (c) any significant deferred taxes are required to be presented separately on the statement of financial position.

## Valuation Allowance

BC78. As discussed further in paragraph BC75 of this proposed Update, paragraph 740-10-50-2 requires an entity to disclose the total valuation allowance and the net change in total valuation allowance during the year. However, Topic 740 does not require a disclosure of the amounts recorded and released in the valuation allowance during the reporting period or an explanation of the nature of those amounts. SEC Regulation S-X 210.12-09 requires public business entities to provide a schedule of information on valuation and reserves if not disclosed elsewhere. In practice, some public business entities disclose a rollforward of the valuation allowance in the notes to financial statements rather than in a separate schedule as referenced in SEC Regulation S-X.

BC79. The proposed Concepts Statement indicates that the Board should consider requiring disclosure of the causes of the changes in line items if the change is not easily understood (Decision Question L7).

BC80. Many users said they would like to understand the reasons for the change in the valuation allowance. Some asked for a detailed rollforward (which includes disaggregation of the changes in the valuation allowance between amounts recorded and amounts released during the period) in the notes to financial statements. They said that what is currently disclosed is too highly aggregated to be useful. Preparers indicated that such a disclosure should not be costly. Therefore, the Board proposed a requirement for a public business entity to disclose the amounts and explanation of the valuation allowance recognized and/or released during the reporting period.

## Carryforwards

BC81. Paragraph 740-10-50-3(a) currently requires an entity to disclose the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes. Paragraph 740-10-50-6 currently requires a public entity to disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances).

BC82. Stakeholders indicated that there is diversity in practice about paragraph 740-10-50-3(a). Some entities disclose the amount that is reported on their tax returns, which is not tax effected, while other entities disclose the tax-effected carryforwards (that is, the amount recorded as a deferred tax asset).

Users said that they would like to see a disclosure of the pretax carryforwards and the deferred tax asset for carryforwards disaggregated by year of expiration. They explained that both amounts are useful in performing their analysis.

BC83. The Board proposed that a public business entity disclose (a) the amounts of carryforwards (not tax effected) and (b) the amounts of deferred tax asset for carryforwards before the valuation allowance. Specifically, the amounts of those carryforwards would be disclosed by time period of expiration for each of the first five years after the reporting date and a total of the amounts for the remaining years.

BC84. Preparers and practitioners also indicated that there is diversity in practice in disclosing the pretax carryforward amount. That is, some entities double count the same pretax carryforward amount that is reported on two different tax returns. For example, a $1 million pretax carryforward for both federal and state is disclosed as a carryforward of $2 million. Users are unaware that the number could be double counted.

BC85. The Board proposed that a public business entity should disclose the amounts of federal, state, and foreign pretax carryforwards and the amounts of deferred tax asset for federal, state, and foreign carryforwards because the disclosure would make the carryforwards more comparable across entities and would make the analysis more beneficial to users. Furthermore, preparers indicated that the disclosure would not be costly.

BC86. Paragraph 740-10-45-10A requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward.

BC87. The Board determined that disaggregating the unrecognized tax benefit by expiration date associated with the carryforwards would be complex and costly. However, the Board proposed a requirement that a public business entity disclose the total amount of unrecognized tax benefits that offset the deferred tax asset attributable to carryforwards. That would be consistent with the proposed Concepts Statement because unrecognized tax benefits and carryforwards are different in nature and measured differently (Decision Question L4).

## Discounting of Deferred Tax Liabilities

BC88. The proposed Concepts Statement indicates that the Board should consider a disclosure of an alternative measure of deferred tax assets and liabilities on a discounted basis (Decision Question L15).

BC89. The basis for conclusions of Statement 109 states that implementation issues associated with discounting income taxes are numerous and complex. Those implementation issues include (a) selection of the discount rate(s) and (b) determination of when and in what amount the assets or liabilities will be used or come due. FASB Statement No. 96, *Accounting for Income Taxes,* required this detailed analysis of the future reversals of temporary differences, and there was frequent criticism of the guidance. For those reasons, the Board did not consider discounting deferred tax assets and liabilities at that time.

BC90. During recent outreach, preparer and practitioner stakeholders confirmed that the same concerns about discounting for deferred tax assets and liabilities were raised before the issuance of Statement 109. Furthermore, users are satisfied with the deferred tax assets and liabilities being measured on a nondiscounted basis. Therefore, the Board did not propose a requirement for an entity to disclose deferred income taxes on a discounted basis.

## Rate Reconciliation

BC91. Paragraph 740-10-50-12 requires a public entity to disclose a reconciliation using percentages or dollar amounts of the reported income tax expense (or benefit) attributable to continuing operations for the year to the amount of income tax expense (or benefit) that would result from applying the domestic federal statutory rates to income (or loss) before income tax expense (or benefit) from continuing operations. SEC Regulation S-X 210.4-08(h)(2) requires a public business entity to:

> Provide a reconciliation between the **amount** of reported total income tax expense (or benefit) and the **amount** computed by multiplying the income (or loss) before tax by the applicable statutory Federal income tax rate, showing the estimated dollar **amount** of each of the underlying causes for the difference. If no individual reconciling item amounts to more than five percent of the **amount** computed by multiplying the income before tax by the applicable statutory federal income tax rate, and the total difference to be reconciled is less than five percent of such computed **amount**, no reconciliation need be provided unless it would be significant in appraising the trend of earnings. Reconciling items that are individually less than five percent of the computed **amount** may be aggregated in the reconciliation. The reconciliation may be presented in percentages rather than in dollar amounts. Where the reporting **person** is a foreign entity, the income tax rate in that **person**'s country of domicile should normally be used in making the above computation, but different rates should not be used for subsidiaries or other segments of a reporting entity. When the rate used by a reporting **person** is other than the United State Federal corporate income tax rate, the rate used and the basis for using such rate shall be disclosed.

BC92. The rate reconciliation is not indicated by the proposed Concepts Statement. The disclosure explains how a standard benchmark differs from a reporting entity's results. The Board, along with many users and preparers, believes that makes the rate reconciliation one of the most useful disclosures about income taxes. The Board, therefore, decided to propose that this disclosure requirement be retained.

BC93. The Board proposed the threshold for the rate reconciliation that exists under SEC rules into GAAP because it would make the requirements consistent and should not result in incremental costs because the requirement is only for public business entities. In addition, the Board decided that the amendments in this proposed Update would require a public business entity to provide an explanation of the changes in the reconciling items from year to year. The Board believes that this disclosure would be meaningful to users and would not be very costly because preparers should know why those reconciling items change if the change is significant.

## Private Company Considerations

BC94. The Board proposed that some of the disclosure requirements should differ for private companies, primarily because the costs of providing those disclosures are not justified by the benefits. In arriving at its decisions, the Board considered the Private Company Decision-Making Framework and concluded that the minimum level of disclosures needed by users of private company financial statements differs because many of the users of private company financial statements already receive, or have the ability to obtain, tax information such as tax returns from the entity. Furthermore, some users of private company financial statements explained that many of the disclosures required of public business entities provide so much detail that those disclosures may confuse the users' analyses.

### Undistributed Foreign Earnings

BC95. Private company stakeholders and FASB advisory groups indicated that private companies that have significant foreign activities (typically, large multinational private companies) are likely able to bear the costs associated with preparing the same disclosures as public business entities with respect to undistributed foreign earnings. Therefore, the Board proposed that a private company should provide the same disclosures pertaining to foreign earnings and taxes and undistributed foreign earnings as a public business entity, which include:

a. Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
b. Income tax expense (or benefit) from continuing operations disaggregated between domestic and foreign

c. An explanation of circumstances that caused a change in assertion about the indefinite reinvestment of undistributed foreign earnings and the corresponding amount of those earnings
d. Income taxes paid disaggregated between domestic and foreign, and the amount of income taxes paid to any country that is significant to total income taxes paid
e. Aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries.

BC96. Private company users indicated that they look at income taxes paid in the aggregate and assess foreign exposure by using other information obtained by management. Therefore, they said that a disaggregation of foreign information by country would not be useful. The Board, however, determined that a disaggregation of foreign income taxes paid by country would be beneficial for users of large multinational private companies and would not be overly costly for private company preparers. In addition, the Private Company Decision-Making Framework states that the Board or the Private Company Council should not provide disclosure alternatives for current or future cash flows. Accordingly, the Board proposed that private companies should disclose the amount of income taxes paid to any country that is significant to total income taxes paid.

## Rate Reconciliation

BC97. Paragraph 740-10-50-13 states that "a nonpublic entity shall disclose the nature of significant reconciling items but may omit a numerical reconciliation." The Private Company Decision-Making Framework states:

> . . . as long as footnotes contain sufficient relevant information to inform users of the significant economic activities of the entity during the year, follow-up access to management should enable primary users of private company financial statements to seek the additional information they require. Thus, disclosures for private companies need to provide the information necessary to enable users to ask management follow-up questions that would fulfill their information needs, that is, the red-flag approach.

BC98. Private company users said that they typically focus on information related to tax payments due according to the tax return, compliance with taxing authorities (for example, whether tax returns have been filed and income taxes have been paid), and income taxes paid in the aggregate.

BC99. Private company preparers, practitioners, and FASB advisory groups expressed some concerns. They said that because a private company generally outsources preparation of income tax provision and related notes to the financial statements, a rate reconciliation would be costly and compromise the timeliness of reporting. Additionally, those stakeholders said that the 5 percent threshold used to identify reconciling items in the rate reconciliation is insignificant to the financial statements and also could be perceived as a materiality threshold for other tax disclosures. Therefore, the Board decided that the amendments in this proposed Update on rate reconciliation are inapplicable to private companies.

## Valuation Allowance and Carryforwards

BC100. Paragraph 740-10-50-8 requires a nonpublic entity to disclose the types of significant temporary differences and carryforwards but it may omit disclosing the tax effects of each type. In addition, a nonpublic entity currently is required to make the disclosures in paragraph 740-10-50-2 (see paragraph BC75 of this proposed Update) related to valuation allowance and those in paragraph 740-10-50-3(a) related to carryforwards (see paragraph BC81 of this proposed Update).

BC101. Users of private company financial statements do not base their capital allocation decisions on information related to valuation allowance and carryforwards. Rather, they look at other information as described in paragraph BC98 of this proposed Update. Although users can ask for details about the currently reported disclosures, preparers said they could not recall a time in which they were asked about valuation allowance and carryforwards.

BC102. The Board decided that the amendments in this proposed Update on valuation allowance and carryforwards should not apply to private companies. With respect to the proposed disclosure on carryforwards, the Board proposed a requirement for private companies to disclose the total amounts of federal, state, and foreign carryforwards (not tax effected) and their expiration dates because the purpose of this disaggregation is to prevent misleading information to users.

## Government Assistance

BC103. The Board currently has a separate project related to disclosures on government assistance. The scope of the amendments in this proposed Update is consistent with the scope of that project and is specific to income taxes. Accordingly, the Board decided that the amendments in this proposed Update would require an entity to disclose the description of a legally enforceable agreement with a government, including the duration of the agreement and the commitments made with the government under that agreement and the amount of benefit that reduces, or may reduce, its income tax burden. Under those agreements, the government would determine whether an entity will receive assistance and/or how much assistance an entity will receive even if the entity meets applicable eligibility requirements. This disclosure would not apply to circumstances in which the entity meets the applicable eligibility requirements that are broadly available to tax payers without specific agreement between the entity and the government.

## Effective Date and Transition

BC104. The amendments in this proposed Update would be applied prospectively.

BC105. The Board acknowledges that a retrospective application would improve comparability of financial information across all periods presented. However, that application would be costly because entities would be required to gather prior-period information manually as systems would not have been in place to generate the information necessary for those prior-period disclosures. In addition, there is a high degree of risk associated with manual processes. Therefore, entities would need additional time to design and test internal controls over this manual process to ensure the integrity of the data for financial reporting. That would compromise the timeliness of the disclosures. Therefore, the Board determined that the benefits of retrospective application would not justify the costs.

BC106. The Board will determine the effective date and whether early adoption should be permitted after it considers stakeholders' feedback on the amendments in this proposed Update.

## How Do the Proposed Provisions Compare with IFRS?

BC107. International Accounting Standard (IAS) No. 12, *Income Taxes,* establishes recognition, measurement, presentation, and disclosure requirements for financial statements prepared in conformity with international accounting standards. IAS 12 does not provide specific guidance on how to reflect uncertainty about a tax treatment in the accounting for income tax. In October 2015, the International Accounting Standards Board's (IASB) IFRS Interpretations Committee (IFRIC) published a Draft IFRIC Interpretation, *Uncertainty over Income Tax Treatments*. The Draft IFRIC Interpretation does not introduce new disclosure requirements for income taxes. Rather, it highlights the relevance of existing disclosure requirements in existing international accounting standards, including IAS 12.

BC108. The amendments in this proposed Update relate to disclosures only and would (a) remove a disclosure that is no longer considered meaningful, (b) clarify the specific requirements of disclosures, and (c) add disclosure requirements identified as relevant. The proposed amendments would result in differences in disclosures based on differing assessments by the FASB and the IASB on the needs of financial statement users. Furthermore, the IASB did not base its disclosures on the application of the concepts in the proposed Concepts Statement.

## Benefits and Costs

BC109. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC110. The Board received extensive feedback before preparing the amendments in this proposed Update: from the PIR on Interpretation 48, the PIR on Statement 109, and a series of outreach done with users, preparers, and practitioners on income tax disclosures. The Board also discussed tentative decisions on the disclosures in a private workshop that included users, preparers, and practitioners. That workshop provided participants with an opportunity to engage in a constructive dialogue on the Board's proposals on income tax disclosures. The feedback from those participants was considered by the Board and is discussed in this basis for conclusions.

BC111. The Board anticipates that an entity would incur moderate costs as a result of the amendments in this proposed Update while providing users with beneficial information that would justify those costs. An entity's decision to omit immaterial disclosure (if it had not done so previously) may reduce the entity's total cost in complying with all of the disclosure requirements, although in certain cases there may be costs incurred to assess whether a disclosure is immaterial.

# Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through ASU Taxonomy Changes provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at www.fasb.org and finalized as part of the annual release process.