

DRAFT – FOR DISCUSSION PURPOSES ONLY

FASB Staff Q&A on Whether to Discount Alternative Minimum Tax Credits That Become Refundable

Background

Under existing law, an entity pays the corporate alternative minimum tax (AMT) if the amount payable under the AMT system is greater than the amount payable under the regular tax system. An entity that pays the AMT receives a tax credit (AMT credit carryforward) for the tax paid in excess of the amount owed under the regular tax system. This AMT credit carryforward has no expiration date.

The AMT tax regime is repealed under the Tax Cuts and Jobs Act. Any existing AMT credit carryforward can be used to reduce the regular tax obligation in years 2018 through 2020. Any AMT credit carryforwards that do not reduce regular taxes are eligible for a 50 percent refund in 2018 through 2020 and a 100 percent refund in 2021. This will result in the full realization of any AMT credit carryforwards existing at December 31, 2017, irrespective of future taxable income.

Question

Does the FASB staff believe that AMT credit carryforwards should be discounted at December 31, 2017, because they will be refundable in future years?

Response

The FASB staff notes that paragraph 740-10-30-8 prohibits discounting deferred taxes. Accordingly, any AMT credit carryforwards presented as a deferred tax asset would not be discounted. Likewise, the FASB staff believes that any AMT credit carryforward presented as a receivable should not be discounted because the staff does not believe that Subtopic 835-30 on the imputation of interest applies to the unique circumstances related to the AMT credit carryforward.

The guidance in Subtopic 835-30 addresses the accounting for business transactions that often involve the exchange of cash or property, goods, or services for a note or similar instrument. Subtopic 835-30 is premised on the fact that when a note is exchanged for property, goods, or services in a bargained transaction entered into at arm's length, the interest rate should represent fair and adequate compensation to the supplier. The FASB staff believes that the AMT credit carryforward is not the result of a bargained transaction and that the scope exception in paragraph 835-30-15-3(e) for transactions where interest rates are affected by tax attributes or legal restrictions prescribed by a governmental agency (such as, income tax settlements) would apply.

The FASB staff also notes that an entity may have AMT credits reported in the financial statements that are not reported on the tax return because they relate to uncertain tax positions. The timing of the refund of such AMT credits would be, at least in part, dependent on the settlement of the uncertain tax position. Any recognized uncertain tax position related to the

AMT credit carryforward would not be discounted, and the staff does not believe it is appropriate to have a discounted receivable when the uncertain tax position is undiscounted.

The FASB staff notes that paragraph 740-10-50-3 requires an entity to disclose the amounts and expiration dates of tax credit carryforwards for tax purposes. The staff believes that this disclosure would apply whether an entity presents the AMT credit carryforward as a deferred tax asset or a receivable and would provide useful information to investors in evaluating the amount that is to be utilized or refunded.