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May 30, 2019

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Shayne Kuhaneck  
Acting Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2019-500, *Income Taxes (Topic 740): Disclosure Framework - Changes to the Disclosure Requirements for Income Taxes, Revision of Exposure Draft Issued July 26, 2016*

Dear Mr. Kuhaneck:

Eli Lilly and Company (“Lilly”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s Proposed Accounting Standards Update (Revised), *Income Taxes (Topic 740): Disclosure Framework - Changes to the Disclosure Requirements for Income Taxes, Revision of Exposure Draft Issued July 26, 2016* (the “proposed ASU”). Lilly is a multinational pharmaceutical company with global operations spanning approximately 80 jurisdictions.

Following are our responses to the questions in the proposed ASU:

**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.**

We are in support of the FASB’s initiative to revise ASC 740 in order to provide investors with decision-useful information about income taxes. We do not believe any of the proposed amendments will result in the elimination of decision-useful information about income taxes; however, we do wish to explain why we believe certain of the proposed amendments would not be useful to the financial statement users:

- ***Income Taxes Paid (740-10-50-22 & 230-10-50-2)*** – We believe that the proposed requirements to disaggregate income taxes paid between federal, state, and foreign does not provide decision-useful information and could potentially be misleading.

- Deadlines for paying income taxes vary by jurisdiction across the world which could result in the disclosure of payments related to varying fiscal years.
- Domestic payments could be offset by foreign taxes accrued, but not yet paid, which could result in mismatched payments when comparing domestic against foreign taxes paid in a given year.
- Tax payments often include the effects of prior-year audit settlements, refunds, penalties, and tax credits which are mismatched when comparing to accrual-based financial statements.

We further believe the proposed amendment to ASC 230-10-50-2 that would require tax payments be disclosed on an interim (quarterly) basis only amplifies our concern as to the usefulness of the information.

- In many jurisdictions, ignoring the offsets described above, payments are not always made ratably over the course of a year, nor are they necessarily calculated on the financial results of the current and/or immediately preceding interim period(s). For example, in the U.S., the first two federal estimated income tax installment payments are made in the second quarter of the year; therefore, the first quarter payment disclosure would be \$0 regardless of any profit or loss shown.

The basis for our belief that the aforementioned proposals are not decision-useful is corroborated via our review of more than ten years of information requests received by our Investor Relations group which confirmed we have never been asked for additional disaggregation of our taxes paid.

Should the FASB ultimately decide to retain the proposal to disclose taxes paid in interim periods, we suggest that clarifying language pertaining to this requirement be added to ASC 270, *Interim Reporting* (specifically ASC 270-10-50) to ensure alignment across all relevant codification.

- **Valuation Allowance Disclosure (740-10-50-6B)** – We believe that the proposed requirement to disclose the total amount of valuation allowance recognized and/or released with an explanation of the changes is not specific enough as written and could therefore result in disparate interpretations. We further believe the requirement should only exist for material changes in the valuation allowance. Our recommendation to the proposed language is to limit the disclosure requirement to discuss only those material changes made to the *prior* period assessments that result in the recognition or release of valuation allowance, which allows for transparency in substantiating past allowance assessments and would also ease the operability and auditability of the amendment.
- **Carryforward Disclosure (740-10-50-6A[b])** – We believe that the proposed requirement to include a disclosure of carryforward expiration for each of the first five years after the reporting date may result in an excessive amount of detail which provides little value. We believe it would be more decision-useful to provide a schedule of expirations in groups of

years. For example, the entity would disclose carryforwards that would expire in 1-5 years, 6-10 years, 10+ years, and those carryforwards with no expiration. This disclosure would give users longer-term information while requiring minimal additional cost to the entity.

- ***Disclosure of Pretax Income/(Loss) from Continuing Operations before Intra-entity Eliminations Disaggregated between Domestic and Foreign (740-10-50-10A)*** – We note that SEC-filer companies are currently disaggregating income/(loss) from continuing operations before income tax expense/(benefit) between domestic and foreign components. Noting FASB’s effort to align GAAP disclosures with the SEC’s rules, we feel the effort is negated by the proposed requirement to disclose pretax income from continuing operations before intra-entity eliminations. We understand the objective of this proposed disclosure is to present the income/(loss) that is most directly related to the income tax expense/(benefit), which is presumed to be the income/(loss) before intra-entity eliminations. We note that many multi-tiered worldwide companies have intra-entity transactions that are generally non-taxable events. For example, we have dividend distributions from lower-tier subsidiaries that are tax free. Removing such transactions and disclosing pretax income/(loss) before intra-entity eliminations would present inflated income and does not get the user closer to the income/(loss) most directly related to the income tax expense/(benefit) and does not provide the user with income/(loss) directly related to income tax expense/(benefit).

We also note that there is likely to be diversity in practice in how companies define “intra-entity eliminations” (which does not exist in GAAP codification or SEC requirements for public companies) which could result in numbers not reconciling to the face of the financial statements. Thus, our concern as to the decision-usefulness of this proposal is amplified as users may not find the information useful or understandable.

Finally, a large portion of this proposed disclosure can already be derived from the rate reconciliation. As a result, we do not feel that this proposal provides more effective, decision-useful information.

- ***Disclosure of unrecognized tax benefits that offset carryforwards (740-10-50-6A)*** – Carryforwards available to offset liabilities can vary due to factors such as the year of generation/expiration and type of carryforward (e.g. NOL, credit). Regardless of the complexity, the carryforward will generate a cash flow benefit in the future by offsetting a liability associated with an unrecognized tax benefit (assuming no valuation allowance has been established). As a result, we do not believe this proposed disclosure would provide decision-useful information.
- ***Rate Reconciliation (740-10-50-12)*** – While we generally agree with the amendments to the rate reconciliation requirement, we believe an explanation of year-to-year changes in the aggregate rather than separately explaining each reconciling item would help the user better understand the overall changes in the effective tax rate. By

explaining changes for each line item, the disclosure could become redundant as changes would likely be explained in other disclosures required under ASC 740. For example, an individual reconciling item may change due to the release of a valuation allowance. The amount and explanation of the change in valuation allowance would be explained elsewhere in the disclosures, potentially making the proposed requirement redundant with other disclosure requirements.

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

We believe the following proposed amendments would not be operable or auditable:

- ***Income Taxes Paid (740-10-50-22 & 230-10-50-2)*** – With regard to providing tax payments disaggregated by federal, state, and foreign jurisdictions, significant hurdles exist to the timely collection of the information. The effort necessary to collect and aggregate the data from over 80 jurisdictions from an even greater number of foreign affiliates is entirely manual which means the process is both time- and labor-intensive. Further, even without a requirement to disaggregate the payments by jurisdiction, the operational challenges are significantly amplified by the proposed modification to ASC 230-10-50-2 which would require tax payments be disclosed in the interim financial statements, which have shorter deadlines for filing Form 10-Q with the Securities and Exchange Commission than the annual filing of Form 10-K.
- ***Valuation Allowance Disclosure (740-10-50-6B)*** – With regard to providing an explanation of the total amount of valuation allowance recognized and/or released each period, we believe that the amendment as written is lacking specificity which, in turn, increases the difficulty of such disclosure being operable and auditable. Please see our comments in Question 1 which further notes our concerns and suggestions.
- ***Disclosure of Pretax Income/(Loss) from Continuing Operations before Intra-entity Eliminations Disaggregated between Domestic and Foreign (740-10-50-10A)*** – Please see our response to Question 4 for an explanation of why we believe certain aspects of this proposed amendment would pose operability and auditability issues.

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

Generally, the information required by the proposed ASU will have to be collected from both U.S. and foreign affiliates as certain data is not centrally maintained. Therefore, additional systems, processes, and personnel would be required to collect and summarize the information for disclosure.

However, we call attention to the following proposed amendments which we believe impose the most significant incremental costs:

- ***Income Taxes Paid (230-10-50-2)*** – Disaggregation of income taxes paid by quarter. In addition to the reasons provided in our response to Question 2, we further note that the more aggressive timeframe to collect, analyze, and manually adjust the data, the number of entities from which we have to receive this data (greater than 150) and the related currency conversion issues will have a combined significant incremental cost.
- ***Income (or Loss) from Continuing Operations before Intra-Entity Eliminations (740-10-50-10A)***  
Please refer to the reasons provided in our response to Question 4.

**Question 4: One of the proposed amendments would require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign, which initial feedback indicated would reduce diversity in practice. Would this proposed amendment be operable? Should the Board specify whether the disclosed amounts should be before or after intra-entity eliminations? Why or why not?**

We note that under current U.S. GAAP, companies are required to eliminate all intra-entity transactions and report consolidated results. We believe most companies would struggle to operationalize this proposed amendment to report pretax income/(loss) from continuing operations before intra-entity eliminations as it would require a significant shift in processes, controls, and ERP (and ancillary) software reporting. This shift, in turn, will result in significantly incremental time to ensure compliance and thus makes the operability of this amendment challenging.

We further note that “before intra-entity eliminations” reporting would create diversity in practice, dependent on how companies define “intra-entity eliminations” (which does not exist in GAAP codification or SEC requirements for public companies) which could result in amounts not reconciling to the face of the financial statements. As a result, we believe this proposal would present operability and auditability challenges.

**Question 5: Would a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction be operable? Would such a proposed amendment result in decision-useful information about income taxes? Why or why not?**

We note that SEC-filer companies are currently disaggregating income tax expense/(benefit) between federal and foreign as part of current disclosure requirements. Acknowledging FASB’s effort to align U.S. GAAP disclosure with the SEC’s rules, we feel it is unnecessary to require additional disaggregation by major tax jurisdiction as this (a) breaks from the objective of

alignment with the SEC rules and (b) the rate reconciliation already includes any material effects of differing tax rates in state and foreign jurisdictions. While we believe the proposed amendment would be operable, we note that this level of disaggregation would require significant changes to existing systems and processes which would not be value-added activities in consideration of the usefulness of the amendment.

**Question 6: The proposed amendments would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-08(h). 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. Should the Board consider a threshold that is different than 5 percent? If so, please recommend a different threshold and give the basis for your recommendation.**

We do not believe a different threshold is necessary. However, in keeping with the spirit of aligning FASB's disclosure requirements for rate reconciliation with that of the SEC's (Regulation S-X §210.4-08(h)), we suggest the Board consider language that cites reference to the SEC guidance which currently reflects the five percent threshold. We believe this referencing would ensure that the FASB and SEC standards remain aligned should a percentage change be necessary in the future.

**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.**

We do not believe there are any other disclosures that should be required.

**Question 8: Are there any disclosure requirements that should be removed on the basis of the concepts in Chapter 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.**

We believe that the existing disclosures required under ASC 740 provide effective and decision-useful information. While we support (a) the emphasis on material information and (b) the elimination of the requirement for the amount of unrecognized tax benefits reasonably possible to change in the next twelve months, we do not believe other existing disclosure requirements should be modified.

**Question 9: The proposed amendments would replace the term *public entity* in Topic 740 with the term *public business entity* as defined in the Master Glossary 5 of the Codification. Do you agree with the change in scope? If not, please describe why.**

We agree with the proposed change in scope to replace public entity with public business entity given the consistency this change creates with the other recent codification updates.

**Question 10: 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.**

We believe that the proposed disclosures should be required for the reporting year in which the requirements are effective; prior periods should not be restated given the substantial time required to manually adjust the historical data.

**Question 11: 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.**

We believe that the proposed ASU would require considerable time to implement, given the large amount of additional information required and additional systems and processes that would be necessary. As a result, the proposed ASU should be effective no earlier than two years after finalization of the disclosure changes. Early adoption should be permitted to allow for the additional information to be available as soon as the reporting company is capable of providing it to the financial statement users.

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We appreciate the opportunity to express our view and concerns regarding the proposed accounting standards update. If you have any questions regarding our response, or would like to discuss our comments further, please call me at (317) 651-2310.

Sincerely,

ELI LILLY AND COMPANY

/s/Donald A. Zakrowski

Donald A. Zakrowski  
Vice President, Finance and  
Chief Accounting Officer