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Mr. Russell G. Golden, Chair
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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*Re: File Reference No. 2019-500: Comments on the Revised Exposure Draft for the Proposed Accounting Standards Update to Income Taxes (Topic 740)*

Dear Chair Golden:

We appreciate the opportunity to comment on the Revised Exposure Draft for the Proposed Accounting Standards Update to Income Taxes (Topic 740).

To date, many commentators on the Exposure Draft have cited increased tax compliance as the basis for their support of country-by-country reporting. It is our view that the Financial Standards Accounting Board (FASB) should disregard any arguments supported by potential benefits of country-by-country reporting related to tax enforcement.

We hold this view for three reasons. First, the FASB should have no role in tax enforcement. Adopting policies motivated by tax enforcement will erode trust in financial reporting standards and jeopardize the FASB's role as an apolitical entity. Second, the Internal Revenue Service (IRS) already has access to country-by-country reports, suggesting the direct enforcement value to the U.S. tax authorities of such information would be non-existent. Finally, previous attempts to increase tax compliance in large firms through public disclosure of tax-return information have been unsuccessful.

The purpose of financial accounting standards is to provide information to investors and other stakeholders that is useful in determining how to deploy their resources. Investors trust the information in financial reports partially because the standards are set by the FASB, which is an apolitical entity with an apolitical objective. In contrast, the tax system is shaped by Congress, the Treasury, and other political bodies. The objectives of these political bodies are multifaceted, including, but not limited to, raising revenue, redistributing wealth, encouraging or discouraging specific behaviors, and increasing U.S. economic competitiveness. If the FASB makes changes to accounting standards based on arguments related to tax enforcement, financial reporting standards would increasingly be subjected to political agendas, which would eventually degrade the value of financial reports for investors making capital allocation decisions.

Making changes to accounting standards with an objective of tax enforcement could denigrate the quality of accounting disclosures. Many studies have shown that as the tax and financial accounting systems become more similar, the quality of public financial reports declines (Hanlon and Shevlin 2005; Hanlon et al. 2005). Including tax enforcement in the FASB's standard setting objectives would serve to more closely align the tax and financial accounting systems. Moreover,

there is specific evidence that suggests mandatory disclosure of previously disclosed tax information spurred some corporations to take actions to avoid disclosure (Hasegawa et al. 2013; Hoopes et al. 2018). In the country-by-country disclosure setting, the possibility of manipulated disclosures is even higher, given the existing evidence that some U.S. firms have avoided geography-based disclosures that may reveal tax information (Dyreng et al. 2018). The net effect is that motivating financial reporting standards with tax enforcement objectives will reduce the value of financial accounting information.

The argument that the FASB should mandate country-by-country disclosure to enhance tax enforcement is misguided. The IRS already requires firms to provide it with country-by-country reporting information, and can use that information to enforce the tax law. As a result, public reporting of country-by-country information will not provide new information to the IRS. In addition, the IRS already also collects other geography-related information on firms' operations that it can also use in enforcing the tax law. Public country-by-country information will not enhance the IRS's ability to enforce the tax law, and because firms may alter the contents of their country-by-country reports out of fear that a public largely unknowledgeable about the nuances of corporate tax law will disapprove of the reports, the information provided to the IRS may actually be degraded by public disclosure of country-by-country reports.

Finally, other countries have adopted requirements that firms publicly disclose information related to corporate income taxes with the intent to increase compliance, but efforts have been unsuccessful. In studies examining policy changes in Japan and Australia, public mandated disclosure of previously confidential tax-return information did not increase tax payments by large, public corporations of the type that would be subjected to public disclosure of country-by-country reporting (Hasegawa et al. 2013; Hoopes et al. 2018).

We acknowledge that investors may find public country-by-country reporting useful in forecasting the flow and risk of cash, which could help improve capital allocation decisions. We are not opining on the usefulness of these disclosures in their traditional financial reporting role; rather, we object to enactment of financial reporting requirements that are motivated by their tax enforcement value. We encourage the FASB to maintain course as an apolitical organization with no tax enforcement objective.

Sincerely,

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