July 26, 2016

FASB In Focus

Proposed Accounting Standards Update

Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes

Introduction

On July 26, 2016, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU) intended to enhance disclosure requirements on income taxes.

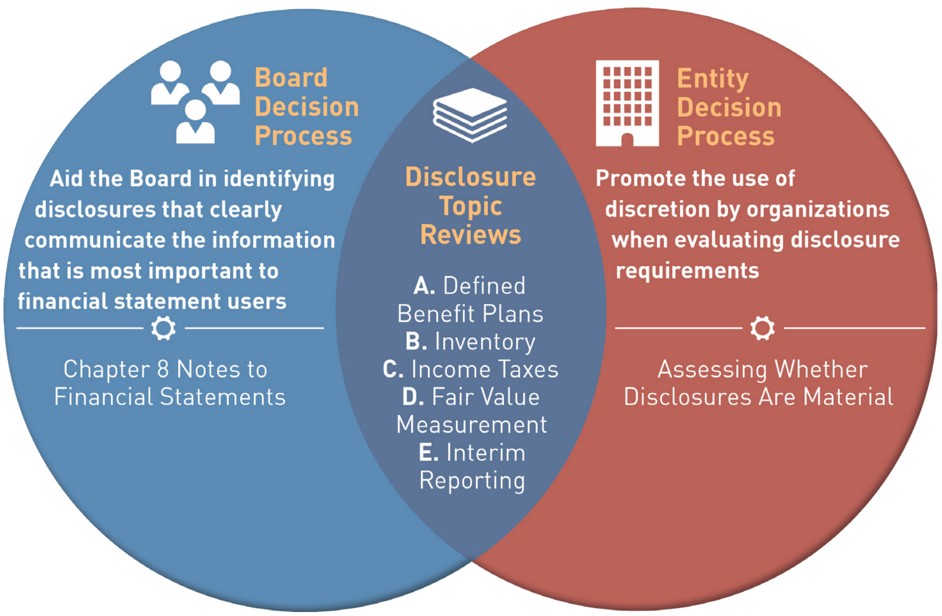
Stakeholders are encouraged to review and provide comments on the proposal by September 30, 2016.

Why Is the FASB Issuing the Proposed ASU?

The proposed ASU, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes,* is part of the FASB's broader disclosure framework project aimed at improving the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to financial statement users. (See Figure 1.)

As part of that project, the FASB decided to re-examine existing disclosure requirements in certain areas using the proposed disclosure framework as a guide. Income taxes was one of four areas to be re-examined. Other areas included defined benefit plans, fair value, and inventory.

Figure 1—Disclosure Framework Project



What Are the Main Provisions in the Proposed ASU?

The proposed ASU 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 following disclosure requirements would be added to Topic 740 <u>for all entities</u> on the basis of the proposed disclosure framework:

1. Description of an enacted change in tax law that is probable to have an effect on the reporting organization in a future period
2. Income (or loss) from continuing operations before income tax expense (or benefit) separated between domestic and foreign
3. Income tax expense (or benefit) from continuing operations separated between domestic and foreign

4. Income taxes paid separated 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 disclosure requirements would be added to Topic 740 for public business entities only, on the basis of the proposed disclosure framework:

1. Within the reconciliation of the total amounts of unrecognized tax benefits at the beginning and the 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 ASU would also require public business entities to disclose the amounts of federal, state, and foreign carryforwards (both tax effected and 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. Entities other than public business entities would be required to disclose the total amounts of federal, state, and foreign carryforwards (not tax effected only) and their expiration dates.

Additionally, the proposed ASU would eliminate the requirement for all organizations 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. It also would modify the existing rate reconciliation requirement for public business entities to be consistent with U.S. Securities and Exchange Commission regulations and would require all entities to disclose the description of a legally enforceable agreement with a government which could reduce its tax burden. These disclosures could include 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.

When Would the Proposed Guidance Be Effective?

The effective date will be determined after the Board considers stakeholder feedback on the proposed amendments. The changes in the proposed ASU would be applied prospectively.

What Kind of Feedback Is the Board Seeking from Stakeholders on Its Proposed ASU?

In addition to providing input on the specific provisions of the proposed ASU, stakeholders are asked to comment on the overall effectiveness of the proposals, including whether or not they agree that:

- The proposed changes would result in more effective, decision-useful information about income taxes
- The proposed disclosure requirements would be operable and auditable, and
- The proposed disclosures would not impose significant incremental costs.

They also are asked to provide comment on the overall effectiveness of the Disclosure Framework project.

For more information about the project, please visit the FASB's website at www.fasb.org.

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