



Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

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Via email to director@fasb.org

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

Re: Simplifying the Accounting for Income Taxes (Topic 740) (File Reference No. 2019-700)

Dear Mr. Kuhaneck:

We are pleased to provide comments on the Financial Accounting Standards Board ("FASB" or "Board") May 14, 2019, Exposure Draft, *Income Taxes (Topic ASC 740) - Simplifying the Accounting for Income Taxes*.

We support the Board's initiative to reduce complexity in accounting standards, while maintaining or improving the usefulness of the information provided to users of financial statements. We generally agree that the proposed amendments will improve consistency in accounting for income taxes, as well as simplify the practice by removing certain exceptions to the general principles. However, we believe certain clarifications would further enhance the final amendments, as elaborated in the Appendix to this letter.

We also encourage the Board to consider completing the current research project on backwards tracing. The current guidance of allocating certain items to continuing operations regardless of their origin can be complex and counterintuitive. This is also an opportunity for convergence with IAS 12.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Steve Maniaci at (616) 802-3508, William Connolly at (617) 239-4127 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, LLP

Appendix

Question 1: Do you agree that the amendments in this proposed Update would simplify the accounting for income taxes? If not, please explain which proposed amendment(s) you disagree with and why.

We generally agree that the proposed amendments will simplify the accounting for income taxes.

Our views concerning the individual proposals are explained below.

Main Provisions - Removal of Exceptions

1. We support the elimination of the exception to the incremental approach for intraperiod tax allocation within para. 740-20-45-7.
2. We support the removal of the exception to the general principle for accounting for outside basis differences of equity method investments within para. 740-30-25-15, when a foreign subsidiary becomes an equity method investment. However, we recommend the FASB expand the references within para. 740-30-25-15, to include para. 740-30-25-18a, since there are transactions in which the financial reporting basis could have been higher than the tax basis at the date of the original purchase. In addition, we also believe it would be appropriate to reference para. 740-30-25-9, since there are situations in which the tax basis is greater than the financial reporting basis, and a deferred tax asset has not been recognized. We believe that the addition of these citations would provide additional clarity, as well as minimize diversity in practice.
3. We support the elimination of the exception to the general principle to not recognize a deferred tax liability when accounting for outside basis differences of foreign subsidiaries within para. 740-30-25-16, when a foreign equity method investment becomes a subsidiary. In addition, there could be situations due to tax reform whereby a deferred tax liability would be eliminated merely based upon the fact that any pre-consolidation foreign income can now be remitted tax free, which renders para. 740-30-25-16 less relevant.

Although it might be beyond the scope of this project, we would request that the Board consider the accounting for the holding gain when an equity method investee becomes wholly owned by a single entity and the investee operates as a partnership. As you are aware, the purchase of additional partnership units in which the acquiror obtains control is accounted for as a business combination achieved in stages. The buyer is able to obtain a step-up in tax basis for the recently purchased units but not in the units that would be subjected to a holding gain. There appears to be diversity in practice where some believe that the incremental deferred tax should be recognized in income, while others reverse the incremental tax, as well as any existing deferred tax, and recognize the deferred tax consequence in acquisition accounting.

4. We support the removal of the exception to the general methodology within para. 740-270-30-28, commonly referred to in practice as the loss limitation rule. However, we believe the FASB should clarify that under no circumstance should the benefit exceed

what could be realized, regardless of the amount of the year-to-date loss that exceeds the projected loss. For example, if an entity could only realize a certain benefit via carryback (ASC 740-270-55-19) or via the reversing of taxable temporary differences, then the benefit should be limited to this amount by reflecting the excess in the valuation allowance.

Main Provisions - Simplify the Accounting for Income Taxes

1. We agree with the proposed simplification within para. 740-10-15-4, requiring entities to recognize a franchise tax (or similar hybrid tax) that is partially based on income in accordance with Topic 740, and to account for any incremental amount as a non-income tax.
2. We generally agree with the proposed modifications to para. 740-10-25-54, requiring an entity to evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination or a separate transaction. However, we recommend the Board clarify the factor related to "a significant lapse in time between the transactions has occurred," as we are aware of diversity in practice regarding the treatment of step-up transactions under the measurement period. Specifically, we understand there are mixed views as to whether a tax adjustment should be reflected within purchase accounting if the tax position is contingent on completing a perfunctory task that will not occur until after the measurement period closes, even though it is within the company's control to do so and the underlying information was available and contemplated at the acquisition date.
3. We generally agree with the proposed simplification to para. 740-10-30-27, to provide entities the ability to elect to allocate the consolidated amount of current and deferred tax expense to legal entities that are not subject to tax and are disregarded by the taxing authority. However, we recommend the FASB clarify which entities can make the election, as the current language could be misinterpreted, resulting in diversity in practice (i.e., the language "that are disregarded by the taxing authority" may not be interpreted consistently). We recommend the FASB update the language to clearly state that the election does not apply to entities taxed as a partnership by the taxing authority and/or other pass-through entities that are not wholly owned (i.e., are not single-member, limited-liability companies).
4. We support the modification to para. 740-270-25-5, and para. 740-270-30-11, that requires entities to recognize the changes in tax law or rates in the interim period that include the enactment date (as opposed to the effective date).
5. We support the modifications to para. 323-740-55-2, 323-740-55-9, 323-740-25-6, 323-740-30-2, 323-740-35-3, and 323-740-45-3, related to investments in qualified affordable housing projects, accounted for using the equity method and the removal of the example within 323-740-55-8 of applying the equity method to investments in qualified housing projects. We also support the proposed amendment to para. 718-740-45-7 to clarify that the tax benefit of tax-deductible dividends on employee stock ownership plan shares should be recognized in income taxes allocated to continuing operations.

Question 2: Do the proposed amendments maintain or improve the usefulness of information provided to users? Alternatively, would the proposed amendments result in the elimination of decision-useful information? Please explain why or why not.

We generally believe the proposed amendments will improve the usefulness of information by simplifying accounting for income taxes with the removal of certain exceptions to the general principles, as well as improve consistency, thus reducing complexity and removing some diversity in practice. We do not believe the proposed amendments would result in the elimination of decision-useful information.

Question 3: Are the proposed amendments operable and auditable? If not, which aspects pose operability or auditability issues and why? Would any of the proposed amendments impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

We generally believe the proposed amendments are operable and auditable, except for the matters requiring clarification noted in Question 1. Specifically, as noted in Question 1, we believe the FASB should clarify that under no circumstance should the benefit exceed what could be realized when considering the income tax benefit limitations within para. 740-270-30-30 and general valuation allowance accounting on an interim basis, regardless of the amount of the year-to-date loss that exceeds the projected loss.

We do not believe the proposed amendments would impose significant incremental costs.

Question 4: Are the transition requirements and transition disclosures for the proposed amendments appropriate? If not, what transition approach or transition requirements would be more appropriate and why?

We agree with the Board's suggested transition requirements, which note that the proposed amendments for separate financial statements of entities not subject to tax and franchise taxes that are partially based on income would be applied on a retrospective basis. We also agree that proposed amendments to changes in ownership of foreign equity method investments or foreign subsidiaries would be applied on a modified retrospective basis with cumulative-effect adjustments. Lastly, we agree that all other proposed adjustments would be applied on a prospective basis.

Question 5: How much time would be needed to adopt the proposed amendments? Should early adoption be permitted? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Why or why not?

We believe one year would provide enough time for public business entities to implement the changes proposed in this Exposure Draft. We also recommend a delayed effective date for other entities; that is, the effective date for those entities should be one year following the effective date for public entities, consistent with transition provisions in other new ASUs.

We also would not object to permitting early adoption. For example, some entities may have the relevant information readily available and decide to adopt as soon as is practicable.

