

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

# BDO FLASH REPORT

## FASB



### SUBJECT

## FASB ISSUES ASU TO SIMPLIFY THE BALANCE SHEET PRESENTATION OF DEFERRED INCOME TAXES

### SUMMARY

The FASB recently issued ASU 2015-17 as part of its Simplification Initiative. The amendments eliminate the guidance in Topic 740, *Income Taxes*, that required an entity to separate deferred tax liabilities and assets between current and noncurrent amounts in a classified balance sheet. Rather, deferred taxes will be presented as noncurrent under the new standard. It takes effect in 2017 for public companies and is available [here](#). Early adoption is permitted, including for December 31, 2015 year-end financial statements.

### DETAILS

#### *Background*

Prior U.S. GAAP required that in a classified balance sheet, deferred tax liabilities and assets be separated into a current and a noncurrent amount on the basis of the classification of the related asset or liability. If deferred tax liabilities and assets did not relate to a specific asset or liability, such as a carryforward, they were classified according to the expected reversal date of the temporary difference.

#### *Main Provisions*

To simplify the presentation of deferred income taxes, the FASB issued ASU 2015-17<sup>1</sup> to require that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. The Board concluded a single noncurrent classification reduces

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<sup>1</sup> Income Taxes (Topic 740): *Balance Sheet Classification of Deferred Taxes*.

complexity for preparers without decreasing the usefulness of information reported to investors. However, an entity should not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions, consistent with the guidance under existing U.S. GAAP. Therefore, for many reporting entities, deferred income taxes will be presented in noncurrent assets and noncurrent liabilities.

### *Effective Date and Transition*

The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted as of the beginning of any interim or annual reporting period.

An entity shall disclose the nature of and reason for the change in accounting principle in the first interim and first annual period of adoption and may apply the amendments in this Update either:

- ▶ Prospectively to all deferred tax liabilities and assets, including a statement that prior periods were not retrospectively adjusted; or
- ▶ Retrospectively to all periods presented, disclosing quantitative information about the effects of the accounting change on prior periods.

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