

# REDUCE YOUR INCOME TAX REPORTING RISK

In a complex reporting environment, in which public company filings are highly scrutinized, properly accounting for and disclosing income taxes under ASC 740 is increasingly important to mitigating your risk of restatement, material weakness and SEC comments. These issues can be costly, result in loss of stakeholder confidence, and adversely impact stock prices.

## HERE IS WHAT YOU NEED TO KNOW:

**Accounting for income taxes** under ASC 740 requires the preparer to have in-depth technical knowledge of both tax and financial reporting. However, it is uncommon for management teams to have expertise in all technical areas especially when accounting for non-routine transactions that a company may encounter.



In recent years, tax has accounted for approximately **14%** of all restatements.

**A common source** of material weakness issues can be accounting for income tax errors. To mitigate the risk associated with financial reporting weakness, an entity's tax providers should work closely with their external auditors to help meet their audit documentation needs.



In 2018, **81** SEC registrants cited a material weakness because of a tax issue in management's quarterly disclosure controls.

**Clear and transparent** disclosures allow the SEC and stakeholders to gain a better understanding of the reporting entity's income tax environment, reducing the possibility of SEC comment letters.



In 2018, there were **44** SEC comment letters issued to public companies referencing ASC 740.

Data Source: BDO compiled from Audit Analytics, Inc.

## FOR MORE INFORMATION CONTACT:

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