

# BDO KNOWS:

## TAX REFORM



### SUBJECT

## PRIVATE COMPANIES AND NOT-FOR-PROFIT ENTITIES CAN APPLY SAB 118

### SUMMARY

The FASB recently posted a Q&A stating the FASB staff would not object to private companies and not-for-profit entities applying SAB 118 on the application of Topic 740 in the reporting period that includes the date on which the 2017 Tax Cuts and Jobs Act was signed into law. The Q&A is available [here](#).

### DETAILS

#### *Background*

The Securities and Exchange Commission (SEC) staff issues statements expressing a view on applying topics in the FASB Accounting Standards Codification (ASC) and/or disclosure requirements through staff accounting bulletins (SABs). These statements represent the practices and interpretations followed by the SEC staff. Historically even though the SEC staff's views and interpretations aren't directly applicable, private companies and not-for-profit entities have chosen to apply the guidance in the SABs.

When the 2017 Tax Cuts and Jobs Act (Act) was signed into law, the SEC staff released SAB 118 for applying Topic 740, *Income Taxes* as it relates to the Act. SAB 118 outlines the approach companies may take if they determine that the necessary information is not available (in reasonable detail) to evaluate, compute, and prepare accounting entries to recognize the effect(s) of the Act by the time the financial statements are required to be filed. Companies may use this approach when the timely determination of **some or all** of the income tax effect(s) from the Act is incomplete by the due date of the financial statements. SAB 118 also prescribes disclosures that reporting entities must provide in these circumstances. Refer to [SEC and Tax Reform, SAB 118](#) for more information on the Act.

### CONTACT

#### YOSEF BARBUT

National Assurance Partner  
212-885-8292 / ybarbut@bdo.com

#### JON LINVILLE

National Assurance Director  
214-243-2940 / jlinville@bdo.com

#### ADAM BROWN

National Director of Accounting  
214-665-0673 / abrown@bdo.com

#### MIKE WILLIAMS

Tax Partner  
617-239-4174 / mwilliams@bdo.com

### **Main Provisions**

The FASB staff would not object to private companies and not-for-profit entities applying SAB 118, which the staff believes complies with GAAP. This view is based upon the historical application of SABs by private companies and not-for-profit entities.

The FASB staff also believes that a private company or not-for-profit entity opting to apply SAB 118 would need to do so in its entirety, including the disclosure requirements. Such reporting entity should also disclose its accounting policy of applying SAB 118, required by ASC paragraphs 235-10-50-1 through 50-3.<sup>1</sup>

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<sup>1</sup> Notes to financial statements, Disclosures

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