

THOUGHT LEADERSHIP FROM THE BDO NATIONAL ASSURANCE  
AND TAX PRACTICES

# BDO KNOWS:

## FASB



### SUBJECT

## FASB MAKES TENTATIVE DECISIONS ABOUT INCOME TAX DISCLOSURES

### SUMMARY

The Financial Accounting Standards Board (“FASB” or “Board”) made tentative decisions at its October 21, 2015 meeting on the income tax disclosure requirements in ASC 740 *Income Taxes*. The October 21 meeting follows two prior Board meetings on income tax disclosures. These decisions are made pursuant to the FASB’s on-going Disclosure Framework project. The objective is to improve the effectiveness of financials statement footnote by clearly communicating important and relevant information.

The Board’s tentative decisions on income tax disclosure include:

1. Disclosing the fact that a tax law is enacted in the current period and that it is probable the enacted law would affect the reporting entity in future periods.
2. Disaggregating income taxes paid between domestic taxes paid and foreign taxes paid.
3. Disclosing the change in the valuation allowance and explaining the nature and amounts recorded and released during the reporting period.<sup>1</sup>
4. Requiring non-public entities (in addition to public entities) to disclose a tax rate reconciliation using percentage or dollar amounts of the reported income tax expense from continuing operations to the amount of income tax expense that would result from applying domestic statutory rates to pretax income from continuing operations. The revisions would require that (1) a reconciling item which totals at least 5% of the tax computed at the statutory rate would be separately disclosed in the rate reconciliation and (2) a qualitative description of items that cause significant movement in the tax rate year over year.<sup>2</sup>

### CONTACT:

#### NATIONAL ASSURANCE

ADAM BROWN  
National Director of Accounting  
(214) 665-0673 / abrown@bdo.com

PATRICIA BOTTOMLY  
National Assurance Partner  
(310) 557-8538 / pbottomly@bdo.com

#### NATIONAL TAX ASC 740 GROUP

YOSEF BARBUT  
Tax Partner  
(212) 885-8292 / ybarbut@bdo.com

<sup>1</sup> Amending ASC 740-10-50-2

<sup>2</sup> Amending ASC 740-10-50-12 through 50-14

5. Disclosing the balance sheet line item in which deferred income taxes are presented if they are not presented as a separate line item on the face of the balance sheet.
6. Disclosing gross operating loss and tax credits carryforwards and their expiration dates as shown on the income tax returns, the amounts and expiration dates of the carryforwards giving rise to deferred tax asset(s) (the tax-affected amount of operating losses), and the total amount of unrecognized tax benefit (UTB) liabilities that offset the tax-affected carryforwards.<sup>3</sup>

An exposure draft is not expected until the FASB obtains and considers additional input from stakeholders on all tentative decisions related to income tax disclosures. The FASB will conduct additional outreach with stakeholders to discuss the tentative decisions and determine whether changes are necessary before the Board votes to expose these proposals for comment. As such, an exposure draft could be released in mid-to-late 2016.

## DETAILS

### *Disclosure Framework Project*

This FASB project seeks to improve the effectiveness of disclosures in the notes to financial statements by requiring disclosure of information that is the most important or relevant to an entity's financial statement users. Such disclosure would presumably inform a user's understanding of the amount and timing of expected cash flows related to a particular line item in the financial statements (e.g., income taxes). The FASB's disclosure framework is also intended to promote consistent decisions by the FASB about disclosure requirements and to serve as a "guide" to disclosure decisions undertaken by reporting entities. The FASB intends to facilitate the use of judgment by preparers in providing disclosures. To achieve these objectives, the Board is evaluating disclosure requirements of significant topics against its proposed Concepts Statement, Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements.

## BDO INSIGHTS

BDO supports the FASB's efforts to improve the effectiveness of financial statement footnotes by developing a framework to promote judgments that result in relevant disclosure.

In this context, public entities generally disclose the enactments of significant tax law(s) or changes in tax laws in the Management Discussion & Analysis ("MD&A") section of a registrant's financial statements. Requiring all entities to include a footnote disclosure of enacted tax law changes and to state when it is probable that such tax law changes would affect future periods would reflect important tax information in the financial statements.<sup>4</sup>

Similarly, the valuation allowance for deferred tax assets is a critical accounting estimate for many entities and the tentative decision to require disclosing the details of the change during the period (i.e., the nature and amounts) would provide additional transparency of the accounting for the valuation allowance (i.e., management's judgment) in the footnotes.

The tentative decision to require non-public entities to provide the reconciliation of the income tax expense to the income tax at the statutory tax rate would provide useful information to their financial statement users. The decisions would effectively codify SEC-specific disclosure requirements within US GAAP. Requiring a disaggregation of tax effects which increase or decrease the effective rate by at least 5% of the statutory rate would codify Rule 4-08(h)(2) in Regulation S-X. Disclosing items that cause significant changes in the tax rate year over year similarly codify MD&A disclosure requirements.

The disclosure of income tax carryforwards (as shown on the tax returns), the related deferred tax assets and the UTB liabilities that might offset the carryforwards would provide additional transparency over important income tax information. ASU 2013-11 revised the balance sheet presentation of UTB liabilities and income tax carryforwards to

<sup>3</sup> Amending ASC 740-10-50-3(a)

<sup>4</sup> The SEC requires disclosure of the effects of "tax holidays" granted to a reporting entity. Staff Accounting Bulletin (SAB) Topic 11C *Miscellaneous Disclosures* requires disclosure of the aggregate tax benefit and earnings per share effects of "tax holiday(s)" and any factual circumstances such as the expiration date(s).

require, with limited exception, a net presentation on the face of the balance sheet.<sup>5</sup> When a net presentation is required, the footnote disclosure of the components of deferred income taxes (ASC 740-10-50-2) would not show income tax carryforwards that are presented net of UTB liabilities.<sup>6</sup>

The Board also decided to provide additional transparency about the amount of income taxes paid, disaggregated between foreign and domestic jurisdictions. Some financial statement users have requested additional information about cash tax payments and how they reconcile with income tax expense. Cash payments to governments for taxes are required to be presented as cash outflows from operating activities in the statement of cash flows.<sup>7</sup> If the indirect method is used, the amount of income taxes paid is required to be disclosed as supplemental cash flow information.<sup>8</sup> The Board's decision to also include this information in the tax footnote and to further disaggregate income tax paid between foreign and domestic cash tax payments would provide additional relevant information as to the magnitude of income tax payments to foreign governments relative to payments to the U.S. federal, state, and local jurisdictions.

BDO will continue to monitor this project and provide input to the FASB.

---

<sup>5</sup> For additional information on ASU 2013-11, refer to BDO Knows ASC 740 Income Tax Accounting Question & Answer Series #2 - Balance Sheet Presentation of Uncertain Tax Benefits Pursuant to Accounting Standard Update 2013-11 (October 2014)

<sup>6</sup> A tax attribute DTA would be presented in the component of deferred taxes table net of the UTBs that are required to reduce the DTA. The sum of all deferred taxes presented in the component of deferred taxes table should be the same as the total of all deferred taxes presented on the balance sheet.

<sup>7</sup> ASC 230-10-45-17(c)

<sup>8</sup> ASC 230-10-50-2

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 63 offices and over 450 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,328 offices in 152 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information, please visit [www.bdo.com](http://www.bdo.com).

*Material discussed in this tax alert is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.*