



BDO BULLETIN

FASB TO ISSUE A FINAL ASU ON TARGETED IMPROVEMENTS TO INCOME TAX DISCLOSURES

SEPTEMBER 2023

SUMMARY

The Financial Accounting Standards Board met August 30 to discuss feedback on the [proposed Accounting Standards Update](#) (ASU), “Income Taxes (Topic 740): Improvements to Income Tax Disclosures,” and issues for redeliberation. (For a BDO Alert summarizing the proposals, see [“FASB Flash Report: Income Tax Disclosures - Proposed Changes.”](#))

The Board received 60 comment letters, with approximately two-thirds of respondents generally supporting the proposed updates to income tax disclosures. Those respondents said they think the proposed updates are clear and operable and will improve transparency, provide consistency, and enhance decision usefulness.

Throughout the meeting, the Board reaffirmed that its decisions have been guided by investor input and that its focus is on the investor community and investment decisions related to the allocation of capital.

BACKGROUND

In March, the Board issued as part of the proposed ASU amendments that would improve income tax disclosures in the following areas:

- ▶ Rate reconciliation: Require standardized categories and greater disaggregation of information based on a quantitative threshold.
- ▶ Income taxes paid: Require disaggregation by jurisdiction.
- ▶ Previously exposed disclosures: Require disaggregation of pretax income (or loss) and income tax expense (or benefit) and removal of disclosures that no longer are considered cost beneficial or relevant and replace the term “public entity” with “public business entity.”

NOTABLE CLARIFICATIONS

The proposed ASU included several questions to which respondents could provide comments and feedback. The Board and its staff reviewed all the comment letters, and based on the feedback it compiled, the staff then proposed specific updates and clarifications for the Board to consider.

One rate reconciliation category caused significant concern among respondents regarding what information was to be disclosed for changes in unrecognized tax benefits and at what level of disaggregation.

In response, the Board affirmed that this category is intended to include only the subsequent recognition, derecognition, or change in measurement of a tax position taken in a prior annual period and not the initial amount of unrecognized tax benefits recognized related to a tax position taken or expected to be taken in the current year.

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As noted, respondents also expressed concern over the level of disaggregation. The proposed ASU would have required that changes in uncertain tax positions be reflected as potential separate items in the foreign tax effects category (based on the quantitative threshold of 5%) if they were not based on an entity's country of domicile. The Board recognized the commercial sensitivity of information pertaining to uncertain tax positions and agreed to permit this information to be disclosed in total in a single category. It noted that this approach is consistent with the general principles of accounting for uncertain tax positions as provided in ASC 740-10.

BDO INSIGHT: STAKEHOLDERS WORRY HOW INFORMATION WILL BE USED

The concern regarding the level of disaggregation was that the information would be viewed by other users of the financial statements as a roadmap for uncertain tax positions and potentially increase the level of audit activity in jurisdictions where a company operates.

NEXT STEPS

The Board unanimously voted to give its staff permission to proceed with drafting a final ASU based on clarifications and decisions made during the meeting. It recognized that incremental costs associated with implementing and complying with these changes are expected but said the anticipated benefits to the investor community outweigh those costs.

It is expected that when the ASU is finalized, the transition will allow for prospective transition with a retrospective option with early adoption allowed. Also, the effective date for changes to annual disclosures is expected to be effective for public business entities for fiscal years beginning after December 15, 2024 - that is, 2025 for calendar-year-end public business entities, with changes to interim disclosure requirements the year after. The effective date for entities other than public business entities would be one year after the effective date for public business entities.

BDO INSIGHT: PROPOSED CHANGES WOULD HAVE A WIDE REACH

Companies should begin reviewing the proposed changes to income tax disclosures and developing processes for data gathering and adding or modifying internal controls. The changes proposed by the Board are going to require greater discipline in controls at a lower, more granular, level.

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