



Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

May 25, 2023

Via email to director@fasb.org

Ms. Hillary H. Salo, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Improvements to Income Tax Disclosures (File Reference No. 2023-ED100)

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on improvements to income tax disclosures.

Overall, we support the Board's proposal to enhance the transparency and decision usefulness of income tax disclosures.

We generally agree with the proposed changes. However, we believe certain clarifications would improve the final amendments, as discussed in our responses to the Questions for Respondents in the attached Appendix, such as providing incremental guidance for the rate reconciliation for entities that operate at break-even or that are domiciled in a no or minimal tax rate jurisdiction. Additionally, we believe the FASB should work with the SEC staff to eliminate comparable SEC requirements where appropriate to prevent duplication for public companies.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Daniel Newton at 617-239-7026 or Steve Maniaci at 616-802-3508 or Angela Newell at 214-689-5669.

Very truly yours,

BDO USA, LLP

Appendix

Note: We have not responded to questions addressed specifically to investors.

Question 1: The amendments in this proposed Update would require that public business entities disclose specific categories in the rate reconciliation, with further disaggregation of certain reconciling items (by nature and/or jurisdiction) that are equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate.

- a. Should any of the proposed specific categories be eliminated or any categories added? Please explain why or why not.***

We believe the proposed categories are reasonable.

- b. Should incremental guidance be provided on how to categorize certain income tax effects in the proposed specific categories?***

We do not believe any incremental guidance is necessary.

- c. Do you agree with the proposed 5 percent threshold? Please explain why or why not.***

As discussed in our 2019 comment letter (File Reference No. 2019-500), we believe the threshold for public business entities to disclose any reconciling item should be increased to eliminate disclosures of trivial amounts. As previously noted, the current 5% threshold has been in effect for at least the past 50 years when corporate tax rates were generally higher than today. If the Board keeps the proposed 5% threshold, we recommend clarifying that this disclosure does not apply to immaterial amounts.

Question 2: The proposed amendments would require that public business entities provide a qualitative description of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category. A qualitative description of state and local jurisdictions was selected over a quantitative disclosure because state and local tax provisions are often calculated for multiple jurisdictions using a single apportioned tax rate. Do you agree with the proposed qualitative disclosure as opposed to providing a quantitative disaggregation? Please explain why or why not?

We agree with the proposed disclosure; however, we believe the Board should include an example or guidance to describe how an entity that operates in a large number of individually immaterial jurisdictions should determine which jurisdictions to disclose.

Question 3: The proposed amendments would require that public business entities provide an explanation, if not otherwise evident, of individual reconciling items in the rate reconciliation, such as nature, effect, and significant year-over-year changes of the reconciling items. Do you agree with the proposed disclosure? Please explain why or why not?

We defer to investors on whether the proposed disclosure would provide decision-useful information. We believe the proposed disclosure is operational.

Question 5: For preparers and practitioners, would the proposed amendments to the rate reconciliation disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between onetime costs and recurring costs.

We believe that most of the information required to comply with the proposed rate reconciliation disclosures should be readily available, because it is currently needed to calculate the income tax expense or benefit under U.S. GAAP. However, there may be one-time costs to reconfigure systems or spreadsheets to gather the information in the new proposed format, to restate prior periods and to create or modify internal controls over this disclosure. In addition, there may be additional ongoing costs to audit the additional proposed disclosures, although we do not expect those incremental costs to be prohibitive.

We expect companies previously considered nonpublic entities under ASC 740 that will be public business entities under the final amendments will incur the largest costs. Such companies will need to provide all of the disclosures previously required by ASC 740 for public entities, as well as the new proposed disclosures (including prior periods) for the first time. These costs will include both one-time costs and ongoing costs.

Question 6: Are the proposed amendments to the rate reconciliation disclosure clear and operable? Please explain why or why not.

We generally believe the proposed amendments to the rate reconciliation disclosure are clear and operable as the information required already exists within most accounting systems.

Question 7: The Board decided not to provide incremental guidance for the rate reconciliation disclosure for situations in which an entity operates at or around break even or an entity is domiciled in a jurisdiction with no or minimal statutory tax rate but has significant business activities in other jurisdictions with higher statutory tax rates. Do you agree with that decision? Please explain why or why not, and if not, what incremental guidance (including relevant disclosures) would you recommend?

We disagree with the Board's decision not to provide incremental guidance for the rate reconciliation disclosure in the above-mentioned situations, because it is common for entities to operate at break-even or to be domiciled in a no or minimal tax rate jurisdiction. We believe additional guidance in these situations would be helpful because the Basis for Conclusions is neither authoritative nor easy to access for users on an ongoing basis.

For example, the Board could include the language from the proposed paragraph BC21 of the Basis for Conclusions within ASC 740 itself: "Such entities may consider materiality or use a normalized pretax income (or loss) amount or a higher federal or national tax rate for purposes of preparing the rate reconciliation to provide more relevant and meaningful information." The Board could also require that such entities disclose the reasons for selecting their chosen rate.

Question 8: The proposed amendments would require that public business entities provide quantitative disclosure of the rate reconciliation on an annual basis and a qualitative disclosure of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period on an interim basis. Do you agree with that proposed frequency? Please explain why or why not.

We defer to investors on what disclosures would provide decision-useful information, but we believe this information should be available without significant undue cost.

Question 9: The proposed amendments would require that all entities disclose the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, on an annual and interim basis, with further disaggregation on an annual basis by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). Do you agree with the proposed 5 percent threshold? Please explain why or why not. Do you agree that income taxes paid should be disclosed as the amount net of refunds received, rather than as the gross amount? Please explain why or why not.

We defer to investors on what disclosures would provide decision-useful information.

Question 11: For preparers and practitioners, would the proposed amendments to the income taxes paid disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs.

We believe this information should be available without significant undue cost.

Question 12: Are the proposed amendments to the income taxes paid disclosure clear and operable? Please explain why or why not.

We believe the proposed amendments are clear and operable.

Question 13: The proposed amendments would require that all entities disclose (a) income taxes paid disaggregated by federal (national), state, and foreign taxes on an interim and annual basis and (b) income taxes paid disaggregated by jurisdiction on an annual basis. Do you agree with that proposed frequency? Please explain why or why not.

We defer to investors on what frequency of disclosures would provide decision-useful information, but we believe the information required to comply with this proposed disclosure should be available without significant undue cost.

Question 15: Are those proposed amendments for entities other than public business entities clear and operable? Please explain why or why not.

We generally believe the proposed amendments are clear and operable. We observe that to provide the qualitative disclosure about the rate reconciliation, such entities would need to prepare a quantitative rate reconciliation. For these entities, there will be a cost involved to prepare a rate reconciliation that is not incurred currently. However, we acknowledge that the underlying information required to comply with this proposed disclosure should be available because it is required for the preparation of income tax provision.

Question 16: The proposed amendments would be required to be applied on a retrospective basis. Would the information disclosed by that transition method be decision useful? Please explain why or why not. Is that transition method operable? If not, why not and what transition method would be more appropriate and why?

We defer to investors on what disclosures would provide decision-useful information. While we generally support comparative disclosures whenever possible, the unusual economic conditions of the past few years may result in a lack of comparability such that the costs of restating prior periods may outweigh the benefits of such disclosures. Thus, we recommend that the Board allow either retrospective or prospective adoption. If an entity elects to adopt the guidance prospectively, it should disclose the resulting lack of comparability.

Question 17: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain your response.

We defer to preparers on how much time will be needed to implement the proposed amendments. However, we believe that entities other than public business entities will need additional time to implement the proposed amendments than public business entities.

Additionally, for the reasons discussed in our response to Question 5, we believe entities that meet the definition of public business entities but were previously not considered public entities in accordance with ASC 740 (for example, significant equity method investees of public business entities) will need more time to implement the proposed amendments than other public business entities.

We support permitting early adoption as such information would provide decision-useful information to investors.