FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2018-05
March 2018

Income Taxes (Topic 740)

Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Amendments to the *FASB Accounting Standards Codification*®

Securities and Exchange Commission (SEC) Content

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–3. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments Pursuant to SEC Staff Accounting Bulletin No. 118

This Accounting Standards Update adds various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118.

Amendments to Subtopic 740-10

2. Add paragraphs 740-10-S25-2, 740-10-S50-3, 740-10-S55-8, and 740-10-S99-2A and Sections 740-10-S30, 740-10-S35, and 740-10-S45 and their related headings, with no link to a transition paragraph, as follows:

Income Taxes—Overall

Recognition

<u>**> Income Tax Accounting Implications of the Tax Cuts and Jobs Act**</u>

<u>**740-10-S25-2** See paragraph 740-10-S99-2A, SAB Topic 5.EE, for SEC Staff views on income tax accounting implications of the Tax Cuts and Jobs Act.</u>

Initial Measurement

<u>**General**</u>

<u>**> Income Tax Accounting Implications of the Tax Cuts and Jobs Act**</u>

740-10-S30-1 See paragraph 740-10-S99-2A, SAB Topic 5.EE, for SEC Staff views on income tax accounting implications of the Tax Cuts and Jobs Act.

Subsequent Measurement

General

> Income Tax Accounting Implications of the Tax Cuts and Jobs Act

740-10-S35-1 See paragraph 740-10-S99-2A, SAB Topic 5.EE, for SEC Staff views on income tax accounting implications of the Tax Cuts and Jobs Act.

Other Presentation Matters

General

> Income Tax Accounting Implications of the Tax Cuts and Jobs Act

740-10-S45-1 See paragraph 740-10-S99-2A, SAB Topic 5.EE, for SEC Staff views on income tax accounting implications of the Tax Cuts and Jobs Act.

Disclosure

General

> Income Tax Accounting Implications of the Tax Cuts and Jobs Act

740-10-S50-3 See paragraph 740-10-S99-2A, SAB Topic 5.EE, for SEC Staff views on income tax accounting implications of the Tax Cuts and Jobs Act.

Implementation Guidance and Illustrations

General

> Income Tax Accounting Implications of the Tax Cuts and Jobs Act

740-10-S55-8 See paragraph 740-10-S99-2A, SAB Topic 5.EE, for SEC Staff views on income tax accounting implications of the Tax Cuts and Jobs Act.

SEC Materials

General

> SEC Staff Guidance

> > Staff Accounting Bulletins

> > > SAB Topic 5.EE, Income Tax Accounting Implications of the Tax Cuts and Jobs Act

740-10-S99-2A The following is the text of SAB Topic 5.EE, Income Tax Accounting Implications of the Tax Cuts and Jobs Act [H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018].

> The Tax Cuts and Jobs Act (the "Act") changes existing United States tax law and includes numerous provisions that will affect businesses. The Act, for instance, introduces changes that impact U.S. corporate tax rates, business-related exclusions, and deductions and credits. The Act will also have international tax consequences for many companies that operate internationally. The Act has widespread applicability to registrants.
>
> ASC Topic 740 provides accounting and disclosure guidance on accounting for income taxes under generally accepted accounting principles ("U.S. GAAP"). This guidance addresses the recognition of taxes payable or refundable for the current year and the recognition of deferred tax liabilities and deferred tax assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. FN1 ASC Topic 740 also addresses the accounting for income taxes upon a change in tax laws or tax rates. FN2 The income tax accounting effect of a change in tax laws or tax rates includes, for example, adjusting (or re-measuring) deferred tax liabilities and deferred tax assets, as well as evaluating whether a valuation allowance is needed for deferred tax assets. FN3
>
> > FN1 See ASC paragraph 740-10-10-1.
> >
> > FN2 See ASC paragraph 740-10-25-47.
> >
> > FN3 See ASC paragraph 740-10-35-4.
>
> The guidance in ASC Topic 740 does not, however, address certain circumstances that may arise for registrants in accounting for the income tax effects of the Act. The staff understands from outreach that registrants will potentially encounter a situation in which the accounting for certain income tax effects of the Act will be incomplete by the time financial statements are issued for the reporting period that includes the enactment date of December 22, 2017. Questions have arisen regarding different approaches to the application of the accounting and disclosure guidance in ASC Topic 740 to such a situation. Accordingly, the SEC staff believes clarification is appropriate to address any uncertainty or diversity of views in practice regarding the application of ASC Topic 740 in situations where a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting under ASC Topic 740 for certain income tax effects of the Act for the reporting period in which the Act was enacted.

The staff's views have been informed by guidance issued after enactment of the American Jobs Creation Act of 2004. FN4 The staff's views also have been informed by the guidance in ASC Topic 805, *Business Combinations*, which addresses the accounting for certain items in a business combination for which the accounting is incomplete upon issuance of the financial statements that include the reporting period in which the business combination occurred.

FN4 In 2004, the FASB issued limited guidance to address the income tax accounting effects of the American Jobs Creation Act of 2004. See FASB Staff Position ("FSP") FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*.

The staff believes the guidance in this staff accounting bulletin ("SAB") will assist registrants and address any uncertainty or diversity of views in applying ASC Topic 740 in the reporting period in which the Act was enacted. Specifically, the staff is issuing this SAB to address situations where the accounting under ASC Topic 740 is incomplete for certain income tax effects of the Act upon issuance of an entity's financial statements for the reporting period in which the Act was enacted.

Facts: The Act was signed into law prior to the end of Company A's reporting period and will affect Company A's current and deferred taxes. Company A determined that the accounting for certain income tax effects of the Act under ASC Topic 740 will be completed by the time it issues its financial statements that will include the reporting period in which the Act was enacted. However, there are other income tax effects of the Act for which Company A may not be able to complete the accounting under ASC Topic 740 by the time it issues its financial statements that include the reporting period in which the Act was enacted.

Question 1: If the accounting for certain income tax effects of the Act is not completed by the time Company A issues its financial statements that include the reporting period in which the Act was enacted, what amounts should Company A include in its financial statements for those income tax effects for which the accounting under ASC Topic 740 is incomplete?

Interpretive Response: To the extent that Company A's accounting for certain income tax effects of the Act is incomplete, but Company A can determine a reasonable estimate for those effects, the staff would not object to Company A including in its financial statements the reasonable estimate that it had determined. Conversely, the staff does not believe it would be appropriate for Company A to exclude a reasonable estimate from its financial statements to the extent a reasonable estimate had been determined. The reasonable estimate should be included in Company A's financial statements in the first reporting period in which Company A was able to determine the reasonable estimate. The reasonable estimate would be reported as a provisional amount FN5 in Company A's financial statements FN6 during a "measurement period." FN7 The measurement period is described in further detail below.

FN5 Provisional amounts would include, for example, reasonable estimates that give rise to new current or deferred taxes based on certain provisions within the Act, as well as adjustments to existing current or deferred taxes that existed prior to the Act's enactment date.

FN6 The staff would also not object to a Foreign Private Issuer reporting under International Financial Reporting Standards applying a measurement period solely for purposes of completing the accounting requirements for the income tax effects of the Act under International Accounting Standard 12, *Income Taxes*.

FN7 The staff was informed, in part, by the measurement period guidance applied in certain situations when accounting for business combinations under ASC Topic 805, *Business Combinations*. The measurement period guidance in ASC paragraph 805-10-25-13 addresses situations where the initial accounting for a business combination is incomplete upon issuance of the financial statements that include the reporting period the business combination occurred.

The staff believes reporting provisional amounts for certain income tax effects of the Act will address circumstances in which an entity does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting under ASC Topic 740.

An entity may not have the necessary information available, prepared, or analyzed (including computations) for certain income tax effects of the Act in order to determine a reasonable estimate to be included as provisional amounts. The staff would expect no related provisional amounts would be included in an entity's financial statements for those specific income tax effects for which a reasonable estimate cannot be determined. In circumstances in which provisional amounts cannot be prepared, the staff believes an entity should continue to apply ASC Topic 740 (e.g., when recognizing and measuring current and deferred taxes) based on the provisions of the tax laws that were in effect immediately prior to the Act being enacted. That is, the staff does not believe an entity should adjust its current or deferred taxes for those tax effects of the Act until a reasonable estimate can be determined.

Therefore, to summarize the above and for the avoidance of doubt, in Company A's financial statements that include the reporting period in which the Act was enacted, Company A must first reflect the income tax effects of the Act in which the accounting under ASC Topic 740 is complete. These completed amounts would not be provisional amounts. Company A would then also report provisional amounts for those specific income tax effects of the Act for which the accounting under ASC Topic 740 will be incomplete but a reasonable estimate can be determined. For any specific income tax effects of the Act for which a reasonable estimate cannot be determined, Company A would not report provisional amounts and would continue to apply ASC Topic 740 based on the provisions of the tax laws that were in effect immediately prior to the Act being enacted. For those income tax effects for which Company A was not able to determine a reasonable estimate (such that no related provisional amount was reported for the reporting period in which the Act was enacted), Company A would report provisional amounts in the first reporting period in which a reasonable estimate can be determined.

Measurement period timeframe

The measurement period begins in the reporting period that includes the Act's enactment date and ends when an entity has obtained, prepared, and analyzed the information that was needed in order to complete the accounting requirements under ASC Topic 740. During the measurement period, the staff expects that entities will be acting in good faith to complete the accounting under ASC Topic 740. The staff believes that in no circumstances should the measurement period extend beyond one year from the enactment date.

Changes in subsequent reporting periods

During the measurement period, an entity may need to reflect adjustments to its provisional amounts upon obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of the enactment date that, if known, would have affected the income tax effects initially reported as provisional amounts. Further, an entity may also need to report additional tax effects during the measurement period, based on obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of the enactment date that was not initially reported as provisional amounts. Any income tax effects of events unrelated to the Act should not be reported as measurement period adjustments.

Reporting

Any provisional amounts or adjustments to provisional amounts included in an entity's financial statements during the measurement period should be included in income from continuing operations as an adjustment to tax expense or benefit in the reporting period the amounts are determined.

Applicability

This staff guidance is only applicable to the application of ASC Topic 740 in connection with the Act and should not be relied upon for purposes of applying ASC Topic 740 to other changes in tax laws.

Examples

Example 1– Prior to the reporting period in which the Act was enacted, Company X did not recognize a deferred tax liability related to unremitted foreign earnings because it overcame the presumption of the repatriation of foreign earnings. FN8 Upon enactment, the Act imposes a tax on certain foreign earnings and profits at various tax rates. Based on Company X's facts and circumstances, it was not able to determine a reasonable estimate of the tax liability for this item for the reporting period in which the Act was enacted by the time that it issues its financial statements for that reporting period; that is, Company X did not have the necessary information available, prepared, or analyzed to develop a reasonable estimate of the tax liability for this item (or evaluate how the Act will impact Company X's existing accounting position to indefinitely reinvest unremitted foreign earnings). As a result, Company X would not include a provisional amount for this item in its financial statements that include the reporting period in which the Act was enacted, but would do so in its financial statements issued for subsequent reporting periods that fall within the measurement period, beginning with the first reporting period falling within the measurement period by which the necessary information became available, prepared, or analyzed in order to develop the reasonable estimate, and ending with the first reporting period within the measurement period in which Company X was able to obtain, prepare, and analyze the necessary information to complete the accounting under ASC Topic 740.

FN8 See ASC paragraph 740-30-25-17.

Example 1a– Assume a similar fact pattern as Example 1; however, Company Y was able to determine a reasonable estimate of the income tax effects of the Act on its unremitted foreign earnings for the reporting period in which the Act was enacted. Company Y, therefore, reported a provisional amount for the income tax effects related to its unremitted foreign earnings in its financial statements that included the reporting period the Act was enacted. In a subsequent reporting period within the measurement period, Company Y was able to obtain, prepare, and analyze the necessary information to complete the accounting under ASC Topic 740, which resulted in an adjustment to Company Y's initial provisional amount to recognize its tax liability.

Example 2– Company Z has deferred tax assets (assume Company Z was able to comply with ASC Topic 740 and re-measure its deferred tax assets based on the Act's new tax rates) for which a valuation allowance may need to be recognized (or released) based on application of certain provisions in the Act. If Company Z determines that a reasonable estimate cannot be made for the reporting period the Act was enacted, no amount for the recognition (or release) of a valuation allowance would be reported. In the next reporting period (following the reporting period in which the Act was enacted), Company Z was able to obtain, prepare, and analyze the necessary information in order to determine that no valuation allowance needed to be recognized (or released) in order to complete the accounting under ASC Topic 740.

Question 2: If an entity accounts for certain income tax effects of the Act under a measurement period approach, what disclosures should be provided?

Interpretive Response: The staff believes an entity should include financial statement disclosures to provide information about the material financial reporting impacts of the Act for which the accounting under ASC Topic 740 is incomplete, including:

a. Qualitative disclosures of the income tax effects of the Act for which the accounting is incomplete;

b. Disclosures of items reported as provisional amounts;

c. Disclosures of existing current or deferred tax amounts for which the income tax effects of the Act have not been completed;

d. The reason why the initial accounting is incomplete;

e. The additional information that is needed to be obtained, prepared, or analyzed in order to complete the accounting requirements under ASC Topic 740;

f. The nature and amount of any measurement period adjustments recognized during the reporting period;

g. The effect of measurement period adjustments on the effective tax rate; and

h. When the accounting for the income tax effects of the Act has been completed.

Amendments to Status Sections

3. Amend paragraph 740-10-S00-1, by adding the following items to the table, as follows:

740-10-S00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
740-10-S25-2	Added	2018-05	03/13/2018
740-10-S30-1	Added	2018-05	03/13/2018
740-10-S35-1	Added	2018-05	03/13/2018

Paragraph	Action	Accounting Standards Update	Date
740-10-S45-1	Added	2018-05	03/13/2018
740-10-S50-3	Added	2018-05	03/13/2018
740-10-S55-8	Added	2018-05	03/13/2018
740-10-S99-2A	Added	2018-05	03/13/2018

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2019 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.