

*Proposed Accounting Standards Update (Revised)*

Issued: March 25, 2019  
Comments Due: May 31, 2019

Income Taxes (Topic 740)

Disclosure Framework—Changes to the Disclosure  
Requirements for Income Taxes

Revision of Exposure Draft  
Issued July 26, 2016

The Board issued this revised Exposure Draft to solicit public comment on proposed changes to Topic 740 of the *FASB Accounting Standards Codification*<sup>®</sup>. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. 2019-500, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

## Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until May 31, 2019. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2019-500
- Sending a letter to “Technical Director, File Reference No. 2019-500, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at [www.fasb.org](http://www.fasb.org).

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at [www.fasb.org](http://www.fasb.org).

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# Proposed Accounting Standards Update (Revised)

## Income Taxes (Topic 740)

### Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes

March 25, 2019

Comment Deadline: May 31, 2019

## CONTENTS

	Page Numbers
Summary and Questions for Respondents.....	1–5
Amendments to the <i>FASB Accounting Standards Codification</i> ® .....	7–19
Background Information and Basis for Conclusions .....	20–42
Amendments to the XBRL Taxonomy .....	43



# Summary and Questions for Respondents

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## Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing the amendments in this proposed Update as part of the disclosure framework project. The disclosure framework project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements.

The Board issued FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, on August 28, 2018. Chapter 8 of Concepts Statement 8 identifies a broad range of possible information for the Board to consider when deciding on the disclosure requirements for a particular Topic. From that broad set, the Board generally will identify a narrower set of disclosures about that Topic to be required on the basis of, among other considerations, an evaluation of whether the expected benefits of entities providing the information will justify the expected costs. The amendments in this proposed Update are the result of the Board's consideration of the concepts in Chapter 8 as they relate to income tax disclosures.

Additionally, on December 22, 2017, the U.S. federal government enacted a tax bill, P.L.115-97, *An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018* (Tax Cuts and Jobs Act), which made substantial changes to the taxation of U.S. business entities. In addition to its consideration of Chapter 8 of Concepts Statement 8, the Board considered the effect of changes in the tax law and how those changes affect the existing income tax disclosures. The amendments in this proposed Update also reflect those considerations.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities that are subject to income taxes.

Certain of the disclosures that would be required by the amendments in this proposed Update would not be required for entities other than public business entities.

## What Are the Main Provisions?

The amendments in this proposed Update would replace the term *public entity*, currently in Topic 740, Income Taxes, with the term *public business entity* as defined in the Master Glossary of the *FASB Accounting Standards Codification*<sup>®</sup>.

The amendments in this proposed Update would modify the current disclosure requirements for income taxes. The following additional proposed disclosures would be required by Topic 740 for all entities:

1. Income (or loss) from continuing operations before income tax expense (or benefit) and before intra-entity eliminations disaggregated between domestic and foreign
2. Income tax expense (or benefit) from continuing operations disaggregated between federal, state, and foreign
3. Income taxes paid disaggregated between federal, state, and foreign.

The following proposed disclosures would be required for public business entities by Topic 740:

1. The line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits
2. The amount and explanation of the valuation allowance recognized and/or released during the reporting period
3. The total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards.

Chapter 8 of Concepts Statement 8 indicates that disclosure of future-oriented information should be limited to that which is used as an input to measurements in the financial statements or in the notes to financial statements. As a result, the amendments in this proposed Update would eliminate the requirement for all entities to (1) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or (2) make a statement that an estimate of the range cannot be made.

The amendments in this proposed Update would modify the existing rate reconciliation requirement for public business entities to be consistent with U.S. Securities and Exchange Commission (SEC) Regulation S-X 210.4-08(h), *Rules of General Application—General Notes to Financial Statements: Income Tax Expense*. That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. The proposed amendments would further modify the requirement to explain the change in an amount or a percentage of a reconciling item from year to year.

The amendments in this proposed Update would reduce diversity in practice by explicitly requiring a public business entity to disclose the amounts of federal, state, and foreign carryforwards (tax effected before any valuation allowance) by time period of expiration for each of the first five years after the reporting date, a total for any remaining years, and a total for carryforwards that do not expire. A public business entity also would be required to disclose the valuation allowance associated with the total tax-effected amounts of federal, state, and foreign carryforwards. An entity other than a public business entity would be required to disclose the total amounts of federal, state, and foreign credit carryforwards and the total amounts of other federal, state, and foreign carryforwards (not tax effected), separately for those carryforwards that do not expire and those that do expire, along with their expiration dates (or a range of expiration dates).

The amendments in this proposed Update also would clarify that the disclosure of income taxes paid during the period under Topic 230, Statement of Cash Flows, is required for interim periods.

The amendments in this proposed Update would remove the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

## **How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?**

The amendments in this proposed Update would (1) remove disclosures that no longer are considered cost beneficial or relevant and (2) add disclosure requirements identified as relevant. Although narrow in scope, the proposed amendments are considered to be an important part of the Board's efforts to improve the effectiveness of disclosures in the notes to financial statements by applying concepts in Chapter 8 of Concepts Statement 8.

## **When Would the Amendments Be Effective?**

The amendments in this proposed Update would be applied prospectively. The effective date and whether early adoption of the proposed amendments should be permitted will be determined after the Board considers stakeholder feedback on the proposed amendments.

## **Questions for Respondents**

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are

requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Would the amendments in this proposed Update that add or modify disclosure requirements result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

**Question 2:** Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

**Question 3:** Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

**Question 4:** One of the proposed amendments would require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign, which initial feedback indicated would reduce diversity in practice. Would this proposed amendment be operable? Should the Board specify whether the disclosed amounts should be before or after intra-entity eliminations? Why or why not?

**Question 5:** Would a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction be operable? Would such a proposed amendment result in decision-useful information about income taxes? Why or why not?

**Question 6:** The proposed amendments would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-08(h). That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. Should the Board consider a threshold that is different than 5 percent? If so, please recommend a different threshold and give the basis for your recommendation.

**Question 7:** Are there any other disclosures that should be required by Topic 740 on the basis of the concepts in Chapter 8 of Concepts Statement 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

**Question 8:** Are there any disclosure requirements that should be removed on the basis of the concepts in Chapter 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

**Question 9:** The proposed amendments would replace the term *public entity* in Topic 740 with the term *public business entity* as defined in the Master Glossary



of the Codification. Do you agree with the change in scope? If not, please describe why.

**Question 10:** Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.

**Question 11:** 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 why.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. 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 underlined, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Supersede the following Master Glossary terms from Subtopic 740-10 as follows:

### **Nonpublic Entity (Definition 5)**

An entity that does not meet any of the following criteria:

- a. ~~Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally).~~
- b. ~~It is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).~~
- c. ~~Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.~~

### **Public Entity (Definition 1)**

An entity that meets any of the following criteria:

- a. ~~Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally).~~
- b. ~~It is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).~~
- c. ~~Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.~~

## Amendments to Subtopic 740-10

3. Add paragraphs 740-10-50-1A through 50-1B, 740-10-50-6A through 50-6B, 740-10-50-8A, 740-10-50-10A through 50-10B, and 740-10-50-22 and the related heading and amend paragraphs 740-10-50-3 through 50-16 and their related headings and 740-10-50-20, with a link to transition paragraph 740-10-65-8, as follows:

### Income Taxes—Overall

#### Disclosure

**740-10-50-1** This Section provides guidance on the financial statement disclosure requirements relating to **income taxes** applicable to all entities.

**740-10-50-1A** The objective of the disclosure requirements in this Section is to provide users of financial statements with information about the following:

- a. An explanation of how income taxes affect financial statement line items and assumptions that an entity makes in determining those line items
- b. The income tax components of different natures that are measured differently or could affect prospects for net cash flows differently
- c. Causes of the changes in financial statement line items related to income taxes
- d. The difference between expectations based on statutory rates and the effective rate
- e. Acceptable alternative accounting policies or methods.

**740-10-50-1B** For purposes of this Section, the use of the term *foreign* refers to any country outside of the reporting entity's country of domicile.

#### > Statement of Financial Position Related Disclosures

**740-10-50-2** The components of the net **deferred tax liability** or **asset** recognized in an entity's statement of financial position shall be disclosed as follows:

- a. The total of all deferred tax liabilities measured in paragraph 740-10-30-5(b)
- b. The total of all deferred tax assets measured in paragraph 740-10-30-5(c) through (d)
- c. The total **valuation allowance** recognized for deferred tax assets determined in paragraph 740-10-30-5(e).

The net change during the year in the total valuation allowance also shall be disclosed.

**740-10-50-3** An entity shall disclose ~~both~~ of the following:

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2019-XX. The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes~~
- b. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be credited directly to contributed capital (see paragraph 740-20-45-11).

**740-10-50-4** In the event that a change in an entity's tax status becomes effective after year-end in Year 2 but before the financial statements for Year 1 are issued or are available to be issued (as discussed in Section 855-10-25), the entity's financial statements for Year 1 shall disclose the change in the entity's tax status for Year 2 and the effects of that change, ~~if material.~~

**740-10-50-5** An entity's **temporary difference** and ~~{add glossary link}~~carryforward~~{add glossary link}~~ information requires additional disclosure. The additional disclosure differs for ~~public~~**public business entities** and ~~nonpublic~~ entities ~~other than public business entities.~~

**> > Public Business Entities**

**740-10-50-6** A ~~public entity~~public business entity shall disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances).

**740-10-50-6A** A public business entity shall disclose the following:

- a. The amounts of deferred tax assets for federal or national, state, and foreign carryforwards (that is, tax effected) before the valuation allowance. Those amounts shall be further disaggregated by time period of expiration for each of the first five years after the reporting date, a total for any remaining years, and a total for carryforwards that do not expire.
- b. The total amount of unrecognized tax benefits that offsets the deferred tax asset attributable to carryforwards in accordance with paragraph 740-10-45-10A.
- c. The amounts of any valuation allowance recognized for deferred tax assets for federal or national, state, and foreign carryforwards.

See paragraphs 740-10-55-218 through 55-220 (Example 31) for an illustration.

**740-10-50-6B** A public business entity shall disclose the total amount of the valuation allowance recognized during the period and the total amount of the valuation allowance released during the reporting period, with an explanation of each.

**740-10-50-7** See paragraph 740-10-50-16 for disclosure requirements applicable to a public business entity that is not subject to income taxes.

**> > ~~Nonpublic Entities~~ Other Than Public Business Entities**

**740-10-50-8** ~~A nonpublic entity~~ An entity other than a public business entity shall disclose the types of significant temporary differences and carryforwards but may omit disclosure of the tax effects of each type.

**740-10-50-8A** ~~An entity other than a public business entity shall disclose the total amounts of federal or national, state, and foreign tax credit carryforwards and the total amounts of other federal or national, state, and foreign carryforwards (not tax effected), separately for those carryforwards that do not expire and those that do expire, along with their expiration dates (or a range of expiration dates). See paragraphs 740-10-55-218 through 55-219 and 740-10-55-220A (Example 31) for an illustration.~~

**> Income Statement Related Disclosures**

**740-10-50-9** The significant components of ~~income tax expense~~ **income tax expense (or benefit)** attributable to continuing operations for each year presented shall be disclosed in the financial statements or notes thereto. Those components would include, for example:

- a. **Current tax expense (or benefit)**
- b. **Deferred tax expense (or benefit)** (exclusive of the effects of other components listed below)
- c. Investment tax credits
- d. Government grants (to the extent recognized as a reduction of income tax expense)
- e. The benefits of operating loss carryforwards
- f. Tax expense that results from allocating certain tax benefits directly to contributed capital
- g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the entity
- h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related **deferred tax asset** in future years. For example, any acquisition-date income tax benefits or expenses recognized from changes in the acquirer's valuation allowance for its previously existing deferred tax assets as a result of a business combination (see paragraph 805-740-30-3).

**740-10-50-10** The amount of ~~{remove glossary link}~~ **income tax expense (or benefit)** ~~{remove glossary link}~~ allocated to continuing operations and the amounts separately allocated to other items (in accordance with the intraperiod tax allocation provisions of paragraphs 740-20-45-2 through 45-14 and 852-740-45-3) shall be disclosed for each year for which those items are presented.

**740-10-50-10A** Income (or loss) from continuing operations before intra-entity eliminations and before income tax expense (or benefit) disaggregated between domestic and foreign shall be disclosed.

**740-10-50-10B** Income tax expense (or benefit) from continuing operations disaggregated between federal or national, state, and foreign shall be disclosed. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile.

### **> Income Tax Expense Compared ~~to~~with Statutory Expectations**

**740-10-50-11** The reported amount of income tax expense may differ from an expected amount based on statutory rates. The following guidance establishes the disclosure requirements for such situations and differs for public business entities and ~~nonpublic entities other than public business entities~~.

#### **> > Public Business Entities**

**740-10-50-12** A public business entity shall disclose a reconciliation between the amount of reported total income tax expense (or benefit) from continuing operations and the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal or national income tax rate, showing the reporting currency amount of each of the underlying causes for the difference. In situations in which the public business entity is not domiciled in the United States, the federal or national income tax rate in that entity's country of domicile shall normally be used in making the above computation, and different rates shall not be used for subsidiaries or other segments of a public business entity. When the rate used by a public business entity is other than the federal or national income tax rate in the entity's country of domicile, the public business entity shall disclose the rate used and the basis for using that rate. If no individual reconciling item amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal or national income tax rate and the total difference to be reconciled is less than 5 percent of that computed amount, no reconciliation needs to be provided. Reconciling items that are individually less than 5 percent of the computed amount may be aggregated in the reconciliation. The reconciliation may be presented in percentages or in reporting currency amounts using percentages or dollar amounts of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations. The statutory tax rates shall be the regular tax rates if there are alternative tax systems. ~~The estimated amount and the nature of each significant reconciling item shall be disclosed.~~ An explanation of the year-to-year change in an amount or percentage of a reconciling item also shall be disclosed.

**> > ~~Nonpublic~~ Entities Other Than Public Business Entities**

**740-10-50-13** ~~A nonpublic~~ An entity other than a public business entity shall disclose the nature of significant reconciling items but may omit a numerical reconciliation.

**> > All Entities**

**740-10-50-14** If not otherwise evident from the disclosures required by this Section, ~~all entities~~ an entity shall disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented.

**> Unrecognized Tax Benefit Related Disclosures**

**740-10-50-15** ~~An entity~~ All entities shall disclose ~~all of the following at the end of each annual reporting period presented:~~

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2009-06~~
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2009-06~~
- c. The total amounts of interest and penalties recognized in the statement of operations and the total amounts of interest and penalties recognized in the statement of financial position for each annual reporting period presented
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2019-XX. For positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date:~~
  1. ~~The nature of the uncertainty~~
  2. ~~The nature of the event that could occur in the next 12 months that would cause the change~~
  3. ~~An estimate of the range of the reasonable possible change or a statement that an estimate of the range cannot be made.~~
- e. A description of tax years that remain subject to examination by major tax jurisdictions as of the date of the most recent statement of financial position.

**740-10-50-15A** ~~Public entities~~ A public business entity shall disclose ~~both of the following at the end of each annual reporting period presented:~~

- a. A ~~tabular~~ reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include ~~at a minimum:~~
  1. The gross amounts of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period
  2. The gross amounts of increases ~~and decreases~~ in unrecognized tax benefits as a result of tax positions taken during the current period



3. The amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities
  4. Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations.
- b. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.
  - c. The line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits for each line item.

See Example 30 (paragraph 740-10-55-217) for an illustration of disclosures about uncertainty in income taxes.

#### **> Public Business Entities Not Subject to Income Taxes**

**740-10-50-16** A public business entity that is not subject to income taxes because its income is taxed directly to its owners shall disclose that fact and the net difference between the tax bases and the reported amounts of the entity's assets and liabilities.

#### **> Entities with Separately Issued Financial Statements That Are Members of a Consolidated Tax Return**

**740-10-50-17** An entity that is a member of a group that files a consolidated tax return shall disclose in its separately issued financial statements:

- a. The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented
- b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the above disclosures are presented.

#### **> Policy Related Disclosures**

**740-10-50-18** Acceptable alternative policy choices available to an entity require disclosure as follows in paragraphs 740-10-50-19 through 50-20.

##### **> > Interest and Penalty Recognition Policies**

**740-10-50-19** An entity shall disclose its policy on classification of interest and penalties in accordance with the alternatives permitted in paragraph 740-10-45-25 in the notes to the financial statements.

##### **> > Investment Tax Credit Recognition Policy**

**740-10-50-20** Paragraph 740-10-25-46 identifies the deferral method and the flow-through method as acceptable methods of accounting for investment tax credits.

~~Whichever method of accounting for the investment credit is adopted, it is essential that full disclosure be made of~~An entity shall disclose the method followed and amounts involved, when material.

### > Other Disclosures

**740-10-50-21** In addition to disclosures required by this Subtopic, disclosures regarding estimates meeting certain criteria are established in paragraph 275-10-50-8 for nongovernmental entities. See Example 31 (paragraph 740-10-55-218) for an illustration of disclosure relating to the realizability of a deferred tax asset under the requirements of Topic 275.

### > Income Taxes Paid

**740-10-50-22** An entity shall disclose income taxes paid in accordance with paragraph 230-10-50-2. For purposes of disclosing income taxes paid in each annual period, the entity shall disaggregate income taxes paid between federal or national, state, and foreign. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile.

4. Amend paragraphs 740-10-55-217 through 55-220 and the related heading and 740-10-55-222, add paragraph 740-10-55-220A, and supersede paragraph 740-10-55-221, with a link to transition paragraph 740-10-65-8, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

#### > > **Example 30: Disclosure Relating to Uncertainty in Income Taxes**

**740-10-55-217** This Example illustrates the guidance in ~~paragraph~~paragraphs 740-10-50-15 through 50-15A for disclosures about uncertainty in income taxes.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 20X1. The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax returns for 20X2 through 20X4 in the first quarter of 20X7 that is anticipated to be completed by the end of 20X8. ~~As of December 31, 20X7, the IRS has proposed certain significant adjustments to the Company's transfer pricing and research credits tax positions. Management is currently evaluating those proposed adjustments to determine if it agrees, but if accepted, the Company does not anticipate the adjustments would result in a material change to its financial position. However, the Company anticipates that it is reasonably possible that an additional payment in the range of \$80 to \$100 million will be made by the end of 20X8. A~~

reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows.

	20X7	20X6	20X5
		(in thousands)	
Balance at January 1	\$ 370,000	\$ 380,000	\$ 415,000
Additions based on tax positions related to the current year	10,000	5,000	10,000
Additions for tax positions of prior years	30,000	10,000	5,000
Reductions for tax positions of prior years	(60,000)	(20,000)	(30,000)
Settlements	<u>(40,000)</u>	<u>(5,000)</u>	<u>(20,000)</u>
Balance at December 31	<u>\$ 310,000</u>	<u>\$ 370,000</u>	<u>\$ 380,000</u>

At December 31, the ending balance of unrecognized tax benefits presented by statement of financial position line item is as follows.

**[For ease of readability, the new table is not underlined.]**

	20X7	20X6
	(in thousands)	
Other liabilities	\$ 205,000	\$ 210,000
Deferred tax asset	<u>105,000</u>	<u>160,000</u>
Total unrecognized tax benefits	<u>\$ 310,000</u>	<u>\$ 370,000</u>

At December 31, 20X7, 20X6, and 20X5, there are \$60, \$55, and \$40 million of unrecognized tax benefits that if recognized would affect the annual effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended December 31, 20X7, 20X6, and 20X5, the Company recognized approximately \$10, \$11, and \$12 million in interest and penalties. The Company had approximately \$60 and \$50 million for the payment of interest and penalties accrued at December 31, 20X7, and 20X6, respectively.

**> > Example 31: Disclosure Relating to Realizability Estimates of Deferred Tax Asset**  
**Assets and Carryforwards**

**740-10-55-218** This Example illustrates the guidance in paragraph 275-10-50-8 for disclosure relating to the realizability estimates of a deferred tax asset and in paragraphs 740-10-50-6A and 740-10-50-8A for disclosure relating to carryforwards.

**740-10-55-219** In this Example, Entity A develops, manufactures, and markets limited-use vaccines. The entity has a dominant share of the narrow market it serves. As of December 31, ~~49X420X1~~, the entity has no temporary differences and has aggregate loss carryforwards of ~~\$12 million~~ \$18 million, including federal, state, and foreign carryforwards, that originated in prior years and that expire in varying amounts between ~~49X520X2~~ and ~~49X720X9~~. As of December 31, ~~49X420X1~~, the entity has a deferred tax asset of ~~\$4.8~~ \$2.7 million that represents

the benefit of the remaining ~~\$12~~\$18 million in loss carryforwards, carryforwards. In addition, the entity has tax credit carryforwards of \$2.1 million, and it has concluded at that date that a valuation allowance is unnecessary. As of December 31, 20X1, the entity has unrecognized tax benefits of \$2 million that offset the deferred tax asset attributable to carryforwards. The loss carryforwards arose during the entity's development stage when it incurred high levels of research and development expenses prior to commencing sales. While the entity has earned, on average, \$6 million income before tax (~~taxable income before carryforwards~~) in each of the last 5 years, future profitability in this competitive industry depends on continually developing new products. The entity has a number of promising new vaccines under development, but it is aware that other entities recently began testing vaccines that would compete with the vaccines being developed by the entity as well as products that will compete with the vaccines that are currently generating the entity's profits. Rapid introduction of competing products or failure of the entity's development efforts could reduce estimates of future profitability in the near term, which could affect the entity's ability to fully utilize its loss carryforward.

**740-10-55-220** If Entity A is a public business entity, illustrative illustrative disclosure for the entity follows.

**[For ease of readability, the new table is not underlined.]**

<u>Expires during Fiscal Year</u>	<u>Deferred Tax Asset for Carryforwards before Valuation Allowance</u>			
	<u>Federal</u>	<u>State</u>	<u>Foreign</u>	<u>Total</u>
20X2	\$ 415	\$ 155	\$ 270	\$ 840
20X3	380	125	330	835
20X4	300	80	270	650
20X5	320	85	165	570
20X6	210	90	120	420
Thereafter	560	245	210	1,015
Indefinite carryforwards	370	100	-	470
Total				<u>4,800</u>
Unrecognized tax benefits at December 31, 20X1				<u>(2,000)</u>
Total tax effect of carryforwards after unrecognized tax benefits				<u>2,800</u>
Valuation allowance	-	-	-	<u>-</u>
Total tax effect of carryforwards after valuation allowance				<u>\$ 2,800</u>

~~The entity has recorded a deferred tax asset of \$4.8 million reflecting the benefit of \$12 million in loss carryforwards, which expire in varying amounts between 19X5 and 19X7. Realization of the deferred tax asset is dependent on generating sufficient taxable income prior to expiration of the loss to utilize the carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.~~

**740-10-55-220A** If Entity A is an entity other than a public business entity, illustrative disclosure for the entity follows.

The entity has \$6.6 million, \$6.0 million, and \$5.4 million in federal, state, and foreign loss carryforwards (not tax effected), respectively, of which \$1.8 million and \$1.6 million in federal and state loss carryforwards, respectively, do not expire. The remaining loss carryforwards expire at various points between 20X2 and 20X9. The entity also has deferred tax assets of \$1.2 million, \$0.4 million, and \$0.5 million for federal, state, and foreign credit carryforwards, respectively, which expire at various points between 20X2 and 20X7.

Realization of the deferred tax asset is dependent on generating sufficient taxable income to utilize the carryforwards. Although realization is not assured, management believes that it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

**740-10-55-221** Paragraph superseded by Accounting Standards Update No. 2019-XX. In addition to other disclosures, information as to the amount of loss carryforwards and their expiration dates and the amount of any valuation allowance with respect to the recorded deferred tax asset is required under this Subtopic.

**740-10-55-222** The disclosure in this Example informs users that:

- a. Realization of the deferred tax asset depends on achieving a certain minimum level of future taxable income within the next ~~eight~~<sup>three</sup> years.
- b. Although management currently believes that achievement of the required future taxable income is more likely than not, it is at least reasonably possible that this belief could change in the near term, resulting in establishment of a valuation allowance.
- c. The carryforwards expire, along with the amount of carryforwards and their expiration dates, and for public business entities, the amount of any valuation allowance with respect to the recorded deferred tax asset.

5. Add paragraph 740-10-65-8 and its related heading as follows:

## Transition and Open Effective Date Information

### > Transition Related to Accounting Standards Update No. 2019-XX, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*

740-10-65-8 The following represents the transition and effective date information related to Accounting Standards Update No. 2019-XX, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*:

- a. The pending content that links to this paragraph shall be effective [date to be determined after exposure period].
- b. Earlier adoption of the pending content that links to this paragraph [is/is not] permitted.
- c. An entity shall apply the pending content that links to this paragraph prospectively.

## Amendments to Subtopic 740-30

6. Add paragraph 740-30-50-1A and amend paragraph 740-30-50-2, with a link to transition paragraph 740-10-65-8, as follows:

### **Income Taxes—Other Considerations or Special Areas**

#### **Disclosure**

##### **> Undistributed Earnings of Subsidiaries and Corporate Joint Ventures**

**740-30-50-1** This guidance establishes disclosure requirements applicable to unrecognized deferred tax liabilities related to investments in subsidiaries and corporate joint ventures.

**740-30-50-1A** The objective of the disclosure requirements in this Subtopic is to provide users of financial statements with information about the following:

- a. The income tax components of different natures that could affect prospects for net cash flows differently
- b. Current circumstances related to undistributed foreign earnings that are expected to affect the financial statements of the entity in the future.

**740-30-50-2** ~~All of the~~ The following information shall be disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures:

- a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable

- b. Subparagraph superseded by Accounting Standards Update No. 2019-XX. The cumulative amount of each type of temporary difference
- c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable. While paragraph 740-30-25-14 prohibits recognition of a tax **benefit** for tax deductions or favorable tax rates attributable to future dividends of undistributed earnings for which a deferred tax liability has not been recognized, favorable tax treatment would be reflected in measuring that unrecognized deferred tax liability for disclosure purposes.
- d. The amount of the deferred tax liability for temporary differences other than those in (c) (that is, undistributed domestic earnings) that is not recognized in accordance with the provisions of paragraph 740-30-25-18.

## Amendments to Subtopic 230-10

7. Amend paragraph 230-10-50-2, with a link to transition paragraph 740-10-65-8, as follows:

### Statement of Cash Flows—Overall

#### Disclosure

##### > Interest and Income Taxes Paid

**230-10-50-2** If the indirect method is used, amounts of interest paid (net of amounts capitalized), including the portion of the payments made to settle zero-coupon debt instruments that is attributable to accreted interest related to the debt discount or the portion of the payments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the **effective interest rate** of the borrowing that is attributable to accreted interest related to the debt discount, and income shall be disclosed. Income taxes paid during the period period, including interim periods, shall be disclosed.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the six members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
 James L. Kroeker, *Vice Chairman*  
 Christine A. Botosan  
 Gary R. Buesser  
 Marsha L. Hunt  
 R. Harold Schroeder

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing the amendments in this proposed Update as part of the disclosure framework project. The disclosure framework project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of information required by GAAP that is most important to users of each entity's financial statements.

## Background Information

BC3. The following pronouncements established existing disclosure requirements for income taxes:

- a. FASB Statement No. 109, *Accounting for Income Taxes*
- b. APB Opinion No. 23, *Accounting for Income Taxes—Special Areas*
- c. FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*
- d. FASB Accounting Standards Update No. 2009-06, *Income Taxes (Topic 740): Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*.

BC4. In March 2014, the Board issued a proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, which the Board finalized on August 28, 2018. Chapter 8 of Concepts Statement 8 identifies a broad range of possible information for the Board's consideration when deciding on the disclosure requirements for a particular Topic. From that broad set, the Board generally will identify a narrower set of disclosures about that Topic to be required on the basis of, among other considerations, an evaluation of whether the expected benefits of entities providing the information will justify the expected costs. Chapter 8 is used by the Board as part of the process for establishing disclosure requirements in future accounting standards as well as for evaluating existing disclosure requirements, if and when the Board considers those requirements.

BC5. Before Chapter 8 of Concepts Statement 8 was finalized, the Board decided to test the concepts in the proposed Concepts Statement chapter to improve the effectiveness of disclosure requirements for fair value measurements and defined



benefit pensions and other postretirement plans. The amendments in this proposed Update are the result of the Board's consideration of the concepts in Chapter 8 as they relate to income tax disclosures. While the Board used the concepts as a starting point, the Board decided not to propose certain disclosures that might be supported by Chapter 8 because the Board concluded that the expected benefits of the information did not justify the expected costs.

BC6. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC7. The Board anticipates that an entity would incur moderate costs as a result of the amendments in this proposed Update while providing users with beneficial information that would justify those expected costs. This basis for conclusions explains the reasons why the Board decided that while some potential disclosures would be beneficial, in some cases, certain disclosures were not proposed because their expected costs and complexities would not be justified by their expected benefits.

BC8. In December 2013, the Board issued the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, which assists the Board and the Private Company Council in determining, among other things, whether and in what circumstances to provide alternative disclosure requirements for private companies reporting under GAAP. The Board also used the Private Company Decision-Making Framework, in conjunction with feedback received from the Private Company Council, on the Board's preliminary decisions for the amendments in this proposed Update to determine whether the disclosures discussed as part of the disclosure framework review of income taxes should be applicable to entities other than public business entities.

BC9. In July 2016, the Board issued proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*, which included proposed amendments to the income tax disclosure requirements based on the proposed Concepts Statement chapter. The Board received extensive feedback before deciding on which amendments should be included in that proposed Update. The sources of that feedback included:

- a. The Financial Accounting Foundation's January 2012 *Post-Implementation Review Report on FASB Interpretation No. 48*, Accounting for Uncertainty in Income Taxes (PIR on Interpretation 48)
- b. The Financial Accounting Foundation's November 2013 *Post-Implementation Review Report on FASB Statement No. 109*, Accounting for Income Taxes (PIR on Statement 109)
- c. A workshop in December 2015 with users, preparers, and a practitioner
- d. Outreach meetings with users, preparers, regulators, and practitioners
- e. Meetings with FASB advisory groups.

BC10. When making decisions about the amendments in the July 2016 proposed Update, the Board considered the feedback from all the sources listed in paragraph BC9. That feedback indicated that users' primary areas of focus on taxes at the time were:

- a. The sustainability of an entity's tax rates
- b. Tax consequences of remittance of undistributed foreign earnings
- c. Tax exposure in significant countries.

BC11. The Board received 58 comment letters on the July 2016 proposed Update. The Board discussed feedback from the comment letters received at a Board meeting held on January 25, 2017. No technical decisions were made at that meeting. After the Board discussed comment letter feedback, the project was put on hold because of the potential for tax reform that was contemplated at the time.

BC12. The Tax Cuts and Jobs Act, which was enacted in December 2017, made substantial changes to the taxation of U.S. business entities. As a result of the Tax Cuts and Jobs Act, the Board received feedback from the following sources:

- a. Meetings with FASB advisory groups
- b. A workshop in September 2018 with users, preparers, and practitioners
- c. Outreach meetings with preparers and preparer associations.

BC13. On the basis of that feedback, as well as feedback from the comment letters received on the July 2016 proposed Update, the Board made changes to the amendments in that proposed Update and to existing disclosure requirements in Topic 740. The amendments in this proposed Update are a result of the decisions made before tax reform, as well as amendments that the Board decided to include as a result of the Tax Cuts and Jobs Act.

## Basis for Conclusions

### Disclosure Objectives

BC14. The disclosure objective for income tax disclosures in paragraphs 740-10-50-1A and 740-30-50-1A of this proposed Update was developed using the relevant decision questions from Chapter 8 of Concepts Statement 8. The Board

concluded that the disclosure objective is important so that stakeholders understand the set of disclosure requirements. The objective would provide preparers with insight on why the Board deemed the disclosure requirements to be broadly relevant. The Board did not intend that the disclosure objective would represent additional disclosure requirements for entities.

## Scope

BC15. Currently, some disclosure requirements in Topic 740 are required by public entities and some are required by nonpublic entities. In December 2013, the Board issued Accounting Standards Update No. 2013-12, *Definition of a Public Business Entity—An Addition to the Master Glossary*. The primary purpose of the amendments in that Update was to amend the Master Glossary of the Codification to include one definition of the term *public business entity* for future use in GAAP.

BC16. Research previously performed in connection with the amendments in Update 2013-12 indicated that certain community banks that may not have been considered public entities previously could now be considered public business entities. Feedback from a number of community banks indicated that the additional disclosures in Topic 740 currently required of public entities would not be costly because some of them already make those additional disclosures. Also, research previously performed indicated that the population of community banks that could fall into the definition of a public business entity would not be significant. Therefore, the Board decided to replace the term *public entity* in Topic 740 with the term *public business entity* as defined in the Master Glossary of the Codification.

BC17. All entities subject to income taxes, including not-for-profit entities and employee benefit plans, are within the scope of Topic 740. Stakeholders indicated that other entities that are not public business entities, such as not-for-profit entities and employee benefit plans, generally do not engage in activities that result in a significant amount of unrelated business income taxes or do not have significant income tax activities. The Board decided that certain income tax disclosures would not be proposed for entities other than public business entities (see paragraphs BC86–BC93 of this proposed Update).

## Domestic and Foreign Tax Issues

BC18. Foreign activities of domestic companies have grown significantly since the standards that established tax disclosures were originally set. Therefore, consideration of whether the usefulness of existing disclosures could be improved is warranted. The PIR on Statement 109 indicated that financial statements might not be detailed enough for users to:

- a. Analyze the cash effects associated with income taxes, particularly current-period taxes paid by jurisdiction (for example, domestic and foreign), and estimate future tax payments. That information is of particular concern to financial statement users who analyze nonpublic entities.
- b. Analyze earnings determined to be indefinitely reinvested in foreign subsidiaries.
- c. Determine what the tax effects of foreign earnings deemed to be indefinitely reinvested would be if those earnings were repatriated to a U.S. parent company.

BC19. As a result of the concerns raised in the PIR on Statement 109, increased foreign activities, and the application of Chapter 8 of Concepts Statement 8, the Board considered several potential new disclosures and modifications to existing disclosures that would provide users with information about sustainability of tax rates and, thus, give users additional information to make predictions about the amount, timing, and uncertainty of future cash flows.

BC20. Chapter 8 of Concepts Statement 8 indicates that the Board should consider disclosure of certain income tax information disaggregated between domestic components and foreign components. That information could be beneficial in assessing the effects of those components on net cash flows (Decision Question L4 in Chapter 8). Therefore, the Board proposed disclosing the domestic and foreign components of income (or loss) from continuing operations before income tax expense (or benefit) and the federal, state, and foreign components of income tax expense (or benefit) from continuing operations and income taxes paid.

BC21. The disclosure of income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic components and foreign components and income tax expense (or benefit) from continuing operations disaggregated among federal, foreign, and other taxes are disclosure requirements of the SEC. Therefore, the Board determined that the cost of adding those disclosures to the Codification would be low. Feedback indicated that there is diversity in practice under the SEC requirements related to whether income (or loss) from continuing operations is disclosed before or after intra-entity eliminations. The Board considered whether it should provide a clarification to reduce that diversity in practice. The Board noted that an entity is taxed in a foreign jurisdiction on the basis of the entity's income in that jurisdiction, which would include any intra-entity transactions. Therefore, the Board decided to require an entity to disclose income (or loss) from continuing operations before intra-entity eliminations and income tax expense (or benefit). The Board acknowledged that the sum of the domestic and foreign income (or loss) from continuing operations before intra-entity eliminations would not equal the amount presented on the income statement. However, the Board indicated that the amount before intra-entity eliminations would have a more direct relationship with income tax expense (or benefit), which would provide more decision-useful information to financial statement users.

BC22. Feedback also indicated that there is diversity in practice under the SEC requirements related to whether U.S. federal income taxes on foreign earnings should be included in foreign income taxes or federal income taxes. The Board decided to address that diversity by clarifying that tax expense and taxes paid on foreign earnings imposed by the entity's jurisdiction of domicile (for example, federal or state) should be included in the amount for that jurisdiction of domicile. The Board noted that including taxes on foreign earnings imposed by the country of domicile in the federal or national income tax amount would affect the ratio between federal income tax expense and domestic income (or loss) from continuing operations before income tax expense (that is, it would imply a higher tax rate on domestic income from continuing operations). However, the Board decided that those taxes are imposed by the jurisdiction of domicile and should be appropriately classified as such. Additionally, preparers indicated that they cannot determine income taxes paid to the jurisdiction of domicile related to foreign earnings because those taxes are part of the overall income tax owed to the jurisdiction of domicile; there is no separate payment for those taxes. The Board noted that including income taxes imposed by the jurisdiction of domicile related to foreign earnings in the income taxes amount for the jurisdiction of domicile for income taxes paid and in the foreign income taxes amount for income tax expense would be confusing to investors. Therefore, the Board decided that income tax on foreign earnings imposed by the entity's jurisdiction of domicile should be included in the amount for the jurisdiction of domicile for both income tax expense and income taxes paid.

BC23. The Board considered further country-level disaggregation of the proposed requirements for foreign information listed in paragraph BC20. Users expressed a desire to have tax information related to foreign income taxes at a more granular level. They said that such information could further their understanding of exposures to various countries and whether their current tax rate is sustainable. The Board considered whether it would be cost beneficial to require that any of the foreign amounts be further disaggregated by country. Because income taxes paid is a number that is compiled for the current disclosure requirements of Topic 230 on statement of cash flows, reporting entities could provide that disclosure at a country-level amount at a relatively low cost. However, some stakeholders indicated that the disclosure of income taxes paid at a country level could be misleading because income taxes paid in a given year often do not represent income taxes on pretax income in that year because of other payments (for example, settlements, refunds, prepayments, and differences in tax reporting years). For this reason, and other reasons considered in paragraph BC25, the Board decided not to propose the disclosure of income taxes paid at a country level.

BC24. The Board also considered whether it would be cost beneficial to require that foreign income (or loss) from continuing operations or foreign income tax expense (or benefit) be further disaggregated by country. Stakeholders raised cost and complexity concerns about disaggregating foreign income (or loss) from continuing operations before income tax expense (or benefit) and foreign income tax expense (or benefit). Generally, income (or loss) from continuing operations before income tax expense (or benefit) is not compiled by country on a GAAP basis. Furthermore, many preparers stated that large multinational companies may have several foreign subsidiaries that consolidate into a holding company. As such, income (or loss) from continuing operations before income tax expense (or benefit) is consolidated at the holding-company level, and income tax expense (or benefit) from continuing operations is consolidated at the holding-company level using a blended rate. That is, GAAP results may not be readily available on a country-by-country basis. Disclosure at the holding-company level would not give users insight into tax exposure of the underlying foreign country. Also, taxes by country for the lower-level subsidiaries are not computed until months after financial statements are issued. Therefore, any disclosure required to be provided within financial reporting deadlines related to those subsidiaries would be either rough estimates or allocations of blended rates from the holding company that may not be a fair representation of the tax exposures in those countries. Therefore, a requirement to provide GAAP-based reporting at a country level would result in significant costs related to process and system changes, among other items. One Board member acknowledged the concerns related to disaggregation on a country-by-country basis but supported a more granular geographic breakdown of income tax expense (or benefit) than is required today, such as by major tax jurisdiction, to meet users' needs to have tax information related to foreign income taxes at a more granular level.

BC25. Stakeholders also expressed concerns about the negative consequences that may arise from country-level disclosures, including the following:

- a. One taxing authority using information about a different taxing authority to collect additional tax revenue
- b. Individuals and public interest groups pressuring governments to increase taxes on a reporting entity because they perceive that other countries are receiving more tax revenues than their country
- c. The perception that an entity is operating in a low-tax country for tax advantages when that is not the case
- d. Potentially compromising the ability of one country to negotiate with other countries.

BC26. The Board acknowledged the cost and complexity concerns and the potential issues relating to the decision usefulness of information that were raised by stakeholders about the country-level disaggregation of foreign income (or loss) from continuing operations before income tax expense (or benefit) and foreign income tax expense (or benefit) from continuing operations. Accordingly, the Board did not propose that an entity make those additional disclosures.

BC27. The Board also considered proposing the following disclosure requirements but did not because of either cost and complexity concerns or lack of benefits from the resulting disclosures:

- a. State-by-state information
- b. Disaggregation of tax information that either is *significant* or meets numerical thresholds (percentage or absolute values)
- c. Disaggregation of tax expense (or benefit) by major tax jurisdiction
- d. Domestic tax expense recorded on foreign-sourced earnings.

BC28. The Board also considered proposing a qualitative disclosure explaining when income tax paid is low relative to the income (or loss) from continuing operations before income tax expense (or benefit) in a country because stakeholders noted that an entity's most significant exposures are with that country. However, that disclosure would result in an entity having to determine whether income (or loss) from continuing operations before income tax expense (or benefit) in a country is significant, which would be costly and complex, as noted in paragraph BC24 of this proposed Update. The Board, therefore, decided not to propose this disclosure.

## Indefinitely Reinvested Foreign Earnings

BC29. Paragraph 740-30-50-2 currently requires the following disclosures when a deferred tax liability is not recognized for undistributed foreign earnings:

- a. A description of the temporary differences for which a deferred tax liability is not recognized and the types of events that would cause those temporary differences to become taxable
- b. The cumulative amount of each type of temporary difference
- c. The amount of unrecognized deferred tax liability for the temporary differences related to earnings that are indefinitely reinvested or a statement that the determination is not practicable
- d. The amount of the deferred tax liability for temporary differences other than those in (c) (that is, undistributed domestic earnings) that is not recognized in accordance with the provisions of paragraph 740-30-25-18.

BC30. Many entities use the practicability exception in paragraph 740-30-50-2(c) and do not disclose the unrecognized deferred tax liability on indefinitely reinvested foreign earnings. Before the enactment of the Tax Cuts and Jobs Act, users indicated that information about the tax consequences of remittance of undistributed foreign earnings was a primary area of focus. Therefore, the Board considered changes to disclosures about foreign earnings and the indefinite reinvestment assertion and proposed two disclosure requirements to provide users with additional information to assess an entity's exposure to the remittance of undistributed foreign earnings. The Board proposed that an entity disclose:

- a. An explanation of the circumstances that caused a change in assertion about the indefinite reinvestment of undistributed foreign earnings and the corresponding amount of those earnings
- b. The aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries.

BC31. The Board proposed the disclosure requirement in the July 2016 proposed Update that would require an entity to explain the circumstances that caused a change in its indefinite reinvestment assertion on the basis of user feedback that indicated that such a disclosure would inform users of the likelihood of incurring taxes upon repatriation of an entity's foreign earnings.

BC32. In the July 2016 proposed Update, the Board also proposed that an entity should disclose the aggregate cash, cash equivalents, and marketable securities held by foreign subsidiaries because they would provide a data point that could provide users with some information about potential exposures to taxes when combined with other information in the financial statements and would be less costly than other alternatives.

BC33. The Tax Cuts and Jobs Act generally allows entities to repatriate earnings from their foreign subsidiaries without incurring U.S. federal income taxes. After the enactment of the Tax Cuts and Jobs Act, an entity may still make an indefinite reinvestment assertion for its foreign earnings so that it is not required to record a liability for the (a) state and (b) withholding tax consequences of unremitted foreign earnings. However, stakeholders indicated that the significance of those tax consequences likely will be significantly less than the tax consequences of the indefinite reinvestment assertion before the Tax Cuts and Jobs Act because state and withholding tax rates typically are much lower than the federal income tax rate that previously would have been applied to the unremitted foreign earnings.

BC34. Stakeholders indicated that the changes as a result of the Tax Cuts and Jobs Act reduce the relevance of the proposed disclosures in the July 2016 proposed Update about the indefinite reinvestment of foreign earnings (that is, an explanation of the circumstances that caused a change in an entity's indefinite reinvestment assertion and disclosure of the aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries) and the existing disclosure of the cumulative temporary differences related to foreign subsidiaries when a deferred tax liability is not recognized (current paragraph 740-30-50-2(b)). That is because a change in assertion about the indefinite reinvestment of foreign earnings would not result in the recognition of a material deferred tax liability in many cases. Stakeholders also indicated that the disclosure of a large temporary difference could be misleading when the tax effects, when incurred, likely are small because users could infer that the tax consequences of a large temporary difference also would be significant, which likely would not be the case. Additionally, stakeholders indicated that the disclosure is costly to prepare.



BC35. The Board acknowledged that an entity may still assert indefinite reinvestment of foreign earnings so that it is not required to record a liability for the state and for withholding tax consequences of those earnings. However, the Board agreed with stakeholders that the tax consequences of that assertion will not be significant in many cases. The Board decided that the expected benefits of the disclosures in the July 2016 proposed Update and the disclosure requirement in paragraph 740-30-50-2(b) do not justify the expected costs. Therefore, the Board decided not to require the disclosure of an explanation of the circumstances that caused a change in an entity's indefinite reinvestment assertion and the aggregate of cash, cash equivalents, and marketable securities held by foreign subsidiaries in this proposed Update. Additionally, the Board decided to remove the existing disclosure in paragraph 740-30-50-2(b).

## Unrecognized Tax Benefits

BC36. Paragraph 740-10-50-15 requires that an entity disclose the total amount of interest and penalties related to unrecognized tax benefits that are recognized in both the statement of operations and the statement of financial position. Additionally, an entity must disclose the nature and an estimate of those uncertain positions for which it is reasonably possible that the total amount of unrecognized tax benefits will change in the next 12 months and a description of tax years that remain subject to examination by major tax jurisdiction.

BC37. Paragraph 740-10-50-15A currently requires that a public entity disclose a tabular reconciliation of total amounts of unrecognized tax benefits at the beginning and end of each annual reporting period presented, which includes the following:

- a. The gross amounts of increases and decreases in unrecognized tax benefits as a result of positions taken during a prior period
- b. The gross amounts of increases and decreases in unrecognized tax benefits as a result of the tax positions taken during the current period
- c. The amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities
- d. The reductions to unrecognized tax benefits as a result of a lapse in the applicable statute of limitations.

Additionally, a public entity is required to disclose the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

### *Disclosure on Unrecognized Tax Benefits That Could Significantly Change in the Next 12 Months*

BC38. As described in paragraph BC36, paragraph 740-10-50-15 requires disclosure of unrecognized tax benefits that could change in the next 12 months. Disclosure of estimates of amounts and timing related to future events is consistent with Chapter 8 of Concepts Statement 8 only if the estimate of the amount and timing is an input that explains a measurement in the financial statements or in the

notes to financial statements. The disclosure required by paragraph 740-10-50-15(d) is inconsistent with Chapter 8. Furthermore, the disclosure has limitations because an entity generally may know that an open tax issue is being resolved a couple of weeks to several months in advance of the settlement but may be unable to reasonably assess the likelihood of other settlements beyond that point. Therefore, the disclosure of estimates of changes in the next 12 months generally provides only estimated changes expected in the next 3 months. Accordingly, the Board decided to remove that existing disclosure in this proposed Update.

### *Disaggregation of Unrecognized Tax Benefits*

BC39. Chapter 8 of Concepts Statement 8 indicates that the Board should consider a disclosure that disaggregates a line item in the financial statements that includes components of different natures that could affect prospects for net cash flows differently (Decision Question L4). That could be a disaggregation of the unrecognized tax benefits by jurisdiction, tax issue, or scheduled expiration. During the deliberations on Interpretation 48, some users asked for unrecognized tax benefits to be disaggregated by (a) jurisdiction and (b) tax issue (for example, research credits and transfer pricing and so forth), while other users said that the aggregate level of information was sufficient as long as a rollforward was provided.

BC40. During outreach for this proposed Update, users said that they do not use disclosures about unrecognized tax benefits for modeling purposes. They use the disclosures to assess how aggressive an entity is with its tax positions. Users said that disclosure of the aggregate of unrecognized tax benefits is sufficient for their analyses.

BC41. Preparers noted that disaggregating unrecognized tax benefits by country would provide little benefit because the liability generally is offset by a tax credit. They said that disaggregating the unrecognized tax benefits by scheduled expiration would not be useful in assessing the timing of cash flows because (a) expiration dates often are extended and (b) settlements often are made before the expiration date and differ significantly from the amount reserved and disclosed. Finally, preparers noted that the disclosures would provide taxing authorities with prejudicial information.

BC42. The Board acknowledged the concerns of preparers and that most users are satisfied with the current disclosure of the aggregate of unrecognized tax benefits. Accordingly, the Board did not propose a disaggregation of the unrecognized tax benefits.

### *Disaggregation by Measurement Method and Alternative Measure for Unrecognized Tax Benefits That Do Not Meet the More-Likely-Than-Not Threshold*

BC43. The PIR on Interpretation 48 states that tax reserves are more consistent and comparable across reporting entities as a result of the application of that

Interpretation. However, the PIR on Interpretation 48 concluded that the information provided by Interpretation 48 may not be useful in estimating future cash flows because the recognition and measurement provisions of Interpretation 48 employ “a benefit-recognition approach, not a best-estimate approach for liabilities to be settled.” The benefit-recognition approach established by Interpretation 48 requires an entity to:

- a. Reserve the entire tax position in its financial statements if there is no more than a 50 percent likelihood that the position will be sustained
- b. Calculate the benefit of those tax positions that have a greater than 50 percent likelihood of being sustained by using a cumulative probability calculation.

BC44. Chapter 8 of Concepts Statement 8 indicates that the Board should consider (a) a disclosure of individual items (or groups) of a financial statement line item that are measured differently and (b) a disclosure of an alternative measure when that measure would be clearly useful in assessing prospects for cash flows (Decision Questions L7 and L13).

BC45. Disaggregating unrecognized tax benefits between the 100 percent reserved amount and the cumulative probability amount would not be very costly for preparers. Several preparers said that when they take an uncertain tax position, they reserve the full amount and take fewer of those positions than they had in the past.

BC46. Some users said that the disaggregated information about unrecognized tax benefits would help them to better assess how aggressive an entity considers its tax positions, while others felt that the aggregate liability was adequate. Users who noted that the aggregate number was adequate said that increases and decreases in the balance potentially could indicate how aggressive an entity is being without having to know the two different measurement amounts.

BC47. Disclosure of the single best estimate, which is consistent with how many entities currently measure unrecognized tax benefits under International Financial Reporting Standards (IFRS Standards), would be an alternative way to measure the liability. Because of the inherent subjectivity in trying to measure the unrecognized tax benefit as a most likely amount and because of the uncertainties in the timing of when those issues may be settled (if at all), it is not clear if the alternative measure would be clearly useful in assessing prospects for cash flows. Also, preparers are concerned about estimating the ultimate settlements and when or whether an audit will take place because those outcomes are not within a reporting entity’s control.

BC48. The Board did not propose a requirement for an entity to further disaggregate its unrecognized tax benefits on the basis of measurement because the current aggregate liability seems adequate for the users to perform their analyses on unrecognized tax benefits. Also, the Board did not propose a requirement for an

entity to disclose an alternative measure for unrecognized tax benefits because it is not clear whether the alternative measure would be clearly useful.

### *Reconciliation of Unrecognized Tax Benefits*

BC49. Chapter 8 of Concepts Statement 8 indicates that the Board should consider disclosures about the causes of the changes in an entity's line item of an asset or a liability that are not readily assessable because there are numerous causes or because the line item is subject to nonroutine changes. Chapter 8 also indicates that the Board should consider whether disclosure of the relationship between financial statement line items should be provided when the relationship is not otherwise apparent (Decision Questions L5 and L14). Therefore, the Board considered enhancements to the existing disclosure of the reconciliation of unrecognized tax benefits by:

- a. Netting the amounts in the reconciliation against any items that may be used to offset the total unrecognized tax benefit
- b. Disaggregating settlements within the reconciliation between those settlements using existing deferred tax assets separate from those that have been or will be settled in cash.

BC50. Paragraph 740-10-45-10A requires the unrecognized tax benefit to be shown net of carryforwards on the statement of financial position. On one hand, because an unrecognized tax benefit is presented net on the statement of financial position, several preparers recommended netting the items that could offset the unrecognized tax benefit. On the other hand, the Board also received preparer input indicating that providing the reconciliation on a net basis would decrease the utility of the reconciliation because:

- a. The changes in uncertain tax benefits would be obscured by changes in assets available to offset the unrecognized tax benefits.
- b. Settlements made with other assets, such as net operating losses, would result in amounts of the unrecognized tax benefits being undisclosed.
- c. Users would have a harder time understanding management's success with its aggressive tax positions.
- d. Net operating losses and other carryforwards could be used to reduce future taxable income, not necessarily to reduce a liability from an uncertain tax position.

Consequently, the Board did not propose that the reconciliation of the unrecognized tax benefits be provided on a net basis.

BC51. Several users and tax specialists indicated that separately disclosing cash settlements and noncash settlements of unrecognized tax benefits is beneficial because it would explain the consequences of an entity's tax strategies. Preparers indicated that separately disclosing cash settlements and noncash settlements would be challenging because an entity may know the total change in liability, but it may not know the portion attributable to cash settlement. Additionally, when a

deferred tax asset is used to offset a tax liability upon an audit settlement, the deferred tax asset is not always associated with a corresponding tax liability so an entity could be required to arbitrarily allocate the deferred tax asset utilization against unrecognized tax benefits. Therefore, the Board decided not to include a requirement in this proposed Update to separately disclose cash settlements and noncash settlements of unrecognized tax benefits because the disclosure may not provide decision-useful information because it may not be clear whether an entity settled an unrecognized tax benefit using cash when it is settled as part of the entity's overall tax liability.

BC52. Unrecognized tax benefits can be included in various line items on the statement of financial position, such as payables or deferred taxes. Users said that providing the breakdown of the unrecognized tax benefit presented by statement of financial position line item would be beneficial. Without that disclosure, a reasonably informed investor could not discern how a line item within the statement of financial position is affected by unrecognized tax benefits. Therefore, the Board decided to include in this proposed Update a requirement that a public business entity disclose the unrecognized tax benefit balance presented by statement of financial position line item.

## Income Taxes Paid by Tax Year

BC53. Chapter 8 of Concepts Statement 8 indicates that the Board should consider a disaggregation of income taxes paid by the tax years to which those payments relate because the disaggregation could affect the assessments of the prospects for cash flows (Decision Question L4). Chapter 8 also indicates that the Board should consider a disclosure to disaggregate from income taxes paid those amounts attributable to interest and penalties (Decision Question L4).

BC54. Preparers indicated that disclosure of income taxes paid in the aggregate is of limited use because it includes audit settlements for previous reporting years, it combines payments for the current tax year and prior tax year, and there is diversity in practice on whether the disclosure includes refunds or penalties. Therefore, the Board considered whether taxes paid should be disaggregated by payments made for the current tax year, the prior tax year, and other tax years (including audit settlements over multiple years, interest, and penalties) with separate disclosure of refunds received or refunds applied.

BC55. Preparer and practitioner stakeholders indicated that disaggregation of income taxes paid by the tax years to which they relate could be misconstrued by users. They noted that some foreign countries do not require estimated current-year tax payments. In some foreign countries, tax returns may not be filed regularly, and payments may not be made until the returns are filed. Those stakeholders were concerned that a user would perceive payments for previous years as an entity not meeting its income tax obligations. Furthermore, some preparers said that providing such a disclosure would be costly to allocate in cases

in which there are lump-sum payments made related to multiple years. Others noted that tax departments would either know what periods the payments relate to or be able to allocate tax payments to time periods for reporting purposes.

BC56. Users have said that disclosing cash paid for interest and penalties related to income taxes would be helpful in assessing management's success in taking aggressive tax positions. Paragraph 740-10-50-15 requires an entity to disclose the total amount of interest and penalties recognized in the statement of operations and the total amount of interest and penalties recognized in the statement of financial position. Additionally, paragraph 740-10-50-19 requires an entity to disclose in the notes to financial statements its policy on classification of interest and penalties in accordance with paragraph 740-10-45-25.

BC57. The Board did not propose a disclosure of income taxes paid by time period because existing disclosures and the amendments in this proposed Update would provide sufficient information for users to assess an entity's cash tax exposure. Furthermore, the Board believes that it could be complex to provide this disclosure because of issues such as times when a reporting entity's fiscal year differs from its tax year. Also, the Board did not propose a disaggregation of income taxes paid for interest and penalties because it believes that users can get a sense of aggressive tax positions from the current requirements.

## Change in Enacted Tax Law

BC58. Paragraph 740-10-50-9 requires disclosure of the significant components of income tax expense (or benefit) attributable to continuing operations, which includes adjustments of a deferred tax liability or a deferred tax asset for enacted changes in an entity's tax laws or rates or a change in the tax status. However, Topic 740 contains no specific disclosure requirements about tax law changes that are probable to affect the reporting entity in a future period.

BC59. Some respondents to the Statement 109 Exposure Draft, *Accounting for Income Taxes*, recommended disclosure of additional information that might enable financial statement users to estimate the potential future effect of changes in tax laws or rates for each tax jurisdiction in which an entity has significant operations. At that time, the Board thought that such disclosure would require too much detail.

BC60. Although disclosing the expected effects of an enacted change in tax law on future periods would be the most useful, paragraph D34 of Chapter 8 of Concepts Statement 8 states that information of this type could have significant negative consequences and ". . . unknown future events that are beyond management's control cause the most concern because some of that information may turn out to be materially different from the actual future events or conditions when they occur." Chapter 8 indicates that it is not necessary for the Board to require that entities disclose in the notes to financial statements predictions of

future outcomes. However, a disclosure of what the effect of the change would have been on the current reporting period is not future oriented.

BC61. Most users supported a disclosure that describes an enacted change in tax law that is probable to have an effect on a reporting entity in a future period. They said that it would give them an indication of the entity's tax exposure.

BC62. Some preparers said that a disclosure that describes an enacted change in tax law that is probable to have an effect on the reporting entity in a future period would not be costly because they already make similar disclosures in either the notes to financial statements or the Management's Discussion and Analysis section of Form 10-K. Those preparers noted that management plans for those changes and, therefore, has the required information. However, other preparers indicated that it would be costly and complex to prepare the disclosure because probability would have to be assessed quantitatively. Preparers also expressed concerns about the large volume of tax law changes that occur and the volume of the resulting disclosures. The Board decided not to propose a requirement that an entity should disclose a description of an enacted change in tax law that is probable to have an effect on the reporting entity in a future period because the entity is required to disclose the effects of an enacted change in tax law or rate on its deferred tax liability or asset balances and similar information would be provided in the Management's Discussion and Analysis section of Form 10-K.

## Deferred Tax Line Item

BC63. Paragraph 740-10-50-2 requires an entity to disclose total deferred tax assets, deferred tax liabilities, valuation allowance, and the net change during the year in the total valuation allowance. However, deferred taxes can be presented on multiple line items on the statement of financial position (for example, deferred tax assets or liabilities or other assets or liabilities), and users generally struggle with understanding the effect of taxes on the financial statements. The PIR on Statement 109 states that ". . . investors have some difficulty understanding income tax information provided in the financial statements and their level of satisfaction with that information varies."

BC64. Chapter 8 of Concepts Statement 8 indicates that the Board should consider requiring disclosure of the relationship between financial statement line items if the relationship otherwise is not apparent (Decision Question L14).

BC65. Although that disclosure was indicated by Chapter 8 for consideration and some reporting entities currently disclose deferred taxes by statement of financial position line items, the Board did not propose a requirement for an entity to disclose deferred taxes by statement of financial position line items because most users indicated that this disclosure would not add much value to their analyses and any significant deferred taxes are required to be presented separately on the statement of financial position.

## Valuation Allowance

BC66. As discussed further in paragraph BC63 of this proposed Update, paragraph 740-10-50-2 requires an entity to disclose the total valuation allowance and the net change in total valuation allowance during the year. However, Topic 740 does not require a disclosure of the amounts recorded and released in the valuation allowance during the reporting period or an explanation of the nature of those amounts. SEC Regulation S-X 210.12-09, *Valuation and Qualifying Accounts*, requires an entity to provide a schedule of information on valuation and reserves if that is not disclosed elsewhere. In practice, some entities subject to that SEC Regulation disclose a rollforward of the valuation allowance in the notes to financial statements rather than in a separate schedule as referenced in SEC Regulation S-X 210.12-09.

BC67. Chapter 8 of Concepts Statement 8 indicates that the Board should consider requiring disclosure of the causes of the changes in line items if those changes are not readily assessable because there are numerous causes or because the line item is subject to nonroutine changes (Decision Question L5).

BC68. Many users said that they would like to understand the reasons for the changes in the valuation allowance. Some asked for a detailed rollforward (which includes disaggregation of the changes in the valuation allowance between amounts recorded and amounts released during the period) in the notes to financial statements. They said that what is currently disclosed is too highly aggregated to be useful. Preparers indicated that such a disclosure should not be costly. Therefore, the Board decided to require a public business entity to disclose the amounts and give an explanation of the valuation allowance recognized and/or released during the reporting period.

## Carryforwards

BC69. Paragraph 740-10-50-3(a) currently requires all entities to disclose the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes. Paragraph 740-10-50-6 currently requires a public entity to disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances).

BC70. Stakeholders indicated that there is diversity in practice about the guidance in paragraph 740-10-50-3(a). Some entities disclose the amount that is reported on their tax returns, which is not tax effected, while other entities disclose the tax-effected carryforwards (that is, the amount recorded as a deferred tax asset). Users said that they would like to see a disclosure of the pretax carryforwards and the deferred tax asset for carryforwards disaggregated by year of expiration. They explained that both amounts are useful in performing their analyses.



BC71. The Board proposed that a public business entity disclose the amounts of deferred tax asset for carryforwards before the valuation allowance. Specifically, the amounts of those carryforwards would be disclosed by time period of expiration for each of the first five years after the reporting date, a total of the amounts for the remaining years, and a total amount for carryforwards that do not expire. The Board proposed this disclosure because it would make the carryforwards' disclosure more comparable across entities and more beneficial to users. Furthermore, preparers indicated that the disclosure would not be costly.

BC72. In making this decision, the Board considered changes to disclosures of carryforwards as a result of the Tax Cuts and Jobs Act. Under the Tax Cuts and Jobs Act, federal net operating loss and interest carryforwards arising in tax years beginning after December 31, 2017 no longer expire. However, loss carryforwards in other jurisdictions and credit carryforwards may still expire. The Board considered whether it would still be useful for an entity to disclose the time period of expiration for carryforwards if those that are likely to be the most significant have no expiration date. During outreach, stakeholders indicated that certain significant carryforwards will still expire after the enactment of the Tax Cuts and Jobs Act, including foreign net operating loss carryforwards, U.S. general business credit carryforwards, and foreign tax credit carryforwards. Stakeholders also noted that federal net operating losses that arose before the enactment of the Tax Cuts and Jobs Act only can be carried forward for 20 years, so they will still expire in future periods. Therefore, in this proposed Update, for a public business entity the Board decided to require (a) the disclosure of carryforwards by time period of expiration because that information still would be useful to users and (b) the disclosure of carryforwards that do not expire.

BC73. The Board decided not to require a disclosure of the amount of carryforwards on a non-tax-effected basis by year of expiration. Stakeholders indicated that the disclosure of non-tax-effected carryforward amounts could be misleading because tax credit carryforwards do not have a corresponding non-tax-effected amount. Therefore, an entity would need to disclose either an amount that includes both non-tax-effected carryforwards and tax credit carryforwards or an amount that does not include tax credit carryforwards, which would affect the relationship between the non-tax-effected amount and the tax-effected amount. Additionally, stakeholders indicated that non-tax-effected state carryforwards could be double counted. That is, an entity might double count the same non-tax-effected carryforward amount that is reported on two different tax returns because the entity would receive a benefit for that non-tax-effected amount in two states, although the amounts would be subject to each state's apportionment rules. For example, a \$1 million loss carryforward would be disclosed as a \$1 million carryforward for federal purposes while it would be disclosed as a \$2 million carryforward for state purposes. Users were unaware that the number could be double counted.

BC74. Some Board members preferred improving the decision usefulness of non-tax-effected carryforwards by requiring an entity to separately disclose loss carryforwards from credit carryforwards. Other Board members believe that the

tax-effected amount of carryforwards provides decision-useful information to users.

BC75. Paragraph 740-10-45-10A requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward.

BC76. The Board determined that disaggregating the unrecognized tax benefit by expiration date associated with the carryforwards would be complex and costly. However, the Board decided to require that a public business entity disclose the total amount of unrecognized tax benefits that offset the deferred tax asset attributable to carryforwards. That would be consistent with Chapter 8 of Concepts Statement 8 because unrecognized tax benefits and carryforwards are different in nature and are measured differently (Decision Question L4).

BC77. The Board proposed that a public business entity disclose the valuation allowance associated with the deferred tax asset for federal, state, and foreign carryforwards. Stakeholders indicated that disclosing deferred tax assets for carryforwards without also disclosing the associated valuation allowance could be misleading. That is because a user could incorrectly infer that the deferred tax assets are set to expire and will result in an income tax expense when, in fact, there is a valuation allowance associated with the deferred tax asset because the entity has already determined that the deferred tax asset will not be realizable. Stakeholders also indicated that not disclosing the associated valuation allowance could lead users to infer that an entity possesses assets to reduce future taxable income even when the entity does not expect to realize that benefit.

## Discounting of Deferred Tax Liabilities

BC78. Chapter 8 of Concepts Statement 8 indicates that the Board should consider a disclosure of an alternative measure of deferred tax assets and liabilities on a discounted basis (Decision Question L13).

BC79. The basis for conclusions in Statement 109 states that implementation issues associated with discounting income taxes are numerous and complex. Those implementation issues include (a) selection of the discount rate(s) and (b) determination of when and in what amount the assets or liabilities will be used or come due. FASB Statement No. 96, *Accounting for Income Taxes*, required this detailed analysis of the future reversals of temporary differences, and there was frequent criticism of the guidance. For those reasons, the Board did not consider discounting deferred tax assets and liabilities at that time.

BC80. During outreach conducted for this proposed Update, preparer and practitioner stakeholders confirmed that the same concerns about discounting deferred tax assets and liabilities were raised before the issuance of Statement 109. Furthermore, users are satisfied with the deferred tax assets and liabilities

being measured on a nondiscounted basis. Therefore, the Board did not propose a requirement for an entity to disclose deferred income taxes on a discounted basis.

## Rate Reconciliation

BC81. Paragraph 740-10-50-12 currently requires a public entity to disclose a reconciliation using percentages or dollar amounts of the reported income tax expense (or benefit) attributable to continuing operations for the year to the amount of income tax expense (or benefit) that would result from applying the domestic federal statutory rates to income (or loss) before income tax expense (or benefit) from continuing operations. SEC Regulation S-X 210.4-08(h)(2) requires a public business entity to do the following:

In the reconciliation between the amount of reported total income tax expense (benefit) and the amount computed by multiplying the income (loss) before tax by the applicable statutory Federal income tax rate, if no individual reconciling item amounts to more than five percent of the amount computed by multiplying the income before tax by the applicable statutory Federal income tax rate, and the total difference to be reconciled is less than five percent of such computed amount, no reconciliation need be provided unless it would be significant in appraising the trend of earnings. Reconciling items that are individually less than five percent of the computed amount may be aggregated in the reconciliation. Where the reporting person is a foreign entity, the income tax rate in that person's country of domicile should normally be used in making the above computation, but different rates should not be used for subsidiaries or other segments of a reporting entity. When the rate used by a reporting person is other than the United State Federal corporate income tax rate, the rate used and the basis for using such rate shall be disclosed.

BC82. The rate reconciliation is not indicated by Chapter 8 of Concepts Statement 8. The disclosure explains how a standard benchmark differs from a reporting entity's results. The Board, along with many users and preparers, notes that this makes the rate reconciliation one of the most useful disclosures about income taxes. The Board, therefore, proposed that this disclosure requirement be retained.

BC83. The Board proposed that the threshold for the rate reconciliation that exists under SEC rules be included in GAAP because it would make the requirements consistent and should not result in incremental costs because the requirement is only for public business entities. One Board member indicated that the 5 percent threshold included in this proposed Update may not be the appropriate threshold if the tax rate significantly changes, such as the change under the Tax Cuts and Jobs Act. The Board decided to request feedback on the threshold.

BC84. In addition, the Board decided that the amendments in this proposed Update would require a public business entity to provide an explanation of the change in an amount or percentage of a reconciling item from year to year. The Board believes that this disclosure would be meaningful to users and would not be costly because preparers should know why those reconciling items change if the change is significant.

## Income Taxes Paid in Interim Periods

BC85. Paragraph 230-10-50-2 currently requires an entity to disclose income taxes paid during the period. During outreach, users indicated that some entities do not provide this disclosure on a quarterly basis. Users indicated that cash taxes paid is an important data point in their analyses, and, therefore, it would be helpful if the Board clarified that this disclosure is required in interim periods. Therefore, the Board decided to propose a clarification to this disclosure requirement.

## Private Company Considerations

BC86. The Board proposed that some of the disclosure requirements should differ for entities other than public business entities, primarily because the expected costs of providing those disclosures would not be justified by the expected benefits. In arriving at its decisions, the Board considered the Private Company Decision-Making Framework and concluded that the minimum level of disclosures needed by users of private company financial statements differs because many of the users of private company financial statements already receive, or have the ability to obtain, tax information such as tax returns from the entity. Furthermore, some users of private company financial statements explained that many of the disclosures required of public business entities provide so much detail that those disclosures may confuse the users' analyses.

## Foreign Tax Issues

BC87. Private company stakeholders and FASB advisory groups indicated that private companies that have significant foreign activities (typically, large multinational private companies) are likely able to bear the costs associated with preparing the same disclosures as public business entities. Therefore, the Board decided that an entity other than a public business entity should provide the same disclosures pertaining to foreign earnings and taxes as a public business entity, which include:

- a. Income (or loss) from continuing operations before intra-entity eliminations and before income tax expense (or benefit) disaggregated between domestic and foreign

- b. Income tax expense (or benefit) from continuing operations disaggregated among federal, state, and foreign
- c. Income taxes paid disaggregated among federal, state, and foreign.

## Rate Reconciliation

BC88. Paragraph 740-10-50-13 currently states that “a nonpublic entity shall disclose the nature of significant reconciling items but may omit a numerical reconciliation.” Paragraph DF4 of the Private Company Decision-Making Framework states that:

. . . as long as footnotes contain sufficient relevant information to inform users of the significant economic activities of the entity during the year, follow-up access to management should enable primary users of private company financial statements to seek the additional information they require. Thus, disclosures for private companies need to provide the information necessary to enable users to ask management follow-up questions that would fulfill their information needs, that is, the red-flag approach.

BC89. Private company users said that they typically focus on (a) information related to tax payments due according to the tax return, (b) compliance with taxing authorities (for example, whether tax returns have been filed and income taxes have been paid), and (c) income taxes paid in the aggregate.

BC90. Private company preparers, practitioners, and FASB advisory groups expressed some concerns related to disclosure of a rate reconciliation. They said that because a private company generally outsources preparation of the income tax provision and related notes to the financial statements, a rate reconciliation would be costly and compromise the timeliness of reporting. Additionally, those stakeholders said that the 5 percent threshold used to identify reconciling items in the rate reconciliation is insignificant to the financial statements and could be perceived as a materiality threshold for other tax disclosures. Therefore, the Board decided that the amendments in this proposed Update on rate reconciliation are not applicable to entities other than public business entities.

## Valuation Allowance and Carryforwards

BC91. Paragraph 740-10-50-8 currently requires a nonpublic entity to disclose the types of significant temporary differences and carryforwards, but it may omit disclosing the tax effects of each type. In addition, a nonpublic entity currently is required to make the disclosures in paragraph 740-10-50-2 (see paragraph BC63 of this proposed Update) related to valuation allowance and those in paragraph 740-10-50-3(a) related to carryforwards (see paragraph BC69 of this proposed Update).

BC92. Users of private company financial statements do not base their capital allocation decisions on information related to valuation allowance and carryforwards. Rather, they look at other information as described in paragraph

BC89 of this proposed Update. Although users can ask for details about the currently reported disclosures, preparers said that they could not recall a time in which they were asked for additional information about valuation allowance and carryforwards.

BC93. The Board decided that the amendments in this proposed Update on valuation allowance and carryforwards should not apply to entities other than public business entities. Private company preparers indicated that disclosing the tax-effected amounts of carryforwards would be complex and costly. Therefore, to reduce the expected costs of providing information about carryforwards, the Board proposed disclosure requirements for carryforwards that differ for entities other than public business entities. The Board considered a requirement for entities other than public business entities to disclose the total amounts of federal, state, and foreign carryforwards (not tax effected) and their expiration dates because the purpose of this disaggregation is to prevent providing misleading information to users. Stakeholders indicated that the non-tax-effected carryforward amounts may be misleading for the reasons described in paragraph BC73. Therefore, the Board proposed that entities other than public business entities should disclose the non-tax-effected amounts of federal, state, and foreign loss carryforwards separately from federal, state, and foreign credit carryforwards.

## Effective Date and Transition

BC94. The amendments in this proposed Update would be applied prospectively.

BC95. The Board acknowledges that retrospective application would improve comparability of financial information across all periods presented. However, that application would be costly because entities would be required to gather prior-period information manually because systems would not have been in place to generate the information necessary for those prior-period disclosures. In addition, there is a high degree of risk associated with manual processes. Therefore, entities would need additional time to design and test internal controls over this manual process to ensure the integrity of the data for financial reporting. That would compromise the timeliness of the disclosures. Therefore, the Board determined that the expected benefits of retrospective application would not justify the expected costs.

BC96. The Board will determine the effective date and whether early adoption of the amendments in this proposed Update should be permitted after it considers stakeholder feedback on the proposed amendments.

## Amendments to the XBRL Taxonomy

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The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed improvements to the Taxonomy through [Proposed Taxonomy Improvements](#) provided at [www.fasb.org](http://www.fasb.org). After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the Taxonomy will be finalized as part of the annual release process.