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May 31, 2023

Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2023-ED100

Dear Ms. Salo:

The AICPA's Financial Reporting Executive Committee (FinREC) appreciates the opportunity to comment on FASB's Proposed Accounting Standards Update, *Income Taxes (Topic 740) Improvements to Income Tax Disclosures*.

FinREC supports FASB's efforts to improve income tax disclosures and recognizes the benefit that the proposed amendments would provide to investors and other users of financial statements. Following is specific feedback on the proposed ASU for your consideration.

Rate Reconciliation

FinREC believes that the proposed amendments to the rate reconciliation disclosure would result in more transparent and decision-useful information related to risk in foreign jurisdictions. However, FinREC believes that the Board should consider including a 5 percent threshold to be applied to the required categories in proposed FASB ASC 740-10-50-12A(a), similar to the threshold for reconciling items, to limit disclosures of clearly immaterial items.

In addition, FinREC requests clarification on the application of materiality and the 5 percent threshold for both the rate reconciliation and income taxes paid disclosures. FinREC acknowledges the discussion in paragraphs BC15 and BC27 of the Basis for Conclusions of the proposed ASU, that FASB ASC 105-10-05-6 applies to the proposed amendments, such that application of quantitative thresholds would not apply to immaterial items, but were uncertain about the interaction of a materiality threshold and the 5 percent threshold. Specifically, FinREC members were unclear whether to apply the materiality threshold at the overall disclosure level, or at the individual 5 percent threshold level. It would be unusual for the rate reconciliation as a whole to not be material to the financial statements, but any individual reconciling item that exceeds the 5 percent threshold might nonetheless be immaterial.

FinREC also requests that the Board consider including the discussion in paragraph BC21 of the Basis for Conclusions of the proposed ASU, that entities operating at or around break even may use a normalized pretax income (or loss) amount or a higher federal or national tax rate for purposed of preparing the rate reconciliation, within the final standard instead of the Basis for Conclusions. FinREC observes that it is not unusual for an entity to operate at or around break even, and thus providing clarity on how such an entity should report the rate reconciliation would be helpful.

1345 Avenue of the Americas, 27th Floor, New York, NY 10105
T: +1 212.596.6200 F: +1 212.536.6213
aicpa-cima.com | cimaglobal.com | aicpa.org | cgma.org

FinREC believes that the proposed guidance in ASC 740-10-50-12B requiring public business entities to provide a qualitative description of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category, could be challenging to apply for entities that operate in a large number of jurisdictions. FinREC believes additional clarification around how to determine what constitutes a majority when an entity operates in a sizable number of state or local jurisdictions would be helpful and would ensure consistent application, as would provision of a more detailed disclosure example.

<u>Income Taxes Paid</u>

FinREC believes that the proposed amendments to the income taxes paid disclosure will result in more transparent and decision-useful information.

However, FinREC notes that the application of the 5 percent threshold for income taxes paid could result in voluminous disclosures for multinational entities. Therefore, FinREC requests that the Board consider providing a cumulative threshold (similar to what is required for segment reporting) or other higher threshold that could still fulfill the objective of providing transparent and decision-useful information to financial statement users while focusing the disclosure on information that is truly meaningful.

See additional comments under the "Private Company Considerations" section of this letter for concerns with application of the 5 percent threshold for the income taxes paid disclosure to private companies.

<u>Private Company Considerations</u>

FinREC recommends that the Board perform additional outreach with financial statement users to determine if the proposed 5 percent threshold for disclosure of income taxes paid to individual jurisdictions is meaningful for private companies, or if a higher threshold could still provide useful information. FinREC also observes that there are concerns about costs of the proposed disclosures for private companies and recommends that the Board allow private companies extra time for adoption of the final standard. For example, in order to determine the qualitative disclosures related to the rate reconciliation as required by the proposed amendments to ASC 740-10-50-13, a private company would still need to do some level of quantitative analysis.

<u>Transition and Effective Date</u>

FinREC believes that a swift adoption and implementation of the disclosures should be the Board's objective when finalizing the standard. However, swift adoption with required full retrospective application could pose a challenge, particularly for multi-national companies that would need additional time to gather the required detailed information for the rate reconciliation disclosure and establish the appropriate procedures and controls to report in timely manner each reporting period. Therefore, FinREC recommends that the Board instead require prospective adoption in the reporting year the requirements are effective, with an option for retrospective application at the preparer's discretion. This would allow a preparer to choose prospective or retrospective using their judgment considering their financial statement users' needs and information available. FinREC does not believe that the potential benefits to financial statement users of required full retrospective application would outweigh the necessary delay in the effective date caused by additional time and effort required by many preparers.

While public companies already provide a subset of the proposed disclosures under SEC guidance, FinREC does not believe that a lengthy transition period would be required. However as noted above, we support additional time for private companies to comply with the proposed requirements.

Members of FinREC and AICPA staff would be pleased to discuss any of these comments at your convenience.

Sincerely,

Angela J. Newell, Chair FinREC