



May 20, 2019

Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB March 25, 2019 Exposure Draft, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Framework for Income Taxes* [File Reference No. 2019-500]

Dear Mr. Kuhaneck:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Exposure Draft, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Framework for Income Taxes* (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the Board's efforts to reduce cost and complexity in income tax disclosures while also addressing any new disclosures that might be warranted related to the Tax Cuts and Jobs Act. TIC is aware that the Board has spent a few years and had many deliberations trying to develop appropriate disclosure requirements for both public business entities (PBEs) as well as entities that are not considered to be PBEs (which TIC will refer to as "private companies" for purposes of this letter). From TIC's read of the Basis for Conclusions of this ED, it is clear that there are some varying opinions on income tax disclosure matters.

Since TIC's primary focus is on firms that provide services to private companies, TIC's comments in this letter are focused mainly on the ED provisions related to private companies.

SPECIFIC COMMENTS

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.*

TIC does not believe the additional disaggregated disclosure requirements would provide more decision-useful information for users of private company financial statements. As stated in BC 89 of the ED, private company users typically focus on information related to tax payments due according to the tax return, compliance with taxing authorities, and income taxes paid in the aggregate. The disaggregation of certain disclosures, particularly between federal and state, do not appear to address any of these matters of private company users' focus.

In addition, paragraph 2.7 of the private Company Decision-Making framework states the following:

“Because many users of private company financial statements do not seek the same level of detailed information as do users of public company financial statements and because of cost considerations, the Board and the PCC generally should consider not requiring the disclosure of disaggregated information such as the following:

- a. A tabular reconciliation of the beginning and ending balances of balance sheet accounts, even if the reconciliation provides information that relates to areas included in paragraph 2.8
- b. Quantitative details about the composition of certain income statement or balance sheet line items.

This proposed requirement in the ED seems to counter the objective above.

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

TIC believes the proposed additional disaggregated disclosure requirements as they relate to private companies could pose operational issues driven by resource constraints. Private companies often focus internal resources on closing their books and preparing for an audit or review of their financial statements to meet financial covenants in borrowing agreements or to report to investor owners. This often includes a materially correct estimate related to income taxes as well as verified financial information to prepare a tax return extension. However, the more detailed and precise calculation of the income taxes, including state taxes, may not be prepared until after the financial statement issuance, when financial results are final and verified. In certain cases, the information for the added disaggregated disclosures would not be available in time for the financial reporting deadlines and, therefore, not auditable.

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

TIC believes the proposed disclosures could impose significant incremental costs for private company financial statement preparers. Many private entities outsource preparation of their tax provision and deferred tax calculations. The more detailed calculations required to separate tax information by jurisdiction could be more costly to prepare when using a third party provider. Additionally, TIC questions whether all of the proposed disaggregated disclosures would provide decision-useful information for private company financial statement users and whether the additional cost is worth any added benefit.

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?*

TIC believes that in the private entity environment, these additional disclosures would not provide decision-useful information to users based on the focal points in BC 89 of the ED as discussed in our response to question 1. If this requirement remains for private companies in the final standard, TIC believes that the Board would have to specify the requirement to calculate before intra entity eliminations to reduce any potential confusion and diversity in practice.

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?*

TIC believes the proposed requirement to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction may not be operable within the financial reporting deadlines that private entities typically have for lenders and owners. TIC also questions whether this provides decision-useful information in a private company context as discussed in our response to question 1.

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.*

TIC could not determine any additional disclosures that should apply for private companies as a result of the Tax Cuts and Jobs Act.

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.*

TIC notes that ASC 740-10-50-15(e) is only required when unrecognized tax benefits are present at an entity. TIC notes there is confusion and diversity in practice applying this disclosure requirement and has even created peer review issues in some cases. TIC recommends FASB either revise the wording in ASC 740-10-50-15(e) or issue some non-authoritative guidance to clarify this practice issue.

TIC could not come up with any additional disclosure requirements that should be removed as a result of the Tax Cuts and Jobs Act.

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.*

Conceptually, TIC is generally in favor of reducing the number of different definitions of public entity (3) and nonpublic entity (5) in the Codification. TIC believes the impact of this particular change is that an entity that did not meet the ASC 740 definition of public entity that meets criterion e of the public business entity definition will now be subject to the proposed expanded ASC 740 disclosure requirements. TIC believes this change will impact some entities; however, we believe the impact will be limited and will not affect a significant number of entities. TIC appreciates inclusion of the question in the ED and we look forward to comments received from other stakeholders to avoid any unintended consequences.

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.*

TIC does not agree that the proposed disclosures should be required for private companies. However, if the disclosures remain, TIC believes they should only be required in the current year and prospectively. TIC does not believe the effort required to restate the prior year outweighs the benefits of the additional disclosures.

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.*

If the proposed amendments move forward for private companies, TIC would ask for at least one year of additional time to implement these additional disclosures and, preferably, 2 years from the date it would be required for PBEs. TIC believes that it takes more than one annual cycle for SEC comment letters to become available and the lessons learned from public companies emerge so that the private companies can be well-prepared to adopt a new standard. TIC has similar concerns about the upcoming effective date of the new lease standard, especially right on the heels of the new revenue standard effective date for private companies. TIC has expressed these concerns in a separate comment letter dated May 13, 2019.

TIC also would ask the Board to consider permitting private companies to early adopt the relief (disclosure removal provided in paragraphs 740-10-50-15 of the ED), but not additional or added requirements. This would be similar to the transition requirements of ASU 2016-01 on financial instruments that permitted early adoption for part, but not all, of a standard. Early adoption may be useful if a company has significant disclosures of unrecognized tax benefits, but TIC was not sure if it will outweigh the added requirements.

TIC also is aware that the Board has a project on their agenda to attempt to clarify several areas of guidance and remove some exemptions in ASC 740 that spark confusion and add complexity. TIC also discussed some of these items with the Board in July 2017 and would welcome the opportunity to comment on those items as well, likely in our upcoming responses to the latest exposure draft related to income taxes, Proposed Accounting Standards Update—*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees