



June 25, 2019

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

Re: FASB May 14, 2019 Exposure Draft, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes [File Reference No. 2019-700]

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 appreciates the Board's efforts to simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The proposed amendments also would improve consistent application of and simplify GAAP for other areas of ASC 740 by clarifying and amending guidance that already exists within GAAP. TIC discussed some of these issues with the Board in an October 2016 meeting and is pleased to see some of the suggestions reflected in the ED.

Question 1: *Do you agree that the amendments in this proposed Update would simplify the accounting for income taxes? If not, please explain which proposed amendment(s) you disagree with and why.*

Yes. TIC believes that the changes proposed in this ED will simplify the accounting for income taxes. TIC appreciates, for example, the proposed guidance in ASC 740-10-30-27 whereby an entity is not required to allocate the consolidated amount of current and deferred tax expense to legal entities that are not subject to tax (for example, disregarded entities such as single-member limited liability companies). In addition, FASB is providing flexibility by allowing an entity to elect to allocate the consolidated amount of current and deferred tax expense to legal entities

that are not subject to tax and that are disregarded by the taxing authority. This is a practice issue that is common in private companies.

Question 2: *Do the proposed amendments maintain or improve the usefulness of information provided to users? Alternatively, would the proposed amendments result in the elimination of decision-useful information? Please explain why or why not.*

TIC believes the proposed amendments maintain usefulness of information provided to users. As an example, providing specific disclosure guidance in 740-10-50-17A for entities that are not subject to tax and that are disregarded by the taxing authority that elect to include the allocated amount of current and deferred tax expense in its separately issued financial statements is especially helpful and will reduce diversity in practice.

Question 3: *Are the proposed amendments operable and auditable? If not, which aspects pose operability or auditability issues and why? Would any of the proposed amendments impose significant incremental costs? If so, please describe the nature and extent of the additional costs.*

TIC believes the proposed amendments are operable and auditable and would not impose significant incremental costs or auditability issues.

Question 4: *Are the transition requirements and transition disclosures for the proposed amendments appropriate? If not, what transition approach or transition requirements would be more appropriate and why?*

TIC believes that the proposed transition guidance and transition disclosures are appropriate.

Question 5: *How much time would be needed to adopt the proposed amendments? Should early adoption be permitted? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Why or why not?*

TIC believes that most entities would not need much time to implement the proposed amendments; however, entities other than public business entities should be given at least one additional year to adopt the provisions of this ED. The one-year delay for private companies is consistent with section 4.1 of the Private Company Decision-Making Framework. TIC is aware that the Board currently has an active project on its agenda to review the effective date guidance for all entities going forward and TIC looks forward to the outcome of those discussions which are scheduled to be held on July 17. As noted in an unsolicited letter sent by TIC on May 13, 2019, TIC would prefer that the Private Company Decision-Making Framework include a two-year delay for private companies to adopt new standards going forward. However, TIC believes since this ED should result in some clarification and disclosure relief, early adoption should be permitted.

ADDITIONAL COMMENT

As discussed in ASC 740-10-30-7 and ASC 740-10-55-102 through 55-107, once a tax position qualifies for recognition because it meets the “more likely than not” criteria, the “measurement” step (the second step in the model) indicates that the preparer shall consider the amounts and probabilities of the outcomes that could be realized upon settlement using the facts, circumstances, and information available at the reporting date. The implementation guidance provides an example using a “cumulative probability” analysis to determine the measurement of each tax position determined to meet the recognition criteria. In practice, preparers develop their best estimate of the tax position using the facts, circumstances, and information available at the reporting date but, then, back into the final number by constructing a table with multiple possible outcomes and individual probabilities as demonstrated in the standard.

TIC believes it would be simple (and consistent with practice) to present the measurement illustration in the standard as one possible approach to determining a “best estimate” using the facts, circumstances, and information available at the reporting date. The required development of probability factors is subjective and does not provide more useful information than a simple “best estimate” determination. The current rule requires application of an objective analysis to subjective accounting.

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, appearing to read 'Danielle Supkis-Cheek', with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee