

## ***FASB adds income tax accounting topics to its agenda***

August 2014

### ***In brief***

During its Agenda Prioritization meeting on August 13, 2014, the Financial Accounting Standards Board ('FASB' or 'Board') added the following two income tax accounting topics to its agenda as part of its broader simplification initiative:

- Possible elimination of the exception for recognizing deferred taxes on certain intercompany transactions under ASC 740-10-25-3(e), and
- Possible classification of all deferred tax assets and liabilities as non-current

The Board also asked the staff to perform additional research on potentially eliminating the intraperiod tax allocation rules by having income tax expense reported as a single line item.

### ***In detail***

On August 13, 2014 the FASB held a decision-making meeting with the purpose of prioritizing the Board's upcoming technical agenda. The Board voted on various topics throughout the meeting. Consideration was given to several potential topics related to income taxes which could reduce complexity.

The impetus for the consideration of these topics came from several sources. Those sources included feedback from the Financial Accounting Foundation's (FAF) Post-Implementation Review completed November 2013, an agenda request submitted with respect to the intercompany transaction exception, and

stakeholders' ideas communicated in response to the Board's Simplification Initiative.

The FASB staff performed additional research and outreach on all of the foregoing. The staff presented the Board with specific topics relating to the following eight areas of accounting for income taxes under ASC 740.

- Intraperiod tax allocation
- Intra-entity transfer of assets
- Earnings determined to be indefinitely reinvested in foreign subsidiaries
- Presentation of deferred tax accounts - classification as current and noncurrent

- Balance sheet allocation of valuation allowances
- Presentation of deferred tax accounts - jurisdictional netting
- Valuation allowance estimates
- Backwards tracing

Many of the issues presented to the Board were recently highlighted in PwC's [\*Point of view: Accounting for income taxes – A case for simplification\*](#). The Board voted to add two income tax topics to the upcoming agenda and requested that

additional research be performed on a third topic.

In addition to the topics discussed at the meeting, the FASB staff noted that potential changes to income tax disclosures will be considered as part of the overall review of disclosures in the Disclosure Framework Project.

### ***Topics added to the FASB agenda***

The Board agreed to add possible elimination of the exception for recognizing deferred taxes on certain intercompany transactions, specifically the transfer of assets under ASC 740-10-25-3(e), to its technical agenda. The FAF identified the exception as an area that was challenging for preparers during its Post-Implementation Review. The exception does not exist under IFRS and was to be eliminated as part of the ultimately abandoned short-term tax convergence project.

Additionally, the Board added to its agenda consideration of whether all deferred tax assets and liabilities should be classified as non-current. The Board noted that if this classification of deferred tax assets and liabilities was adopted it would eliminate the complexity around the

allocation of a valuation allowance (a topic also presented by the staff). Classification of all deferred taxes as non-current would be consistent with IFRS.

### ***Request for additional staff research***

The Board asked the FASB staff to undertake additional research to consider whether the FASB should either have a separate project for possible elimination of intraperiod tax allocation, or have that be considered as part of a larger comprehensive project on performance reporting.

The Board noted that the complexity around the exception to the application of the intraperiod allocation rules that applies when losses from continuing operation offset gains in other components, as well as the so-called “backwards tracing” issue (both presented by the staff) would be moot if intraperiod allocation were eliminated.

### ***Items not added to the agenda***

The Board decided to not make any changes to the guidance for earnings determined to be indefinitely reinvested in foreign subsidiaries.

Additionally, the Board decided against adding topics associated with presenting deferred tax assets and liabilities separately (i.e., removing jurisdictional netting) and additional guidance for assessing valuation allowances

### ***The takeaway***

Accounting for income taxes continues to be a complex challenging area of financial accounting. Users of financial statements continue to look for decision useful information on cash flows and risks related to income taxes. Preparers and auditors continue to struggle with the cost and complexity of compliance.

The steps taken today by the FASB and the ongoing efforts of the FASB staff may lead to significant near-term improvements.

Organizations should continue to watch for further developments as the FASB works through the tax accounting topics that were initiated at the meeting along with those which will be considered in the Disclosure Framework Project.

## ***Let's talk***

For a deeper discussion of how the FASB actions may affect your business, please contact:

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