The FASB and IASB issued a joint revenue recognition standard “Revenue from Contracts with Customers.”

This largely principles-based standard provides a framework to address revenue recognition issues comprehensively for all contracts with customers regardless of industry-specific or transaction-specific fact patterns for both US GAAP and IFRS, with certain limited exceptions.

The new standard, many observers believe, will affect the financial reporting practices of almost every company. Importantly, when a change in the recognition of revenue is required, the change often will result in recognizing revenue sooner, though certain cases could result in later recognition of revenue compared to the current standard.

The new standard is effective in 2018, with early adoption allowed for 2017. Companies may need to present three years of financial data — 2016, 2017 & 2018 — upon implementation, so the time to analyze the accounting and tax implications of the new standard is now.

**Tax impact of changes to revenue can be pervasive**

Changes to the recognition of revenue for financial accounting could impact a company’s taxes in a number of ways, from tax accounting method changes, cash taxes, book-tax differences, deferred taxes, state income taxes, sales & use tax, indirect taxes, transfer pricing documentation and strategies, and international tax planning and reporting. As a result, it is important for tax departments to be closely involved in the analysis of the new standard to identify the tax implications of any financial accounting changes.

**How do the changes impact your industry? Examples include:**

- **Aerospace & defense**
  Changes in the recognition of long-term contracts could significantly change the timing of revenue

- **Automotive**
  Accounting for pre-production activities and marketing incentives could change the timing of revenue

- **Communications**
  More revenue might be recorded upfront in bundled sales of hardware and services

- **Engineering & construction**
  The elimination of industry guidance could result in earlier revenue

- **Entertainment and media**
  A new model for license fees could significantly change the timing of revenue

- **Pharmaceuticals & life sciences**
  Recognition of contingent consideration could significantly accelerate revenue

- **Retail and consumer**
  A new model for customer incentives and loyalty programs could significantly change the timing of revenue

- **Technology**
  Revenue is no longer deferred due to lack of vendor specific objective evidence of value
The new standard will change the way many companies recognize revenue in their financial statements.

**Tax considerations of revenue recognition standard**

PwC has a dedicated team of industry and technical specialists that are available to assist with identifying and evaluating the tax implications of any revenue changes, and assist with implementing any necessary changes. Examples include:

**Tax accounting methods** – Evaluate impact of book changes on tax accounting methods, Assess effect of changes on the company’s cash tax position, Identify any new book/tax differences (e.g., unbilled contingent consideration), Identify any required tax accounting method changes (e.g., new deferred revenue), Prepare or review any Forms 3115 (Application for Change in Accounting Method), and Calculate or review any required Section 481 adjustments.

**ASC 740 (Accounting for Income Taxes)** – Identify adjustments to existing deferred tax balances (e.g., recognition of advance payments deferred to extent of new book deferral), Evaluate any changes in current/non-current deferred classification, Consider impacts on any valuation allowances, uncertain tax positions, Consider effect on intraperiod allocations.

**Transfer pricing** – Evaluate impact on benchmarking analyses (including timing of impact on comparables vs tested party), Evaluate impact on intercompany invoice amounts, Allow additional lead in case for year-end transfer pricing adjustments, Consider necessary changes to documentation and additional clarifications in policies.

**International tax** – Evaluate effect of any book and/or tax method changes on E&P, Consider potential impacts on determination of foreign source income, Determine whether there is an effect to controlled foreign corporation debt netting calculation, Identify any impacts to allocation of interest expense under fair market value apportionment method.

**State and local tax** – Evaluate sales and use tax implications, including potential impact on the amount subject to tax and possible system needs, Evaluate income and net worth implications, including potential impact on tax base and apportionment.

**Value added taxes** – Identify any VAT implications (e.g., as whether principal or agent for VAT reporting).

**Tax deductions/revenue impacts** – Quantify impact of change in taxable income on Section 199 deduction, Consider potential effects on credits (e.g., R&E).

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To discuss how we might be able to help you, please contact:

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