The Association of
Accountants and
Financial Professionals
in Business

May 31, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-500, Proposed Accounting Standards Update, Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure—Requirements for Income Taxes—Revision of Exposure Draft Issued July 26, 2016

Dear Mr. Kuhaneck:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to provide feedback on the Financial Accounting Standards Board's (Board) Proposed Accounting Standards Update, Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure—Requirements for Income Taxes—Revision of Exposure Draft Issued July 26, 2016 (Update).

The IMA is a global association representing over 130,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

We commend the Board's initiative to improve the effectiveness of income tax disclosures as part of its disclosure framework project and as a result of recent changes to the taxation of U.S. business entities from the U.S. Federal Tax Cuts and Jobs Act of 2017 (TCJA) enacted by the U.S. Federal government. We are supportive of the Board's willingness to clarify certain of the existing Securities and Exchange Commission (SEC) disclosure requirements for income taxes and add them to the Codification to reduce diversity in practice in the application of those SEC requirements. We are also supportive of the proposed amendments that eliminate certain income tax disclosures because they are either not compatible with the Board's disclosure framework or no longer provide decision-useful information to users of financial statements.

However, we believe that the incremental income tax disclosure requirements proposed in the amendments appear more granular than needed by users. We believe these proposed incremental income tax disclosures would not provide decision-useful information for users of financial statements. If a specific need for enhanced level of detail for income tax disclosures has been communicated to the Board, we believe such need could be addressed in an alternative, limited manner that would not result in the

The Association of Accountants and Financial Professionals in Business

creation of incremental information by preparers and increase the complexity of the disclosures for users. For example, preparers may separately furnish detailed income tax disclosures to their respective taxing authorities (such as information provided to the Internal Revenue Service in the U.S. or as part of the Country-by-Country reporting under the Base Erosion and Profit Shifting reporting framework) to satisfy those authorities' specific needs for detailed income tax information.

Considering our overall observations above, we note the following concerns on certain proposed amendments in this Update.

1. The proposed requirement to disclose income paid before income taxes from continuing operations *before intra-entity eliminations* (as opposed to after intra-entity eliminations as interpreted and disclosed by many preparers under the current SEC disclosure requirements) is operationally very challenging. We are concerned with the complexity in applying "before intra-entity eliminations" and the potential diversity in practice with interpretation across a myriad of income tax intra-entity transactions. For example, for income taxes on intra-entity profits on inventory remaining within the consolidated group (as per paragraph 810-10-45-8) it is not clear how the proposed clarification would be applied. Another example is in a business combination in which acquired basis adjustments are not pushed down (under the accounting policy election as per paragraph 805-50-25-8) to a legal entity level under separate jurisdictions where the proposed disclosure could result in further diversity.

   In addition, disclosing a measure of earnings not typically utilized by management or the chief decision-making officer may not result in the most decision-useful information. Further, based on our understanding of the U.S. and foreign tax systems (prior to certain recent law changes and reforms, most notably the TCJA for U.S. entities), the Board's assumption that the amount of income before income taxes (from continuing operations) before intra-entity eliminations would have a more direct relationship with income tax expense (or benefit) is not as accurate following the enactment of the TCJA. Currently, under the provisions of the Global Intangible Low-Taxed Income regime, U.S. multinational business entities may be subjected to U.S. income taxes on earnings that would be reported as non-U.S. pretax income under this proposed disclosure requirement. In addition, a U.S. parent company can elect to have a foreign subsidiary disregarded from its parent company for U.S. Federal income tax purposes (a.k.a. "Check-the-box" approach) and thus subjected to income taxes in both the U.S. and the foreign jurisdictions. There may be other examples where, even when accounting for the impact of intra-entity eliminations, there would not be a recognizable direct relationship between amounts reported before intra-entity eliminations and income tax expense (or benefit), thus negating the decision-usefulness of the proposed disclosure.

   Also, for preparers whose systems and processes are designed to report income before income taxes from continuing operations after intra-entity eliminations, implementing the proposed requirement would be operationally challenging and, in some cases, inoperable, and the costs to comply would likely outweigh the benefits.

   Finally, we are not aware of diversity in practice under the current SEC requirements about whether income before (or loss) from continuing operations is disclosed before or after the intra-entity elimination. None of the companies of our preparer members currently report income before (or loss) from continuing operations before intra-entity eliminations. Even if there is some small amount of

diversity, we believe that for most preparers the proposed amendment requiring disclosure of income before (or loss) from continuing operations before intra-entity eliminations would be a departure from the current predominant approach.

As such, we believe that the Board should not make it a requirement to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic components and foreign components either before or after intra-entity eliminations. Rather, we recommend that the Board allow preparers to continue their current practice of disclosing these amounts, either before or after intra-entity eliminations, consistent with the current SEC requirements, while stating whether amounts presented are before or after intra-entity eliminations.

2. Regarding Question 5 of the Update, we believe that, consistent with the concerns articulated above (in 1. above), the granularity and complexity resulting from a proposed amendment to require further disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction (compared to the disaggregation currently required under the SEC regulations would be operationally challenging with costs outweighing benefits and would not result in decision-useful information for users of financial statements.

3. We agree that cash taxes paid is an important data point in some users' analyses. Therefore, we agree with the Board's clarification that the disclosure of income taxes paid during the period under Topic 230, Statement of Cash Flows is required for interim periods.

However, it is not clear to us, and therefore we recommend that the Board clarify, whether the proposed amendment in paragraph 740-10-50-22 requiring disclosure of cash taxes paid in interim period is also intended to be disaggregated by jurisdiction (federal or national, state, and foreign).We believe the proposed disclosure of cash taxes paid disaggregated by jurisdiction in interim period would not be decision-useful given that tax payments are made based on estimates and vary in timing across different tax jurisdictions over the course of a year, resulting in unnecessary variation in disclosures that does not necessarily correlate with jurisdictional tax payment cycles. Information about tax payments is refined over an annual period consistent with the annual tax payment cycle of various jurisdictions. Therefore, we believe that the disclosure of cash taxes paid disaggregated by jurisdiction should not be required in interim periods.

Further, we believe that disaggregation of cash taxes paid for annual disclosure purposes should not be a requirement because, consistent with the concerns articulated above (in 1. above), such granularity would not necessarily result in decision-useful for users of financial statements. We recommend that the Board provide preparers with flexibility (based on their respective facts and circumstances) in determining the appropriate level of disaggregation of cash taxes paid for annual disclosure purposes.

4. We disagree with the proposed requirement in paragraph 740-10-50-6A for public business entities to provide both the amounts of deferred tax assets for federal, state, and foreign carryforwards (tax effected before any valuation allowance) by time period of expiration, as well as the valuation allowance associated with the total tax-effected amounts of federal, state, and foreign carryforwards (for public business entities). The proposed disclosure would require preparers to schedule deferred tax assets by period of expiration to allocate the valuation allowance to the respective carryforwards.

The Association of
Accountants and
Financial Professionals
in Business

Under existing guidance, the scheduling of deferred tax assets is generally not a requirement except under certain circumstances, as entities may conclude that expected future taxable income will be adequate to eliminate the need for a valuation allowance (ASC 740-10-55-15) without the need for scheduling. Further, the determination of a valuation allowance is not solely based on deferred tax carryforwards and if/when they expire, but also on other factors including deductible temporary differences, thereby requiring entities to allocate the valuation allowance to the tax carryforwards solely for disclosure purposes. It is hard for us to believe that such an allocation which is not needed by management would result in decision-useful information for users. Instead we believe the proposed amendment can be simplified and made more useful by limiting disaggregation of both the deferred tax asset amounts and the related valuation allowances among federal, state, and foreign carryforwards (i.e., without the proposed requirement to disaggregate by the time period of expiration).

5. We do not object to the proposed requirement to modify the existing rate reconciliation requirement to be consistent with SEC Regulation S-X 201.4-08(h). However, we disagree with the proposed requirement for public business entities to explain the change in an amount or a percentage of a reconciling item from year to year as we believe that the line item descriptions in the rate reconciliation, along with the disclosures in Management Discussion and Analysis, already provide this information.

Also, we believe that following the enactment of the TCJA, which lowered the statutory income tax rates for U.S. business entities, the current 5% threshold for separate disclosure of reconciling items results in unnecessary granularity in the rate reconciliation. To address that concern, we recommend that the Board consider a higher threshold (e.g., 10%) for separating rate reconciliation items. Nonetheless, we do acknowledge that for such a change to become effective, the rate reconciliation threshold in SEC Regulation S-X would also need to change, and the Board may need to work with the SEC to achieve that alignment.

* * * * *

We appreciate the Board's consideration of our concerns and proposed solutions. We would be pleased to discuss with the Board or its staff at your convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com