

# To the Point

FASB – proposed guidance

## FASB revises its proposal to change income tax disclosure requirements

The proposal would require many entities to provide more disaggregated income tax disclosures.

### What you need to know

- ▶ The FASB revised its proposal to change the income tax disclosure requirements, after evaluating feedback and the effects of the Tax Cuts and Jobs Act.
- ▶ The proposal would require entities to provide separate foreign and domestic disclosures about pre-tax income (loss) from continuing operations before intra-entity eliminations and other disaggregated disclosures about tax expense (benefit) and income taxes paid.
- ▶ The proposal would eliminate requirements to disclose certain information related to unrecognized deferred tax liabilities and uncertain tax positions.
- ▶ The proposal would change certain disclosure requirements related to uncertain tax positions, valuation allowances, the effective tax rate reconciliation and tax carryforwards.
- ▶ Comments are due by 31 May 2019.

### Overview

The Financial Accounting Standards Board (FASB or Board) issued a [proposal](#) that would (1) require entities to disaggregate certain income tax disclosures, (2) eliminate certain disclosure requirements related to uncertain tax positions and unrecognized deferred tax liabilities and (3) change certain disclosure requirements related to uncertain tax positions, valuation allowances, the effective tax rate reconciliation and tax carryforwards.

The proposal would also replace the term public entity with public business entity (PBE) in Accounting Standards Codification (ASC) 740.

The Board issued the proposal after evaluating feedback on its 2016 exposure draft and the effects of the Tax Cuts and Jobs Act (TCJA). In doing so, the FASB decided not to move forward with its initial proposal to require disclosures of (1) cash, cash equivalents and marketable securities held by foreign subsidiaries and (2) disaggregated tax information at the country level, among other things. However, the FASB is seeking comments on whether it should require entities to provide separate disclosures of income tax expense (or benefit) from continuing operations for major tax jurisdictions.

The revised proposal is part of the FASB's broader disclosure framework project that is aimed at making disclosures in the notes to the financial statements clearly communicate the most important information. The proposal also would align certain disclosure requirements in ASC 740 with Securities and Exchange Commission (SEC) requirements in Regulation S-X and is expected to reduce diversity in practice.

## Key considerations

### Disaggregated domestic and foreign disclosures

The proposal would require all entities to disclose the following information in addition to what is already required:

- ▶ Income (or loss) from continuing operations before intra-entity eliminations and before income tax expense (or benefit), disaggregated between domestic and foreign
- ▶ Income tax expense (or benefit) from continuing operations, disaggregated between federal or national, state and foreign
- ▶ Income taxes paid, disaggregated between federal or national, state and foreign

The proposal would clarify that income tax expense and income taxes paid on foreign earnings that are imposed by the jurisdiction of domicile are to be included in the amount for that jurisdiction of domicile. For example, income taxes on global intangible low-taxed income of a US reporting entity would be classified as federal because the income tax is imposed by the US government.

### How we see it

Entities should evaluate whether the level at which they make intra-entity eliminations provides the information they would need to separate pre-consolidation income (loss) for domestic and foreign operations. Entities might have to change their processes and controls to provide this disclosure.

### Indefinitely reinvested foreign earnings

The proposal would eliminate the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because the entity asserts that it is indefinitely reinvesting foreign earnings or because it meets the criteria for other exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

The Board proposed this change because it said the TCJA made the requirement in ASC 740-30-50-2(b) less relevant for users of the financial statements. That is, the tax consequences are less significant because the TCJA generally allows entities to repatriate earnings from their foreign subsidiaries without incurring US federal income taxes.

## The proposal would align certain income tax ASC 740 disclosure requirements with Regulation S-X.

### Unrecognized tax benefits

The proposal would require PBEs to disclose the amount of unrecognized tax benefits and the balance sheet item in which they are recorded. It also includes an example of one way to comply with this proposed requirement.

In addition, it would eliminate for all entities today's requirement to disclose certain information when it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

### Rate reconciliation

The proposal would align the income tax rate reconciliation disclosure requirements with key requirements in Regulation S-X. PBEs would be required to disclose a reconciliation of the amount computed by multiplying pretax income (loss) by the applicable statutory federal or national income tax rate and the total income tax expense (benefit) from continuing operations. The proposal also would incorporate into ASC 740 the SEC guidance on determining the appropriate statutory tax rate to be used in the reconciliation.<sup>1</sup>

Individual reconciling items that exceed 5% of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate also would have to be separately disclosed. The proposal would go beyond Regulation S-X to require PBEs to disclose an explanation of the year-to-year change of each reconciling item.

### Tax carryforwards

The proposal would amend the guidance related to tax carryforwards and require PBEs to disclose:

- ▶ The amounts of deferred tax assets for federal or national, state and foreign carryforwards (tax effected), before any valuation allowance, disaggregated by period of expiration for each of the first five years after the reporting date, a total for any remaining years and a total for carryforwards that do not expire
- ▶ The total amount of unrecognized tax benefits that offsets the deferred tax assets attributable to carryforwards
- ▶ The amounts of any valuation allowance recognized for federal or national, state and foreign carryforwards

Entities that are not PBEs would be required to disclose the total amounts of federal or national, state and foreign tax credit carryforwards and the total amounts of other federal or national, state and foreign carryforwards (not tax effected), separately for those carryforwards that do not expire and those that do expire, along with their expiration dates (or range of expiration dates).

The proposal also includes an example of one way to make the proposed tax carryforwards disclosures.

### Valuation allowances

The proposal would require PBEs to provide an explanation of the nature and amounts of valuation allowances recorded or released during the reporting period. All entities would continue to disclose the total valuation allowance recognized for deferred tax assets and the net change in the total valuation allowance for the year.

### Interim reporting of income taxes paid

The proposal would amend ASC 230, *Statement of Cash Flows*, to require companies to disclose in their interim financial statements income taxes paid during the interim period.

## How we see it

Entities should consider whether they have the information they would need to comply with all of the proposed disclosures discussed above or whether they would have to change their processes and controls to collect it.

### Use of the term PBE

The proposal would eliminate references to a public entity in ASC 740 and replace them with the term PBE, which is defined in the ASC Master Glossary. Because the definition of a PBE is broader than the ASC 740 definition, the proposal would require entities that are considered PBEs but don't meet the current definition of a public entity in ASC 740 to provide more disclosures.

### Effective date and transition

The guidance would be applied prospectively. The FASB said it would determine an effective date and whether early adoption would be permitted after it receives feedback on the proposal.

### Endnote:

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<sup>1</sup> If a PBE is not domiciled in the US, the federal or national income tax rate in that entity's country of domicile would normally be used. When a PBE uses a rate other than the federal or national income tax rate in its country of domicile, the PBE is required to disclose that rate and the basis for using it.

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