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To the Point

FASB — final guidance

Presentation of unrecognized tax benefits

The guidance will likely change balance sheet presentation of unrecognized tax benefits and deferred tax assets.

What you need to know

- The FASB issued final guidance that requires unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met.
- The guidance is effective for fiscal years and interim periods within those years beginning after 15 December 2013 for public entities.
- For nonpublic entities, the guidance is effective for fiscal years and interim periods within those years beginning after 15 December 2014.
- Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB) today issued final guidance[1] on the presentation of certain unrecognized tax benefits in the financial statements.

US GAAP did not previously provide explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The FASB staff's historical view was that the unrecognized tax benefit and the deferred tax asset would be presented gross on the face of the balance sheet unless the unrecognized tax benefit creates or increases a deferred tax asset such as a net operating loss carryforward. The new guidance is based on a final consensus of the FASB's Emerging Issues Task Force.

Building a better working world

The Accounting Standards Update (ASU) provides that a liability related to an unrecognized tax benefit would be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In that case, the liability associated with the unrecognized tax benefit is presented in the financial statements as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. In situations in which a net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with deferred tax assets.

Key considerations

The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exist at the reporting date and presumes disallowance of the tax position at the reporting date.

The presentation of unrecognized tax benefits as a reduction of a deferred tax asset is consistent with an entity's analysis of the realizability of its deferred tax assets and, as a result, is not expected to change an entity's assessment of realizability. The gross presentation in the rollforward of unrecognized tax positions in the notes to the financial statements is still required.

The change to net presentation may require more effort for entities that operate in multiple jurisdictions.

There is no change in the recognition criteria for windfall tax benefits related to stock compensation (i.e., an excess tax benefit related to stock compensation). That is, a deferred tax asset for an excess tax benefit is not recognized until the excess tax benefit is used to reduce taxes payable.

How we see it

The guidance will eliminate diversity in practice in the presentation of unrecognized tax benefits but will not alter the way in which entities assess deferred tax assets for realizability.

Companies that operate in multiple jurisdictions will need to track unrecognized tax benefits by jurisdiction and determine whether each jurisdiction requires or permits settlement of unrecognized tax benefits with a net operating loss, similar tax loss or tax credit carryforward.

Effective date and transition

The ASU is effective for fiscal years, and interim periods within those years, beginning after 15 December 2013 for public entities and 15 December 2014 for nonpublic entities. Early adoption is permitted. The ASU should be applied prospectively to unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

Endnote:

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1 ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*.