

PROFESSIONAL STANDARDS COMMITTEE

May 30, 2019

Director@fasb.org

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Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update (Revised): Income Taxes (Topic 740)
Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes

Dear FASB:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the questions included in the above-referenced exposure draft.

Question 1: Would the amendments in this proposed Update that add or modify disclosure requirements result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.

Response: In general, the amendments may result in making decision-useful information more effective. However, we are concerned that the proposal to disclose carryforwards in two different methods based on the type of entity (net of tax for PBEs and gross for private entities) will cause confusion for users of financial statements. Prior differences in GAAP between PBEs and private companies were based on an optional different underlying method of accounting (e.g., amortization of goodwill by private companies selecting that option versus annual impairment evaluation for other entities, including all public companies or simply not requiring a particular disclosure for private companies.) The proposal is precedent setting in that the underlying accounting for taxes is not different, but the related presentation of disclosures on carryforwards will be different. We are concerned this may cause a misunderstanding among users that the information is comparable when the disclosures are not equivalent. If the concern is the inability or lack of necessity for private companies to provide the carryforwards net of tax, we suggest the disclosure be eliminated for private companies rather than being required to be presented in a different, non-comparable form.

Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

Response: The committee thinks that the proposed disclosure requirements are operable and somewhat auditable. Consolidation entries will make the auditability more difficult, so there will be a definite learning curve. Also, the five-year detail table will contain so many estimates that it may not be auditable. The committee also believes that most companies will need time to fold new calculation requirements into their operations.

Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

Response: The committee thinks that the proposed disclosures may result in a possible increase in staff requirements and audit costs. Companies with significant accounting resources should not have a problem with the proposed requirements. Small and medium-sized companies may struggle with the additional complexity of the disclosures, which may result in an undue burden. Again, the committee questions the relevance of the five-year detail table for all entities. Many companies do not calculate valuation allowances for deferred tax assets for carryforwards. Realistically, it will be difficult for small and medium-sized companies to provide this information.

Question 4: One of the proposed amendments would require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign, which initial feedback indicated would reduce diversity in practice. Would this proposed amendment be operable? Should the Board specify whether the disclosed amounts should be before or after intra-entity eliminations? Why or why not?

Response: The committee thinks that if the disclosures do not tie back to the consolidated financial statements, then the methodology used to calculate the disclosure should be included in the disclosure. Because "intra-entity elimination" is not a GAAP defined term, diversity in practice will likely occur related to this disclosure. The proposed disclosure may involve information from multiple taxable entities, resulting in a likelihood that it will not tie back to any specific number in the financial statements. Therefore, while operable, the proposed disclosure may not be auditable. The committee is pleased that FASB is not requiring disclosure of taxes on a tax return basis.

Question 5: Would a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction be operable? Would such a proposed amendment result in decision-useful information about income taxes? Why or why not?

Response: The committee thinks that it will be more complex to calculate and present disaggregation of income tax expense, but still operable. Since income tax expense will more than likely not equal the taxes paid, the value of the proposed disclosure is questionable. The proposed thresholds would result in disclosure of major taxing entities only. This information might be useful to some analysts, but we question the value of the proposed requirement when considering cost versus benefit of the requirement.

Question 6: The proposed amendments would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-08(h). That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. Should the Board consider a threshold that is different than 5 percent? If so, please recommend a different threshold and give the basis for your recommendation.

Response: The committee thinks that it is more important to be consistent with the SEC regulations than to reduce the percentage threshold for reconciling items.

Question 7: Are there any other disclosures that should be required by Topic 740 on the basis of the concepts in Chapter 8 of Concepts Statement 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

Response: The committee recognizes that additional voluntary disclosures are always allowed, but does not think there is a need to recommend additional disclosures.

Question 8: Are there any disclosure requirements that should be removed on the basis of the concepts in Chapter 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.

Response: The committee thinks that there are no disclosure requirements that should be removed as a result of the Tax Cuts and Jobs Act, or for other reasons. The currently required disclosures are still relevant and effective.

Question 9: The proposed amendments would replace the term public entity in Topic 740 with the term public business entity as defined in the Master Glossary 5 of the Codification. Do you agree with the change in scope? If not, please describe why.

Response: The committee supports replacing the term in the glossary. Updated terms are necessary to reflect the current business environment.

Question 10: Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter, or should prior periods be restated in the year in which the requirements are effective? Please explain why.

Response: The committee does not think there is a reason to require restatement of prior years. Again, entities are allowed, if they choose, to restate prior year's information if they believe the disclosures are important.

Question 11: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.

Response: The committee thinks that an adequate timeframe would be two years from date of issuance, with interim statements for public companies required the following year. Also, early adoption may be permitted.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,



Ken Sibley, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants