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October 5, 2016

Susan M. Cosper, CPA
Technical Director
FASB
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PO Box 5116
Norwalk, CT 06856-5116

Re: July 26, 2016 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes* [File Reference No. 2016-270]

Dear Ms. Cosper:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration. For simplicity, the terms "entities other than public business entities," "private companies" and "private entities" are used interchangeably in this letter.

GENERAL COMMENTS

TIC supports the proposed amendments in the ED. TIC believes the disclosures that have been added and eliminated are appropriate and will improve the decision-usefulness of income tax disclosures for private entities. The decision questions in proposed FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, were successfully applied in developing the amendments to this ED. TIC also supports the proposed amendments related to the application of materiality which were based on the proposed Accounting Standards Update, *Notes to Financial Statements (Topic 235): Assessing Whether Disclosures Are Material*.

TIC has proposed only one recommendation to the Board for an additional amendment to the disclosures for income taxes. TIC believes that the Board should proceed with a technical correction to Topic 740 to clarify that disclosure of open tax years that remain subject to examination by major tax jurisdictions is unnecessary when no unrecognized tax benefits exist.

SPECIFIC COMMENTS

1. *Would the proposed amendments 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.*

   The disaggregation of domestic, state and foreign information in certain disclosures would add and not eliminate decision-useful information. TIC agrees with the Board's view in paragraph BC18 that more companies are now operating in foreign jurisdictions and that the proposed new disclosures would provide additional cash flow information to financial statement users, especially users of private company financial statements. The added transparency of domestic and foreign tax information should not result in additional preparation costs since that information is readily available to preparers.

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

   The information is operable and auditable. The information should be readily available to preparers and supporting documentation should be available to be audited.

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

   The proposed disclosures would not impose significant incremental costs for private companies.

4. *The Board is proposing that reporting entities disclose income taxes paid for any foreign country that is significant to total income taxes paid. The Board also considered requiring disclosure by significant country of income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations but decided that this disclosure would be costly and potentially not beneficial in assessing prospects for cash flows related to income taxes (see paragraph BC22 of this proposed Update). Are there other costs or benefits that the Board should consider regarding these potential disclosures? Are there other country-level disclosures that the Board should consider that may be more cost beneficial?*

TIC supports the Board's proposal to require reporting entities to disclose income taxes paid for any foreign country that is significant to total income taxes paid. TIC also agrees that disclosure by significant country of income (or loss) from continuing operations before income tax expense (or benefit) and disclosure of income tax expense (or benefit) from continuing operations could be costly depending on the complexity of foreign operations and would not be decision-useful information in assessing prospects for cash flows related to income taxes.

5. *The Board considered several disclosures on indefinitely reinvested foreign earnings (see paragraphs BC27–BC40 of this proposed Update). Is there other information that the Board should consider regarding these potential disclosures? Are there other disclosures about indefinitely reinvested foreign earnings that would be more cost beneficial?*

   TIC has no comment regarding other potential disclosures on indefinitely reinvested foreign earnings.

6. *The proposed amendments would apply to all entities, except for the requirements in paragraphs 740-10-50-6A through 50-6B, 740-10-50-12, and 740-10-50-15A for which entities other than public business entities would be exempt. Do you agree with the exemption for entities other than public business entities? If not, please describe why and which disclosures should be required for entities other than public business entities.*

   TIC agrees with the Board's exemption for entities other than public business entities as explained in paragraphs BC94 – BC102. In particular, TIC appreciates the continued exemption for private entities from the rate reconciliation disclosure, which would have resulted in excessive cost for private entities without commensurate benefits for financial statement users.

7. *Are there any other disclosures that should be required by Topic 740 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.*

   TIC has no further disclosure suggestions for entities other than public business entities.

8. *Are there any other disclosure requirements retained following the review of Topic 740 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why.*

   Although TIC has no additional suggestions for the removal of other disclosure requirements, TIC requests that the Board consider a technical correction relating to the unrecognized tax benefit related disclosures in Topic 740. The disclosure requirement in paragraph 740-10-50-15(e) relating to a description of tax years that remain subject to examination by major tax jurisdictions has caused considerable confusion and controversy, especially in peer review situations.

Some believe that the disclosure requirement is applicable to nonpublic entities even if such entities have no unrecognized tax benefits. Unfortunately, paragraph 740-10-50-15(e) does not specify that unrecognized tax benefits need to exist for the disclosure requirement to apply. As a result, differences of opinion arose despite the fact that paragraphs BC13-BC14 in the Basis for Conclusions of ASU 2009-06, *Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, are sufficiently clear that entities without material unrecognized tax benefits are not required to disclose tax years open to examination.

TIC believes the controversy could be permanently resolved if the Board would adopt the following amendment to the lead-in sentence to paragraph 740-10-50-15:

> *50-15 All entities* ***that have unrecognized tax benefits*** *shall disclose all of the following at the end of each annual reporting period presented:*
> .
> .
> .
> *e. a description of tax years that remain subject to examination by major tax jurisdictions.*
> [Suggested edits in boldface type]

If this correction cannot be implemented in this ASU, TIC requests that the above amendment be included in the next Technical Corrections and Improvements ED.

9. *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.*

TIC agrees that the disclosures should be adopted prospectively. TIC does not agree that prior periods should be restated in the year in which the requirements are effective. Retrospective application would add unnecessary costs and complexity in the year of adoption.

10. *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? If the answer is "yes" to either question, please explain why.*

TIC believes that entities other than public business entities would benefit by having an additional year to implement the proposed ASU, since those entities typically learn from any implementation issues experienced by public business entities. The additional year also gives less sophisticated private entities additional time to become aware of the new disclosures.

TIC also believes early adoption should be permitted for those entities wishing to implement the proposed ASU prior to its effective date. Since the information needed for the disclosures will be readily available, early adoption should be a viable option for those more sophisticated private entities that deem this information relevant to their financial statement users.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Michael A. Westervelt

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees