



July 15, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
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Re: File Reference 2019-700

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) May 14, 2019, Exposure Draft, *Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes*.

FinREC supports the Board's initiative to reduce complexity in accounting standards, while maintaining or improving the usefulness of the information provided to users of financial statements. We generally agree that the proposed amendments will simplify accounting for income taxes by removing certain exceptions to the general principles, and will improve consistency. However, as discussed in the attached responses, we did note a few observations and recommendations.

We also encourage the Board to consider completing the current research project on backwards tracing.

Appendix A to this letter includes our responses to the questions for respondents raised in the proposed ASU. Representatives of FinREC are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Angela Newell
Chair
FinREC

Steve Maniaci
Chair
FinREC Topic 740 Simplification Task Force

Appendix A

Responses to Questions for Respondents in the Proposed ASU

The AICPA is pleased to provide responses to specific questions for respondents presented in the proposed ASU.

Question 1: Do you agree that the amendments in this proposed Update would simplify the accounting for income taxes? If not, please explain which proposed amendment(s) you disagree with and why.

We generally agree that the proposed amendments will simplify the accounting for income taxes, except for the matters noted below.

- The proposed amendment in ASC 740-10-15 would require that an entity recognize a franchise tax (or similar tax) that is partially based on income in accordance with Topic 740 for the amount that is based on income, and account for any incremental amount incurred as a non-income-based tax.

We generally support the proposed amendment. However, we have observed that some have viewed this to be an insufficient simplification. They believe the entire amount of the tax should be treated as either an income tax or non-income tax with adequate disclosure. Others believe this is a sufficient simplification because the tax is allocated to Topic 740 first.

- The proposed amendment in ASC 740-10-25-54 would require that an entity evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized, and when it should be considered a separate transaction.

We generally support the proposed amendment, but would recommend the Board remove “must” in factor (e) related to “the entity must incur a cash tax cost” and state “the entity incurs a cash tax cost.” Removing “must” is consistent with the Board’s acknowledgement in paragraph BC11 that judgement would still be needed, and better reflects the fact that this is a factor to be considered rather than a requirement.

- The proposed amendment in ASC 740-10-30-27 would specify that a legal entity that is not subject to tax is not required to allocate the consolidated amount of current and deferred tax expense to its separate financial statements, but may elect to do so for a legal entity that is disregarded by the taxing authority.

We generally agree with the proposed amendment, but believe the final language should clarify which entities can make an election to allocate taxes since there is no formal definition of what constitutes a “disregarded” entity.

- The proposed amendments in ASC 323-740-55, ASC 323-740-25-6, ASC 323-740-30-2, ASC 323-740-35-3, and ASC 323-740-45-3, remove the example of applying the equity method to investments in qualified affordable housing projects.

We support a change to the existing codification. We believe that the Board should either fix the error in the existing equity example in ASC 323-740-55-8 to recognize the impairment in the appropriate period or remove both the equity example and the cost example, since Subtopic 323-740 is focused on the application of the proportional amortization method. If the Board removes the example(s), we suggest clarifying language to note that the method(s) continue to be acceptable.

We believe the proposed amendments generally would reduce complexity while maintaining decision-useful information from a preparer/auditor perspective. We will generally not provide any feedback from a financial statement user perspective.

Question 2: Do the proposed amendments maintain or improve the usefulness of information provided to users? Alternatively, would the proposed amendments result in the elimination of decision-useful information? Please explain why or why not?

We generally believe the proposed amendments will improve the usefulness of information by simplifying accounting for income taxes with the removal of certain exceptions to the general principles, as well as improve consistency, thus reducing complexity and removing some diversity in practice. We do not believe the proposed amendments would result in the elimination of decision-useful information.

Question 3: Are the proposed amendments operable and auditable? If not, which aspects pose operability or auditability issues and why? Would any of the proposed amendments impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

We generally believe the proposed amendments are operable and auditable except for the matters requiring clarification noted in Question 1.

We do not believe the proposed amendments would impose significant incremental costs.

Question 4: Are the transition requirements and transition disclosures for the proposed amendments appropriate? If not, what transition approach or transition requirements would be more appropriate and why?

We agree with the Board's suggested transition requirements, except that we believe the transition approach for the proposed amendment for franchise taxes that are partially based on income should be optional between the suggested retrospective basis and a modified retrospective basis. We agree that the proposed amendments for separate financial statements of entities not subject to tax should be applied on a retrospective basis. We also agree that proposed amendments to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis with cumulative-effect adjustments. Lastly, we agree that all other proposed adjustments should be applied on a prospective basis.

Question 5: How much time would be needed to adopt the proposed amendments? Should early adoption be permitted? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Why or why not?

We believe one year would provide enough time for public business entities to implement the changes proposed in this Exposure Draft. We also recommend a delayed effective date for other entities; that is, the effective date for those entities should be one year following the effective date for public entities, consistent with transition provisions in other new ASUs.

We also would not object to permitting early adoption. For example, some entities may have the relevant information readily available and decide to adopt as soon as is practicable.