FASB Proposes Changes to Income Tax Disclosure Requirements

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Background
On March 25, 2019, the FASB issued a proposed ASU\(^1\) that would modify or eliminate certain requirements related to income tax disclosures as well as establish new disclosure requirements. The proposed guidance, which is part of the Board's disclosure framework project, is intended to increase the relevance of income tax disclosures for financial statement users. Comments on the proposal are due by May 31, 2019.

The proposed ASU is a revised version of the FASB’s July 2016 exposure draft on changes to the income tax disclosure requirements (the “initial ED”). The Board discussed stakeholder feedback on the initial ED in January 2017 and again in November 2018, when it also assessed whether updates would be needed as a result of the Tax Cuts and Jobs Act (the “Act”).

This Heads Up compares the requirements in the initial ED with those in the proposed ASU (see Deloitte’s July 29, 2016, Heads Up for more information about the initial ED). The proposed ASU’s questions for respondents are reproduced in Appendix A for reference, and certain of its sample disclosures related to operating loss and tax credit carryforwards are reproduced in Appendix B.

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\(^1\) FASB Proposed Accounting Standards Update, Disclosure Framework — Changes to the Disclosure Requirements for Income Taxes.
**Key Changes Made by the Proposed ASU**

**Disaggregation**

The initial ED would have required **all entities** to disclose the following disaggregated amounts:

- The amount of pretax income (or loss) “from continuing operations . . . disaggregated between domestic and foreign.”

- The amount of “income tax expense (or benefit) from continuing operations disaggregated between domestic and foreign.”

- The amount of income taxes paid, disaggregated by foreign and domestic amounts. A further disaggregation would be required for “any country that is significant to total income taxes paid.”

The proposed ASU **retains** the disaggregated presentation of the amount of income (or loss) from continuing operations, the amount of income tax expense (or benefit) from continuing operations, and the amount of income taxes paid, disaggregated by foreign and domestic amounts, but it **removes** the by-significant-country disaggregation requirement related to income taxes paid.

On the basis of stakeholder feedback regarding concerns about (1) potential diversity with respect to the classification of U.S. federal income tax on foreign earnings (e.g., U.S. tax on global intangible low-taxed income) and (2) current diversity in practice related to reporting income or loss from continuing operations disaggregated between foreign and domestic amounts, the proposed ASU also contains **clarifications** related to the following:

- **Jurisdiction of domicile income tax on foreign earnings** — Such income tax should be classified as income tax for the jurisdiction of domicile (e.g., U.S. federal tax on global intangible low-taxed income resulting from foreign earnings is classified as domestic for a U.S. domiciled company).

- **Preconsolidation basis** — The amount of pretax income (or loss) from continuing operations indicated in the disaggregation should be presented “before intra-entity eliminations.” When deliberating the proposed guidance, some Board members expressed concern that diversity in practice could result because “before intra-entity eliminations” is not defined in U.S. GAAP. Accordingly, the FASB included **Question 4** in the proposed ASU’s questions for respondents to determine whether clarification is needed.

**Connecting the Dots**

In practice, some entities disaggregate elimination entries made in arriving at consolidated pretax income (loss) and push them back to the respective components, while others disregard such elimination entries and report the components before elimination entries. For more information, see Section 6.27A of Deloitte’s *A Roadmap to Accounting for Income Taxes*.

**Indefinitely Reinvested Foreign Earnings**

The Act introduced the concept of the “transition tax,” which requires U.S. shareholders to pay a tax on certain post-1986 undistributed and previously untaxed foreign earnings and profits. The transition tax has significantly reduced the amount of untaxed foreign earnings held by entities with foreign operations because taxes have been (or will be) paid on most, if not all, post-1986 earnings. As a result, the proposed ASU **removes** the initial ED’s proposed

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2 Represents an existing disclosure requirement for public business entities under SEC Regulation S-X, Rule 4-08(h), “Income Tax Expense.”

3 See footnote 2.
requirement in ASC 740-30-50-3 that any change to an indefinite reinvestment assertion made during the year must be disclosed, including the circumstances that caused such a change and the amount of earnings to which the change in assertion was related.

Similarly, the proposed ASU would remove the existing requirement in ASC 740-30-50-2(b) to disclose the “cumulative amount of each type of temporary difference” when a “deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.”

**Connecting the Dots**

Note that the proposed ASU would not eliminate the existing requirements in ASC 740-30-50-2(c) to (1) disclose the amount of unrecognized deferred tax liability related to investments in foreign subsidiaries and corporate joint ventures that are essentially permanent in duration or (2) provide a statement that determination of such deferred tax liability is not practicable.

Likewise, the proposed ASU removes the initial ED’s proposed requirement that entities disclose the aggregate of cash, cash equivalents, and marketable securities held by their foreign subsidiaries to help financial statement users predict the likelihood of future repatriations and the associated tax consequences related to foreign indefinitely reinvested earnings.

**Unrecognized Tax Benefits**

The proposed ASU removes the initial ED’s proposed requirement that entities disclose, in the tabular reconciliation of the total amount of unrecognized tax benefits required by proposed ASC 740-10-50-15A(a), settlements disaggregated by those that have been (or will be) settled in cash and those that have been (or will be) settled by using existing deferred tax assets (e.g., settlement by using existing net operating loss or tax credit carryforwards). But the proposed ASU retains the initial ED’s proposed requirement that public business entities provide a breakdown (i.e., a mapping) of the amount of total unrecognized tax benefits shown in the reconciliation of the total amounts of unrecognized tax benefits by the respective balance-sheet lines on which such unrecognized tax benefits are recorded. However, the proposed ASU removes the initial ED’s proposed requirement to disclose an unrecognized tax benefit that is not included in a balance-sheet line separately since it was unclear to which unrecognized tax benefit the requirement would now be relevant.

The proposed ASU also retains the proposal to remove the existing requirement in ASC 740-10-50-15(d) to disclose the details of tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months.

**Valuation Allowances**

The proposed ASU retains the initial ED’s proposed requirement that public business entities explain any valuation allowance recognized or released during the year, along with the corresponding amount.

**Rate Reconciliation**

The proposed ASU affirms the initial ED’s proposed amendment to the requirement in ASC 740-10-50-12 that a public business entity disclose the income tax rate reconciliation in a manner consistent with SEC Regulation S-X, Rule 4-08(h). As amended, ASC 740-10-50-12 would continue to require a public business entity to disclose a reconciliation of the reported amount of income tax expense (or benefit) from continuing operations to the amount of income tax expense (or benefit) that would result from multiplying the pretax income (or loss)
from continuing operations by the statutory federal or national income tax rate. However, the amendment would modify the requirement to disaggregate and separately present components in the rate reconciliation that are greater than or equal to 5 percent of the tax at the statutory rate in a manner consistent with the requirement in Rule 4-08(h).

During deliberations of the proposed ASU, some Board members questioned whether 5 percent is an appropriate threshold given the decrease to the U.S. statutory rate as a result of the Act. Thus, the FASB included Question 6 in the proposed ASU’s questions for respondents.

**Operating Loss and Tax Credit Carryforwards**

Currently, entities are required to disclose, for tax purposes, the amount and expiration dates of operating losses and tax credit carryforwards. Historically, there has been diversity in practice related to this disclosure requirement, which the initial ED sought to reduce by requiring a public business entity to disclose the total amount of:

- “[F]ederal, state, and foreign [gross net operating loss and tax credit] carryforwards (not tax effected) by time period of expiration for each of the first five years after the reporting date and a total for any remaining years.”
- “[D]eferred tax assets for federal, state, and foreign [net operating loss and tax credit] carryforwards (tax effected) before the valuation allowance.”

However, the proposed ASU removed the requirement to report not-tax-effected amounts because the Board determined that disclosing such amounts of federal or national, state, and foreign gross net operating loss and tax credit carryforwards does not provide decision-useful information. The Board also concluded that disclosure of the tax-effected amounts of federal or national, state, and foreign net operating loss and tax credit carryforwards is useful, so it retained the initial ED’s proposed requirement, with a modification to also disclose the valuation allowance associated with such amounts.

While the FASB voted to require public business entities to provide the tax-effected amounts of federal or national, state, and foreign deferred tax assets related to net operating loss and tax credit carryforwards, on the basis of feedback received from nonpublic entities, the Board retained the initial ED’s proposed requirement in ASC 740-10-50-8A that nonpublic entities disclose the total amounts of federal or national, state, and foreign tax credits and other federal or national, state, and foreign carryforwards (on a not-tax-effected basis) separately for (1) those carryforwards that expire and (2) those that do not, along with their expiration dates (or range of expiration dates).

Appendix B contains illustrations of the above disclosure requirements from the proposed ASU.

**Interim Disclosure Requirements**

The initial ED did not make changes to interim disclosure requirements. However, the proposed ASU would amend ASC 230-10-50-2 to add an interim requirement to disclose income taxes paid for all interim periods presented.

**Other Changes**

**Change in Tax Law**

The initial ED would have required an entity to disclose an enacted tax law change if it was probable that such a change would affect the entity in the future. Stakeholders expressed concerns that this language was potentially too broad, and the Board discussed the possibility of modifying the requirement to provide such disclosure if that change would have a “significant effect [on the entity] in a future period.” However, the Board ultimately determined...
that the disclosure requirement was unnecessary and **removed it** (ASC 740-10-50-22 in the initial ED) from the proposed ASU.

**Government Assistance**

The initial ED would have required an entity to disclose certain information related to assistance received from a governmental unit that reduces the entity's income taxes. However, this proposed disclosure was **removed** from the proposed ASU.

**Transition and Effective Date**

The proposed ASU would require the guidance to be applied prospectively, and the Board will determine an effective date and whether to permit early adoption after it considers feedback from stakeholders.
Appendix A — Questions for Respondents

The proposed ASUs' questions for respondents are reproduced below.

**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.

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

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

**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?

**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?

**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.

**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.

**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.

**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 of the Codification. Do you agree with the change in scope? If not, please describe why.

**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.

**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.
Appendix B — Illustrative Examples of Disclosures Related to Operating Loss and Tax Credit Carryforwards

The illustrative examples below are reproduced from the proposed ASU.

ASC 740-10 (Added Guidance Suggested by Proposed ASU 2019-500)

55-220 If Entity A is a public business entity, illustrative disclosure for the entity follows.

<table>
<thead>
<tr>
<th>Expires During Fiscal Year</th>
<th>Federal</th>
<th>State</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X2</td>
<td>$ 415</td>
<td>$ 155</td>
<td>$ 270</td>
<td>$ 840</td>
</tr>
<tr>
<td>20X3</td>
<td>380</td>
<td>125</td>
<td>330</td>
<td>835</td>
</tr>
<tr>
<td>20X4</td>
<td>300</td>
<td>80</td>
<td>270</td>
<td>650</td>
</tr>
<tr>
<td>20X5</td>
<td>320</td>
<td>85</td>
<td>165</td>
<td>570</td>
</tr>
<tr>
<td>20X6</td>
<td>210</td>
<td>90</td>
<td>120</td>
<td>420</td>
</tr>
<tr>
<td>Thereafter</td>
<td>560</td>
<td>245</td>
<td>210</td>
<td>1,015</td>
</tr>
<tr>
<td>Indefinite carryforwards</td>
<td>370</td>
<td>100</td>
<td>—</td>
<td>470</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td></td>
<td></td>
<td>4,800</td>
</tr>
<tr>
<td>Unrecognized tax benefits</td>
<td>(2,000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total tax effect</td>
<td></td>
<td></td>
<td></td>
<td>2,800</td>
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<td>Valuation allowance</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total tax effect</td>
<td></td>
<td></td>
<td></td>
<td>$ 2,800</td>
</tr>
</tbody>
</table>

Realization of the deferred tax asset is dependent on generating sufficient taxable income to utilize the carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

55-220A If Entity A is an entity other than a public business entity, illustrative disclosure for the entity follows.

The entity has $6.6 million, $6.0 million, and $5.4 million in federal, state, and foreign loss carryforwards (not tax effected), respectively, of which $1.8 million and $1.6 million in federal and state loss carryforwards, respectively, do not expire. The remaining loss carryforwards expire at various points between 20X2 and 20X9. The entity also has deferred tax assets of $1.2 million, $0.4 million, and $0.5 million for federal, state, and foreign credit carryforwards, respectively, which expire at various points between 20X2 and 20X7.

Realization of the deferred tax asset is dependent on generating sufficient taxable income to utilize the carryforwards. Although realization is not assured, management believes that it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.
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