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FASB re-proposes changes to income tax disclosures

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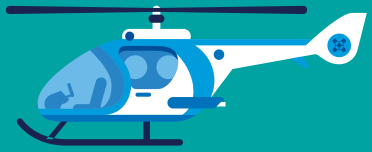

KPMG reports on the proposed ASU[1] to improve income tax disclosures, which is part of the FASB's disclosure framework project.

Applicability

All companies that are required to make disclosures about income taxes.

Key facts and impacts

The FASB recently re-proposed improvements to disclosures about income taxes, which were initially proposed in July 2016, but revised based on constituent feedback.

The proposed changes would:

- require disaggregated disclosures about domestic and foreign income (loss) from continuing operations before income tax expense (benefit);
- require disaggregated disclosures about federal, state and foreign:
  - income tax expense (benefit) from continuing operations;
  - income taxes paid;
  - carryforwards and related valuation allowances;
- modify disclosures about unrecognized tax benefits; and
- remove certain disclosures about undistributed earnings of subsidiaries and corporate joint ventures.

Testing the disclosure framework

The proposed disclosures are part of the FASB's disclosure review project that tests the effectiveness of its disclosure framework.[2] The FASB believes that the proposed ASU would help financial statement users better assess an entity's expected future cash flows and reduce costs for preparers by eliminating disclosures that are not useful.

In scoping the disclosures, the FASB proposed to replace the term 'public entity', that is used in current disclosure requirements, with the term 'public business entity' (PBE). An entity that is not considered a public entity, but meets the definition of a PBE, would be subject to the PBE disclosure requirements.

The FASB also proposed to clarify that an entity should provide disclosures for existing interest and penalties for all periods presented and the open tax years as of the most recent balance sheet date.

[1] Proposed ASU, Changes to the Disclosure Requirements for Income Taxes, March 25, 2019

[2] FASB Concepts Statement 8, Conceptual Framework for Financial Reporting: Chapter 8 Notes to Financial Statements, August 28, 2018

Proposed new disclosures

All entities would disaggregate income (or loss) from continuing operations before intra-entity eliminations between domestic and foreign.

In addition, all entities would disaggregate these amounts between federal or national, state and foreign:

- income tax expense (or benefit) from continuing operations; and
- income taxes paid.

An entity would include in federal or national income tax expense and income taxes paid amounts imposed by its country of domicile on foreign earnings. For interim periods, it also would disclose the total income taxes paid.

PBEs would disclose the:

- amount and explanation of the valuation allowance recognized and released during the period, if any; and
- amount of unrecognized tax benefits by balance sheet line item.

Modifications to existing disclosures

Under current US GAAP, **all entities** must disclose the amounts and expiration dates of carryforwards shown on the income tax return.

The proposed ASU would require **PBEs** to disclose the amount of:

- federal or national, state and foreign carryforwards (tax effected) before valuation allowance, disaggregated by expiration for the first five years, the total for any remaining years, and the total for those that do not expire;
- valuation allowance recognized for federal or national, state and foreign carryforward deferred tax assets; and
- unrecognized tax benefits that reduce deferred tax assets for carryforwards.

Other entities would disclose separately for those carryforwards that expire and those that do not the:

- amount of federal or national, state and foreign tax credit carryforwards; and
- amount of other federal or national, state and foreign carryforwards (not tax effected).

Other entities also would disclose the expiration dates, or range of dates, of the carryforwards.

Under current US GAAP, **PBEs** must provide a reconciliation (using percentages or dollar amounts) of the reported income tax expense to the income tax expense that would result from applying the domestic federal rate to pre-tax income.

The proposed ASU would align the US GAAP disclosure with SEC requirements. Thus, when preparing the rate reconciliation a PBE would:

- identify the 'domestic' rate as the federal or national income tax rate in its country of domicile;
- explain the basis for using a domestic rate other than the federal or national rate in the country of domicile;
- separately disclose reconciling items that are more than five percent of the amount computed by multiplying income before tax by the applicable statutory federal or national income tax rate; and
- explain year-to-year changes in reconciling items.

Removed disclosures

The proposed ASU would remove disclosure requirements for all entities related to the:

- nature and estimate of possible changes in unrecognized tax benefits for the next 12 months; and
- cumulative amount of each type of temporary difference for which deferred taxes have not been recognized (due to the exception to recognizing deferred taxes related to subsidiaries and corporate joint ventures).

Looking ahead

Entities would apply the proposed changes prospectively. The FASB will determine the effective date after it reviews comments, which are due May 31.

We encourage entities to consider what effect these disclosures would have on their financial statements; whether they would be cost effective and operable; and whether they would provide more useful information to financial statement users.

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KPMG's Financial Reporting View

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