

April 8, 2015

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File Reference No. 2015-210

Proposed Accounting Standards Update: Income Taxes (Topic 740) *Balance Sheet Classification of Deferred Taxes*

The Accounting Principles and Assurance Services Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee consists of 53 members, of whom 47 percent are from local or regional CPA firms, 27 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international CPA firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

**Question 1:** *Should all deferred income tax liabilities and assets be presented as noncurrent in a classified statement of financial position? If not, why, and what alternatives should the Board consider, and what is the conceptual basis for the alternatives?*

The Committee opposes the Board's proposal. The Committee strongly favors simplification of the Board's standards on accounting for income taxes. However, the classification of deferred taxes in the statement of financial position is not, in our view, a worthwhile simplification. The idea that the classification does not generally align with the time period in which the recognized deferred tax amounts are expected to be recovered or settled is incorrect. The deferred taxes are in most cases, associated with assets and liabilities which, on a net basis, may not change much from period to period, although assets and liabilities carried as current usually turn over during a working capital cycle, usually a year. Similarly, at least on a notional basis, deferred taxes turn over the same way. Thus, for example, if deferred taxes are associated with deferred magazine subscription revenue which is being amortized over one year subscription period, that deferred subscription revenue at the beginning of the year will be gone by the end of the year, and in the normal course, replaced by new deferred subscription revenue that is for the next period. Just because the net deferred subscription revenue tends not to change from one period to the next is not a reason to classify it as non-current. Similarly, the deferred taxes associated with it should not be considered non-current simply because the net balance does not change from year to year.

Further, and using deferred subscription revenue as an example, the effect of not classifying the deferred taxes as current is distortive. The deferred tax is actually a current prepayment of income taxes related to the deferred revenue.

Accountants, both preparers and auditors, have learned to deal with the complexities of classification of deferred taxes in instances where there are complexities. We are not sure users appreciate the benefits of the current/ non-current classification; they have seen it no other way for, literally, generations. Costs of doing eliminating the classification of deferred taxes are, in our view, not justified by the benefits.

**Question 2:** *Should the proposed guidance be applied on a prospective basis?*

If the proposal is enacted, we do not see any reason it cannot be applied retroactively quite easily. The jurisdictional netting that the Board points to as a reason not to implement the proposal retroactively is not, in the Committee's view, difficult to deal with nor a sufficient reason not to make classification consistent in all periods.

**Question 3:** *Should the amendments in this proposed Update be effective for:*

- a. Public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2016*
- b. All other entities for annual periods beginning after December 15, 2017, and interim periods in annual periods beginning after December 15, 2018, with early adoption permitted, but not before the effective date for public business entities?*

The Committee has no comment on the proposed effective dates.

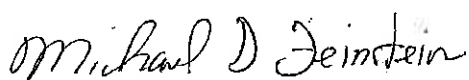
**Question 4:** *What would be the expected transition costs of adopting the guidance in the proposed Update? What would be the expected recurring costs of applying the proposed guidance compared with the costs of applying current GAAP?*

The Committee does not believe the transition costs related to the calculation of any reclassification would be significant. However, for entities with agreements requiring certain levels of working capital, generally loan agreements, there may be a need to renegotiate the provisions of the agreement, and costs of doing that could be significant. While there might be cost savings once the new guidance is implemented, the Committee does not believe that such savings would be significant.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,



Michael D. Feinstein  
Chair  
Accounting Principles and Assurance Services Committee  
California Society of Certified Public Accountants