

September 12, 2016

Technical Director
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Proposed Accounting Standards Update Income Taxes (Topic 740) *Disclosure Framework—Changes to the Disclosure Requirements for Income 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 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international 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: 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 Committee believes that the proposed amendments would result in more effective, decision-useful information about income taxes. It would provide users with information about sustainability of tax rates and, thus, give users additional information to make predictions about the amount, timing, and uncertainty of future cash flows. The proposed amendments would not result in elimination of any decision useful information.

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

The Committee believes that the proposed disclosure requirements operable and auditable.

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

The Committee does not believe that the proposed disclosures impose significant incremental costs on public business entities since many of the disclosures are already being made. However, to the extent that entities other than public business entities are

required to make disclosures that are not made under current standards, there will be more significant incremental costs.

Question 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?

The Committee believes that the Board has struck an appropriate balance on country-level disclosures of foreign income taxes. We believe the analysis in paragraph BC22 is correct, and that disclosures beyond those proposed could have a cost far beyond any benefit.

Question 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?

The Committee believes that the additional disclosures in the proposed Update are appropriate, and we agree that the additional disclosures considered by the Board should not be required. However, we suggest that the Board reconsider the desirability of disclosure of restriction of remittances of cash, cash equivalents, and marketable securities held by foreign subsidiaries because without such disclosure there is an implication that the amounts are remittable. We recognize that disclosure of restrictions may be vague because of complexity of laws and regulations, but disclosure of the potential restrictions may be important.

Question 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.

The Committee agrees with the exemptions for entities other than public business entities.

Question 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.

The Committee has not identified any other disclosures that should be required by Topic 740, except as noted in response to Question 5 and as noted in the following paragraph.

The scope of the disclosure of income tax relief under agreements with a government in paragraph 740-10-53-23 is not adequate. In our comments dated February 8, 2016 on the Proposed Accounting Standards Update: Government Assistance (Topic 832) *Disclosures by Business Entities about Government Assistance*, we stated:

The Committee agrees that disclosure should be required for legally enforceable agreements in which an entity or entities receive value from a government. The Committee believes that disclosure should be expanded to include transactions in which the government is legally required to provide a nondiscretionary level of assistance to an entity simply because the entity meets applicable eligibility requirements that are broadly available without specific agreement between the entity and the government. Government assistance is essentially the same whether it is under a legally enforceable agreement or nondiscretionary. There are many nondiscretionary assistance programs, and there is the same lack of transparency for them as there is for legally enforceable agreements. For an entity operating in numerous jurisdictions, their terms and conditions are no more readily apparent or otherwise known to a financial statement user than they are for legally enforceable agreements.

This comment is equally applicable to assistance under income tax laws.

Question 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.

The Committee believes that income tax disclosures are extensive and complex, and believes as well that the proposed Concepts Statement can be interpreted inconsistently. However, we believe that the disclosure requirements retained are decision useful and therefore should be retained.

Question 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.

The Committee agrees with the Board that the proposed disclosures should be applied prospectively. Retrospective application could be unduly expensive. However, retrospective application of part or all of the disclosures should be permitted.

Question 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.

The Committee has not quantified the time needed to implement the proposed Update. But we do believe that it will be disproportionately higher for entities other than public business entities because the new disclosures for them are more extensive and entities other than public business entities tend to have less sophisticated accounting abilities than public business entities, which may make them more dependent of outside professional help.

For this reason, we suggest that the effective date for entities other than public business entities should be deferred for one year past the effective date for public business entities.

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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,

A handwritten signature in black ink that reads "A.J. Major III". The signature is written in a cursive style with a large initial "A" and "J" connected together, followed by "Major" and "III" which is underlined.

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants