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Technical Director
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Proposed Accounting Standards Update (Revised): Income Taxes (Topic 740): Disclosure Framework-Changes to the Disclosure Requirements for Income Taxes (Revision of Exposure Draft Issued July 26, 2016)

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (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.

The Committee appreciates the opportunity to share the views of its members regarding the proposed ASU. These views are included in the responses 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.

The Committee believes that the proposed amendments would result in more effective, decision-useful information about income taxes. Income and income tax information disaggregated between federal, state, and foreign will provide useful information about an organization. The Committee does not believe that the proposed amendments would result in the elimination of decision-useful information about income taxes.

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 are 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 would impose significant incremental 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?

The Committee believes that this proposed amendment would be operable. The Committee believes that the Board should specify whether the disclosed amounts should be before or after intra-entity eliminations to prevent diversity in practice. Additionally, the Committee agrees that before intra-entity eliminations is the more relevant disclosure.

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?

The Committee believes that disclosure by major tax jurisdiction would be operable and would provide decision-useful information. The Committee believes that significant differences exist among different foreign jurisdictions such that information about the relative exposure to different tax jurisdictions would be useful, if material.

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.

The Committee believes that the Board should not consider a threshold different than the 5 percent that is required by SEC.

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.

The Committee has not identified any other disclosures that should be required by Topic 740.

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.

The Committee has not identified any disclosure requirements that should be removed.

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.

The Committee agrees with replacing the term “public entity” with the term “public business entity.”

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.

The Committee believes that the disclosures related to income from operations before income taxes, income tax expense, and income taxes paid, disaggregated between federal, state, and foreign jurisdictions, should be required for prior periods presented because those disclosures for comparative periods would provide decision-useful information about the trends in those items. The Committee does not believe that the other disclosures should be required for prior periods.

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.

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 fewer resources than public business entities, which may make them more dependent on outside professional help. For this reason, we believe 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.

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 information.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Rix".

Nancy A. Rix, Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants