May 30, 2023

Ms. Hillary Salo
Financial Accounting Standards Board
801 Main Ave
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2023-ED100

Dear Ms. Salo:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Income Taxes (Topic 740): Improvements to the Income Tax Disclosures* (the ED). We are pleased to provide our perspectives that are informed by our interactions with investors and companies. As our firm serves as auditors for 26%[1] of the Fortune 500, we play a crucial role in the capital markets, providing information to investors, analysts, and regulators alike. Our views also incorporate our experiences as a global business, and our history of engagement on standard setting matters.

We support the Board's overall objective in the ED to enhance the transparency and decision usefulness of income tax disclosures. We support enhanced disclosure of certain income tax information to further the objective of financial reporting, which is to provide financial statement users with information about the reporting entity (i.e., at a consolidated level) relevant for investing and lending decisions.

With that primary objective in mind, we believe that most of the proposed disclosures in the ED will enhance transparency and decision usefulness. However, we believe that certain of the proposed disclosures do not further the objective in that they may not have relevant predictive value about an entity's tax-related cash flows, may unfairly prejudice taxing authorities against entities, and/or may not yield greater insights into income tax risks and opportunities. Specifically, we believe that changes in unrecognized tax benefits should be disclosed on an aggregate basis, not on a jurisdictional basis. Further, we believe that certain disclosure thresholds should be changed to ensure that only relevant information is disclosed.

**<u>Disaggregation of unrecognized tax benefits</u>**

The objective of financial reporting is to provide financial information about the entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity[2]. To make decisions, users need information about the resources of the entity and

[1] As of December 31, 2022
[2] FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting* (the Conceptual Framework)

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claims against those resources to help them assess the prospects for future net cash inflows – information that has predictive value as defined by the Conceptual Framework. While disaggregated information may, in many instances, help investors predict outcomes, we do not believe that is universally true for uncertain tax positions.

We believe that changes in unrecognized tax benefits should be disclosed in the rate reconciliation in the aggregate, not on a jurisdictional basis. As further discussed in Question 1b of Appendix A, we believe that aggregate disclosure is consistent with conclusions previously reached by the FASB related to the disaggregation of unrecognized tax benefits. We also believe, as detailed in Appendix A, that the objective of financial reporting must be balanced against the prejudicial impacts inherent in the legal system and the global tax environment in which entities operate that may unfairly and adversely affect an entity and, in turn, its investors.

## Disaggregation thresholds

General purpose financial reporting is designed to provide information that is relevant to users of financial statements (i.e., what financial statement users find useful). In our view, the granularity of two of the proposed disclosures makes it unclear how the disaggregation will yield greater insight and serve the purpose of general-purpose financial information.

*Rate reconciliation – Foreign tax effects*

As proposed, the disaggregation of reconciling items within the foreign tax effects category would be by both jurisdiction and nature. We believe disaggregation within this category should first be determined at the jurisdictional level and limited to jurisdictions that meet the 5% threshold. Only for those jurisdictions should further disaggregation be required based upon the nature of the reconciling item. The stated objective of these disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate. A jurisdiction that does not meet the 5% threshold is not significantly contributing to such difference. As a result, we do not believe that disaggregation by nature of reconciling items within foreign jurisdictions below the 5% threshold will yield greater insight into the sustainability of effective tax rates over time nor the reasons for differences in effective tax rates across entities.

*Income taxes paid – disaggregation by jurisdiction*

As proposed, income taxes paid (net of refunds received) would be disaggregated by jurisdiction in the annual financial statements using a threshold of 5% of total income taxes paid (net of refunds received). We believe this threshold should be significantly higher – we suggest 15%. The income taxes paid disclosures are intended to enhance investors' understanding of entities' income taxes and investors' abilities to project the amount, timing, and uncertainty of future cash flows related to income taxes. A threshold that is too low will not achieve these objectives because it will provide information that is not relevant alongside information that may be useful. Since the threshold is based on cash flows – not income – we believe that a higher threshold is warranted and would yield more meaningful information to investors.

* * * * *

In summary, we believe that in making the case for change with regard to certain of the proposed disclosures, the Board needs to be confident that the additional information will enhance the relevance and reliability of financial reporting and that the goal of better informing financial statement users is balanced against the challenges of developing and presenting that information in today's global legal and tax environment.

Appendix A contains our detailed responses to the Questions for Respondents and additional observations, including alternatives for the Board to consider, when applicable, related to our comments. Appendix B illustrates our proposed edits to the ED based on the recommendations discussed in Appendix A.

We would be pleased to discuss our observations and recommendations with the Board or its staff. If you have any questions, please contact Jennifer Spang (jennifer.a.spang@pwc.com) or Thomas Barbieri (thomas.barbieri@pwc.com).

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

**Appendix A – Answers to ED Questions for Respondents**

Rate reconciliation

**Question 1: The amendments in this proposed Update would require that public business entities disclose specific categories in the rate reconciliation, with further disaggregation of certain reconciling items (by nature and/or jurisdiction) that are equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate.**

**a. Should any of the proposed specific categories be eliminated or any categories added? Please explain why or why not.**

We do not believe any categories should be eliminated or added. However, per our response in b. and c. of this Question 1, we believe that certain clarifications and changes are necessary.

**b. Should incremental guidance be provided on how to categorize certain income tax effects in the proposed specific categories? If so, please describe the specific income tax effect and explain how it should be categorized and why.**

We have two areas of concern about the disclosures proposed with regard to categories:

- the disclosure of changes in unrecognized tax benefits on a jurisdictional basis
- how to apply the "fundamental or essential characteristics" guidance in proposed ASC 740-10-50-12A

*Changes in unrecognized tax benefits*

As discussed in our cover letter, we strongly encourage the FASB to require disclosure of changes in unrecognized tax benefits related to domestic and foreign tax effects as a single aggregate category rather than disaggregating on a jurisdiction basis (see proposed wording of paragraph 740-10-50-12A(c)(1) in Appendix B). If this change is not made, the current proposal would provide prejudicial information to tax authorities in individual jurisdictions. We do not believe that the potential cost to entities of disclosing such information outweighs the benefit to investors.

The carefully constructed balance that exists among legal considerations and investor needs must be maintained. While we acknowledge that disaggregation within the rate reconciliation would generally provide users with more information than they currently receive, the current proposal to require disclosure of changes in unrecognized tax benefits as one of the elements of the disaggregated rate reconciliation highlights the natural tension between greater transparency and the potential consequences that may come with it. That balance could be strained by that disclosure, which may be prejudicial as it may impact an entity's ability to manage its litigation or settlement position.

We observe that the Conceptual Framework contemplates when the Board should consider such potentially adverse consequences for preparers in prescribing disclosure requirements.

Paragraph D32 of CON 8 states:

> The Board should consider the following potential adverse consequences when determining whether to require a particular disclosure:
>
> > a. Legal harm. Some information, if disclosed, may subject the reporting entity to certain legal consequences. For example, disclosing certain information about the reporting entity's contract with a counterparty may cause the reporting entity to breach a confidentiality clause of the contract.

We believe these adverse consequences may apply in this instance. We acknowledge that in paragraph B64 of the Basis for Conclusions of FASB Interpretation 48, *Accounting for uncertainty in income taxes - An interpretation of FASB Statement No. 109* (FIN 48), the Board noted that it did not consider taxing authorities analogous to counterparties in a lawsuit. We respectfully disagree. We believe the same risks to the entity – and therefore to investors – may arise when a taxing authority is aware of the balance of unrecognized tax benefits in each jurisdiction. For example, in the US, similar to a lawsuit with a counterparty, the ultimate resolution of a tax dispute may be in the US Supreme Court. In addition, the amount of unrecognized tax benefits disclosed for a particular jurisdiction may become the "floor" a taxing authority expects to receive. As a result, we disagree with disaggregation of unrecognized tax benefits by jurisdiction within the rate reconciliation.

Further, the FASB has considered the disaggregation of unrecognized tax benefits on multiple occasions before and has consistently concluded that aggregated disclosures are sufficient for investors. Requiring disclosure of disaggregated changes in unrecognized tax benefits is inconsistent with prior conclusions that the FASB has reached.

For example, the FASB noted within the FIN 48 Basis for Conclusions, paragraph B64, that providing disclosures at the aggregate level does not reveal information about individual tax positions, yet it provides information that users indicated would be decision useful. As such, ASC 740 requires entities to disclose a tabular reconciliation of the amounts of unrecognized tax benefits at the beginning and end of the period at an aggregate level, rather than disaggregated information about unrecognized tax benefits.

In addition, in proposed Accounting Standards Update, *Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes*, issued in July 2016, the FASB considered disaggregation of unrecognized tax benefits by (a) jurisdiction and (b) tax issue. Within the Basis for Conclusions, paragraphs BC46 through BC49, the following observations were noted:

- Users said they <u>do not use disclosures about unrecognized tax benefits for modeling purposes;</u> they use the disclosures to assess how aggressive an entity is with its tax positions. Users said that <u>disclosure of the aggregate unrecognized tax benefits is sufficient for their analyses</u>.
- Preparers noted that disaggregating unrecognized tax benefits by country would provide little benefit because the liability generally is offset by a tax credit. Preparers had further noted that <u>the disaggregated disclosures would provide taxing authorities with prejudicial information</u>.
- The Board acknowledged the concerns of preparers and that <u>most users are satisfied with the current disclosure requirements of the aggregate unrecognized tax benefits</u>. Accordingly, the Board did not propose a disaggregation of the unrecognized tax benefits.

With regard to feedback from users in the 2016 ED that they use disclosures about unrecognized tax benefits to assess how aggressive an entity is with its tax positions, we note that unrecognized tax benefits often stem from lack of clarity about how the tax law applies to a particular transaction or set of facts – not from taking an "aggressive" position. As a result, we do not believe that information about uncertain tax positions disaggregated by jurisdiction would be helpful to investors in predicting a potential outcome.

Based on the prior conclusions reached that the existing requirements under ASC 740-10-50-15A provide a user with sufficient information to analyze an entity's tax positions, we do not believe that the disclosure of "changes in unrecognized tax benefits" on a basis that is disaggregated by jurisdiction within the rate reconciliation table would enhance the decision usefulness of the income tax disclosures, nor do the potential benefits outweigh the costs to entities.

*Clarifications about disaggregation of certain line items*

<u>Application of "fundamental or essential characteristics" guidance</u>
We acknowledge the language within proposed ASC 740-10-50-12A(b) that says "…an entity should consider the reconciling item's fundamental or essential characteristics, such as the event that caused the reconciling item and the activity with which the reconciling item is associated" could be interpreted to allow entities to apply judgement in determining the level of disaggregation of related items. However, we do not believe that it would be consistently interpreted as such. We recommend that the FASB revise the language based on our recommendation in Appendix B.

When a reconciling item may be reasonably classified in more than one category, but the effective tax rate impact would be more transparently and meaningfully presented as an aggregate amount, we believe preparers should be permitted to exercise judgment.

US foreign tax credits are an example of where this judgment may be relevant. Paragraph 18 of the ED's Basis for Conclusions states: "the Board agreed that the cross-border tax laws category should reflect the effect of <u>incremental</u> income taxes imposed by the jurisdiction (country) of domicile on income earned abroad or on income earned by foreign subsidiaries." The example provided in proposed ASC 740-10-55-231 presents "foreign tax credits" as a reconciling item within the credits category, which could be interpreted as an indication that any foreign tax credit, including those related to cross-border taxes, should be included in the credits category. Disclosure of the tax effect of income taxes imposed by the jurisdiction of domicile that is not reduced by the benefit also provided by that jurisdiction for foreign taxes paid (or deemed paid) on the same income would not reflect the true "incremental" tax cost of income earned abroad. For example, the foreign tax credits associated with Global Intangible Low-Taxed Income (GILTI) in the US reduce the incremental US tax on income earned by foreign subsidiaries. Credits related to GILTI income may not be carried forward and may only be used against GILTI taxes. Disclosing the US GILTI tax on foreign income without reduction for foreign tax credits on the same income does not represent the "incremental" tax of the GILTI provisions. If an entity did not have foreign tax credits available, this would be transparent even when providing the net expense. However, if all foreign tax credits are on their own line, there would be carryforward credits as well as benefits only available in the current year and only usable against a specific type of income. An investor trying to understand the impact of GILTI would not be able to assess the incremental impact on the financial statements if the tax is not shown net of the related foreign tax credit. In summary, there is no predictive value of the GILTI tax cost in isolation since the foreign tax credits are directly linked to the tax and cannot be carried forward or used against another source of taxable income.

In line with our observations, we recommend that the FASB remove the line "foreign tax credits" from the credits section of the codified example (see Appendix B). Foreign tax credits are more naturally related to the effects of cross-border taxes. Further, we recommend that the FASB add an indication to the GILTI line that it is presented net of foreign tax credits (see Appendix B). Finally, we recommend the FASB include the language from paragraph 18 in the Basis for Conclusions in proposed ASC 740-10-50-12A(c)(4) (see Appendix B). These changes would clarify that entities should disclose cross-border tax effects net of the directly-related credits. In addition, when an entity has foreign tax credits related to income included within the foreign tax effect category, the foreign tax credits should be easily identifiable on the cross-border tax effects line and would be disaggregated by nature if they meet the 5% threshold.

Scope of "changes in unrecognized tax benefits" category

We interpret the FASB's change in unrecognized tax benefits category to include changes in judgment that result in subsequent recognition, derecognition, or change in measurement of a tax position taken in a prior annual period. Consistent with this interpretation, we would expect that a preparer would not disaggregate unrecognized tax benefits from the financial statement impact of the related tax position in the initial year a position is taken. For example, if a preparer reports a $100 benefit related to R&D tax credits on its tax return, but initially measures the amount of benefit that meets the recognition and measurement provisions of ASC 740 at $80, we would expect only $80 would be presented in the rate reconciliation as an individual rate reconciling item. To disclose something other than $80 would be inconsistent with the recognition and measurement criteria under US GAAP. If, in a subsequent year there is a change in judgment that leads to a change in measurement from the evaluation of new information of the position under ASC 740-10-35-2 such that the amount of benefit that can be recognized is remeasured to $70, that $10 change in unrecognized tax benefit would be reflected in the changes in unrecognized tax benefits category as described above. We do not believe that additional clarification is necessary unless the FASB did not intend for the words to be applied in this way. However, we are strongly supportive of the existing words in the Exposure Draft because they align with the recognition and measurement provisions of ASC 740. Disaggregating the full benefit taken on the tax return from the unrecognized tax benefit could suggest that the information has predictive value, which we do not believe is true.

In summary, we believe both of our proposed changes in Appendix B reflect the objective as described in proposed ASC 740-10-50-11A, which states: "The objective of these disclosure requirements is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to **understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate [emphasis added].**" Understanding the true impact of these items will provide investors and users of financial statements information that will allow assessment of the impact on future cash flows and effective tax rate.

**c. Do you agree with the proposed 5 percent threshold? Please explain why or why not.**

We agree with the proposed 5% threshold as it aligns with the current requirements under SEC Regulation S-X, Rule 4-08(h). However, for purposes of disaggregating the foreign tax effects category, we believe the category should first be disaggregated by jurisdiction based upon the 5% threshold. Then, within jurisdictions meeting the 5% percent threshold, further disaggregation by nature would be consistent with the overall objectives of the disaggregated rate reconciliation. (See Appendix B for proposed changes.) If a foreign jurisdiction does not meet the 5% threshold, that is an indication that the jurisdiction is taxing income at a rate generally in line with the country of domicile's statutory rate, and therefore that jurisdiction does not have a meaningful incremental effect on the effective tax rate. We believe this is more consistent with the stated objective of the disclosure requirements, which is for an entity to disclose sufficient information to enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate. If a jurisdiction does not meet the 5% threshold, it is not substantively contributing to the difference between the statutory tax rate and the effective tax rate.

**Question 2: The proposed amendments would require that public business entities provide a qualitative description of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category. A qualitative description of state and local jurisdictions was selected over a quantitative disclosure because state and local tax provisions are often calculated for multiple jurisdictions using a single apportioned tax rate. Do you agree with the proposed qualitative disclosure as opposed to providing a quantitative disaggregation? Please explain why or why not.**

We support qualitative disclosure over quantitative disclosure of the effect of state and local income tax. However, we recommend that the FASB replace the word "majority" in proposed ASC 740-10-50-12B with another term if it did not intend to require entities to describe states representing 50% or more. The term "majority" has a defined meaning in a number of other areas in US GAAP. If the disclosure is not intended to have a specific percentage associated with it, we suggest changing "majority" to "most significantly" (see Appendix B).

**Question 3: The proposed amendments would require that public business entities provide an explanation, if not otherwise evident, of individual reconciling items in the rate reconciliation, such as the nature, effect, and significant year-over-year changes of the reconciling items. Do you agree with the proposed disclosure? Please explain why or why not.**

It is not clear what the Board intends to be disclosed by the addition of this proposed disclosure. ASC 740-10-50-14 already requires, "If not otherwise evident from the disclosures required by this Section, all entities shall disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented." This existing disclosure requirement seems sufficient to capture anything not already covered in the rate reconciliation. We recommend that the FASB delete the proposed ASC 740-10-50-12C (see Appendix B).

**Question 6: Are the proposed amendments to the rate reconciliation disclosure clear and operable? Please explain why or why not.**

With the suggested changes made within our responses to earlier questions, we believe the proposed amendments to the rate reconciliation disclosure would be clear and operable.

**Question 7: The Board decided not to provide incremental guidance for the rate reconciliation disclosure for situations in which an entity operates at or around break even or an entity is domiciled in a jurisdiction with no or minimal statutory tax rate but has significant business activities in other jurisdictions with higher statutory tax rates.**

**Do you agree with that decision? Please explain why or why not, and if not, what incremental guidance (including the relevant disclosures) would you recommend?**

We agree with the FASB's decision not to provide specific guidance when an entity operates at or around breakeven or an entity is domiciled in a jurisdiction with no or minimal statutory rate. These situations exist today, and while they require judgment, we are not aware of significant challenges by the SEC or others in the approaches taken.

However, we are concerned that the language in proposed ASC 740-10-50-12 may result in unintended and unnecessary changes in practice in certain instances. As proposed, ASC 740-10-50-12 provides that for an entity "…not domiciled in the United States, the federal (national) income tax rate in that entity's jurisdictions of domicile shall be used in making the computation." We observe that the requirements under Regulation S-X Rule 4-08(h)(2) provide that in instances when the reporting person is a foreign entity, the income tax rate in that person's country of domicile should "normally" be used in making the computation. However, they acknowledge that when the rate used by a reporting person is other than the United States federal corporate income tax rate, the rate used and the basis for using such rate should be disclosed.

We recommend that the Board consider using the existing language in Regulation S-X by including the word "normally" in the proposed guidance (see Appendix B) to provide entities in situations such as these with the ability to use judgment as to whether the use of a statutory tax rate other than the federal (national) rate in the jurisdiction of domicile would be more informative to financial statement users, with appropriate disclosures as needed.

We are aware that, in practice, some entities have used a rate other than the statutory rate in the country of domicile to determine the starting point of the rate reconciliation, typically because using an alternate rate provides more meaningful information. The proposed amendments would be a significant change for those entities that may result in less informative disclosure if they are required to change.

For example, an entity whose parent is domiciled in a jurisdiction with a low or 0% rate may have all, or substantially all, of its operations within another jurisdiction. That entity might choose to begin its rate reconciliation by multiplying the income (loss) before tax by the applicable statutory federal tax rate in the jurisdiction where the majority of its income is being taxed, rather than the jurisdiction of domicile of the parent entity. The reasoning behind using a different statutory tax rate is that the use of a zero-tax rate is not sufficiently informative in that it does not provide adequate disclosure of the reasons for the differences between the statutory and effective rates.

We are also aware that many entities domiciled in certain non-US jurisdictions, such as Canada, Switzerland, and Germany, have historically started their rate reconciliations using statutory tax rates that represent blended federal and provincial rates. In these jurisdictions, the state/provincial tax is a much greater portion of the total tax, as compared to state taxes in the US. Under the proposed amendments it does not appear that this approach would be acceptable. We believe that requiring these entities to conform to the existing proposed guidance would greatly reduce the transparency of the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate.

**Question 8: The proposed amendments would require that public business entities provide quantitative disclosure of the rate reconciliation on an annual basis and a qualitative description of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period on an interim basis. Do you agree with that proposed frequency? Please explain why or why not.**

We agree with the quantitative disclosure being required on an annual basis. However, we are unclear on the objective of the proposed disclosure in ASC 740-270-50-2 and why it is necessary given the existing disclosure required by ASC 740-270-50-1. We suggest the FASB delete proposed ASC 740-270-50-2 (see Appendix B) for the following reasons:

- ASC 740-270-50-1 currently requires entities to qualitatively disclose the reasons for significant variations in the customary relationship between income tax expense and pretax accounting income (if they are not otherwise apparent from the financial statements or from the nature of the entity's business). If the FASB is looking for something more specific, it should amend this paragraph rather than adding a new one. However, we believe that this paragraph is sufficient to achieve what we believe to be the goal of proposed ASC 740-270-50-2, which is to provide insight into significant changes in the effective tax rate from the prior annual period.
- Today public business entities regularly discuss in MD&A, on a quarterly basis, changes in their effective tax rate for the current period (quarter and year to date) as compared to the prior year comparative period (e.g., March 31, 2023 as compared to March 31, 2022). Comparing the current year-to-date period to the prior-year full period may not provide decision-useful information since many entities' business cycles vary throughout the year. For example, in a cyclical business that has a peak season in the second quarter, a comparison of the prior full year period to the second quarter in the current year will not provide particularly relevant information. However, a comparison of the current and prior year's second quarters may help an investor understand business trends from the prior year.
- The proposed disclosure requires a comparison of the estimated annual effective tax rate to the actual effective tax rate of the prior year. The "estimated annual effective tax rate" is an estimated tax rate based on the expected full year tax expense (benefit) for ordinary income (loss) that excludes items that are required to be accounted for discretely, like stock-based compensation windfalls. In contrast, the "effective tax rate" of the prior year is a number that includes all tax items (both ordinary and discrete). Entities do not typically disclose estimated annual effective tax rates since they may not represent the year-to-date tax provision or effective tax rate. Rather, they disclose their actual effective tax rate year-to-date, which is the most relevant financial statement number for financial statement user purposes.

If the FASB decides to retain the proposed new disclosure, we suggest the FASB be more clear about what information should be provided in the disclosure (perhaps with an example), remove the words "estimated annual" before effective tax rate, and focus on comparable periods rather than a year-to-date quarter as compared to a full-year prior year.

<u>Income taxes paid</u>

**Question 9: The proposed amendments would require that all entities disclose the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, on an annual and interim basis, with further disaggregation on an**

**annual basis by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). Do you agree with the proposed 5 percent threshold? Please explain why or why not. Do you agree that income taxes paid should be disclosed as the amount net of refunds received, rather than as the gross amount? Please explain why or why not.**

We do not agree with the application of a 5% threshold to disaggregate income taxes paid (net of refunds received) by individual jurisdictions. We recommend that the threshold be 15%. Although a 5% threshold that is based upon a statutory tax rate and is focused on income tax expense as percentage of pre-tax income provides more information and has extensive precedent in connection with rate reconciliations, there should not be an automatic default to the same percentage for a cash flow-based metric, especially cash taxes paid net of refunds. Simply providing more information may cloud what is truly useful to investors because the percentage is based on a cash flow metric not an income metric. The income taxes paid disclosures are intended to enhance investors' understanding of entities' income taxes and investors' abilities to project the amount, timing, and uncertainty of future cash flows. A threshold that is too low will not achieve these objectives by providing information that is not relevant commingled with information that may be useful. Since the threshold starts with a cashflow base – not an income statement base – we believe that a higher threshold would yield more meaningful information. A 15% threshold would be more likely to ensure that the information being disclosed would be useful to investors.

We agree that income taxes paid should be disclosed as the amount net of refunds received, rather than the gross amount.

**Question 12: Are the proposed amendments to the income taxes paid disclosure clear and operable? Please explain why or why not.**

We believe that the income taxes paid disclosure requirements are clear and operable, though it may take some time for entities to enhance their processes to gather the information necessary for the disclosures. Refer to our response in Questions 9 and 13 for further recommendations.

Separately, we note that the ED proposes to add a note to the example disclosure in paragraph ASC 230-10-55-14 : "[Note: This Example does not illustrate the disclosures of income taxes paid required by paragraphs 740-10-50-22 through 50-23, for the year ended December 31, 19X1.]" We do not believe it is helpful to have a sample disclosure that does not reflect the requirements of GAAP. We propose the FASB delete the example disclosure in ASC 230-10-55-14. Alternatively, at a minimum, we believe the FASB should delete the Income taxes caption from the example disclosure in ASC 230-10-55-14 as it will be redundant to the disclosures required by proposed ASC 740-10-50-22.

**Question 13: The proposed amendments would require that all entities disclose (a) income taxes paid disaggregated by federal (national), state, and foreign taxes on an interim and annual basis and (b) income taxes paid disaggregated by jurisdiction on an annual basis. Do you agree with that proposed frequency? Please explain why or why not.**

We understand why investors may find value in an entity disclosing income taxes paid on an annual basis disaggregated by federal (national), state, and foreign taxes since it aligns with the requirement to disclose income tax expense (benefit) disaggregated into the same buckets. However, it is not clear to us how disclosing income taxes paid on a quarterly basis would be beneficial. This is because quarterly income taxes paid are subject to significant variability between periods due to items that may not be indicative of increases or decreases in total expected income taxes paid for the year. As a result, we support this disclosure only being required on an annual basis but acknowledge that the FASB may have insight into investor views on why this information may be useful.

We agree that entities should only be required to disclose income taxes paid disaggregated by jurisdiction on an annual basis.

Private Company Considerations

**Question 14: Would the proposed amendments to the income taxes paid disclosure, the rate reconciliation disclosure for entities other than public business entities, and the disclosure of pretax income (or loss) and income tax expense (or benefit) provide decision-useful information for private company investors? Please explain why or why not.**

We generally support the disclosures for entities other than public business entities. However, we note that for more complex entities, the qualitative description may result in a narrative that is lengthy and could be challenging to follow.

**Question 15: Are those proposed amendments for entities other than public business entities clear and operable? Please explain why or why not.**

We believe the proposed amendments for entities other than public business entities are clear and operable.

Transition and Effective Date

**Question 16: The proposed amendments would be required to be applied on a retrospective basis. Would the information disclosed by that transition method be decision useful? Please explain why or why not. Is that transition method operable? If not, why not and what transition method would be more appropriate and why?**

We support application of the proposed amendments on a retrospective basis. We believe this would provide the most meaningful information to financial statement users and would be operable provided preparers were provided with sufficient time to implement the new disclosure requirements.

**Question 17: In evaluating the effective date, 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 your response.**

We believe that preparers can provide the most insight into this question. However, our outreach with preparers suggests that an effective date that is at least one year after the issuance of the final ASU is necessary to prepare the information needed to implement the proposed amendments.

We believe early adoption should be permitted.

**Appendix B – Certain recommended changes to the proposed amendments**

The following codification language is based upon the FASB's ED. Our proposed added text is underlined, and deleted text is ~~struck out.~~

**> Public Business Entities**

**740-10-50-12** A public business entity shall disclose a reconciliation, in accordance with paragraphs 740-10-50-12A through 50-12C, between the amount of reported income tax expense (or benefit) from continuing operations and the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate of the jurisdiction of domicile. If a public business entity, as the parent entity, is not domiciled in the United States, the federal (national) income tax rate in that entity's jurisdiction of domicile shall normally be used in making the computation. The statutory tax rates shall be the regular tax rates if there are alternative tax systems.

**740-10-50-12A** For each annual reporting period, a public business entity shall disclose a tabular reconciliation, using both percentages and reporting currency amounts, according to the following requirements:

a. The following specific categories shall be disclosed:
   1. State and local income tax, net of federal (national) income tax effect
   2. Foreign tax effects
   3. Enactment of new tax laws
   4. Effect of cross-border tax laws
   5. Tax credits
   6. Valuation allowances
   7. Nontaxable or nondeductible items
   8. Changes in unrecognized tax benefits.

b. Separate disclosure shall be required for any reconciling item listed below in which the effect of the reconciling item is equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate of the jurisdiction of domicile. When disaggregating the following reconciling items by nature, an entity should consider each ~~the~~ reconciling item's fundamental or essential characteristics~~,~~. The reconciling item should reflect the incremental tax effect of ~~such as~~ the event that caused the reconciling item and the activity with which the reconciling item is associated.
   1. If the reconciling item is within the effect of cross-border tax laws, tax credits, and nontaxable or nondeductible items categories, it shall be disaggregated by nature.
   2. If the reconciling item is within the foreign tax effects category, it shall be disaggregated first by jurisdiction (country) and then by nature. If a foreign jurisdiction meets the 5 percent threshold, it shall be separately disclosed as a reconciling item. Within the foreign jurisdiction(s) meeting the 5 percent threshold, ~~. Within any foreign jurisdiction (regardless of whether it meets the 5 percent threshold), the~~ a reconciling item shall be separately disclosed by nature if its gross amount (positive or negative) meets the 5 percent threshold.
   3. If the reconciling item is not within any of the categories listed in (a), it shall be disaggregated by nature.

c. For the purpose of categorizing reconciling items,
   1. The changes in unrecognized tax benefits category reflects aggregate changes in unrecognized tax benefits for federal and foreign jurisdictions.
   2. The state and local income tax category reflects income taxes imposed at the state or local level within the jurisdiction (country) of domicile.
   3. The foreign tax effects category reflects income taxes imposed by foreign jurisdictions.
   4. The cross-border tax laws category should reflect the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned abroad or on income earned by foreign subsidiaries.

~~and t~~The remaining categories listed in (a) reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile.

See paragraph 740-10-55-231 for an illustration of a tabular rate reconciliation disclosure.

**740-10-50-12B** A public business entity shall provide a qualitative description of the states and local jurisdictions that contribute most significantly to the ~~majority of the~~ effect of the state and local income tax category.

~~**740-10-50-12C** A public business entity shall provide an explanation, if not otherwise evident, of individual reconciling items required by paragraph 740-10-50-12A, such as the nature, effect, and significant year-over-year changes of the reconciling items.~~

### > Statement of Cash Flows Disclosures

**740-10-50-23** For each annual reporting period, all entities shall disclose the amount of income taxes paid (net of refunds received) to each individual jurisdiction in which income taxes paid (net of refunds received) is equal to or greater than 20 ~~5~~ percent of total income taxes paid (net of refunds received).

## Implementation Guidance and Illustrations

### > Illustrations

### > Example 39: Rate Reconciliation between Income Tax Expense (or Benefit) and Statutory Expectations

### > Case A: Public Business Entity

**740-10-55-231** The following illustrates a rate reconciliation disclosed by a public business entity in accordance with paragraph 740-10-50-12A. The entity is domiciled in the United States and presents comparative financial statements. For the disclosure of foreign tax effects in accordance with paragraph 740-10-50- 12A(b)(2), it is assumed that the 5 percent threshold, computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate of the jurisdiction of domicile, is met:
a. For Ireland, both at the jurisdiction level and for certain individual reconciling items of the same nature within Ireland
~~b. For the United Kingdom, for certain individual reconciling items of the same nature within the United Kingdom, but not at the jurisdiction level~~
~~c~~b. For Switzerland and Mexico, at the jurisdiction level, but not for any individual reconciling items of the same nature within each jurisdiction.

| | Year Ended December 31, 20x2 | | Year Ended December 31, 20x1 | | Year Ended December 31, 20x0 | |
|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| U.S. Federal Statutory Tax Rate | $ AA | aa % | $ BB | bb % | $ CC | cc% |
| State and Local Income Taxes, Net of Federal Income Tax Effect (1) | AA | aa | BB | bb | CC | cc |
| Foreign Tax Effects | | | | | | |
| ~~United Kingdom~~ | | | | | | |
| ~~Tax rate differential~~ | ~~(AA)~~ | ~~(aa)~~ | ~~(BB)~~ | ~~(bb)~~ | ~~(CC)~~ | ~~cc)~~ |
| ~~Share-based payment awards~~ | ~~AA~~ | ~~aa~~ | ~~BB~~ | ~~bb~~ | ~~CC~~ | ~~cc~~ |
| ~~Changes in unrecognized tax benefits~~ | ~~(AA)~~ | ~~(aa)~~ | ~~(BB)~~ | ~~(bb)~~ | ~~CC~~ | ~~cc~~ |
| ~~Other~~ | ~~(AA)~~ | ~~(aa)~~ | ~~BB~~ | ~~bb~~ | ~~(CC)~~ | ~~(cc)~~ |
| Ireland | | | | | | |
| Tax rate differential | (AA) | (aa) | (BB) | (bb) | (CC) | (cc) |
| Valuation allowances adjustments | (AA) | (aa) | (BB) | (bb) | CC | cc |

| | | | | | | |
|---|---|---|---|---|---|---|
| Enactment of new tax laws | - | - | BB | bb | - | - |
| Other | AA | aa | (BB) | (bb) | (CC) | (cc) |
| Switzerland | (AA) | (aa) | (BB) | (bb) | (CC) | (cc) |
| Mexico | AA | aa | BB | bb | CC | cc |
| Other foreign jurisdictions | (AA) | (aa) | (BB) | (bb) | CC | cc |
| Enactment of New Tax Laws | | | | | | |
| Change in tax rate | - | - | - | - | (CC) | (cc) |
| Effect of Cross-Border Tax Laws | | | | | | |
| Global intangible low-taxed income, net | AA | aa | BB | bb | CC | cc |
| Foreign-derived intangible income | (AA) | (aa) | (BB) | (bb) | (CC) | (cc) |
| Base erosion and anti-abuse tax | AA | aa | BB | bb | CC | cc |
| Other | AA | aa | - | - | - | - |
| Tax Credits | | | | | | |
| Research and development tax credits | - | - | (BB) | (bb) | (CC) | (cc) |
| Energy-related tax credits | (AA) | (aa) | - | - | - | - |
| ~~Foreign tax credits~~ | ~~(AA)~~ | ~~(aa)~~ | ~~(BB)~~ | ~~(bb)~~ | ~~(CC)~~ | ~~(cc)~~ |
| Other | - | - | (BB) | (bb) | - | - |
| Valuation Allowances | AA | aa | (BB) | (bb) | (CC) | (cc) |
| Nontaxable or Nondeductible Items | | | | | | |
| Share-based payment awards | AA | aa | BB | bb | CC | cc |
| Goodwill impairment | AA | aa | BB | bb | - | - |
| Other | AA | aa | (BB) | (bb) | CC | cc |
| Changes in Unrecognized Tax Benefits | (AA) | (aa) | BB | bb | (CC) | (cc) |
| Other Adjustments | AA | aa | (BB) | (bb) | (CC) | (cc) |
| Effective Tax Rate | $ AA | aa % | $ BB | bb % | $ CC | cc% |

(1) State taxes in California and New York significantly contributed to ~~the majority of~~ the tax effect in this category.

## Income Taxes—Interim Reporting Disclosure

### > Rate Reconciliation between Income Tax Expense (or Benefit) and Statutory Expectations

### >Variations in Customary Income Tax Expense Relationships

**740-270-50-1** Application of the requirements for accounting for income taxes in interim periods may result in a significant variation in the customary relationship between income tax expense and pretax accounting income. The reasons for significant variations in the customary relationship between income tax expense and pretax accounting income shall be disclosed in the interim period financial statements if they are not otherwise apparent from the financial statements or from the nature of the entity's business.

~~**740-270-50-2** For each interim reporting period, a public business entity shall provide a description of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period.~~

### > Statement of Cash Flows Disclosures

## Statement of Cash Flows—Overall

## Disclosure

### > Interest and Income Taxes Paid

### > Example 1: Direct and Indirect Method for a Manufacturing Entity

~~**230-10-55-14** The following table illustrates the supplemental disclosures of cash flow information.~~

~~Cash paid during the year for:~~

| | |
|---|---|
| ~~Interest (net of amount capitalized)~~ | ~~$ 220~~ |
| ~~Income taxes~~ | ~~325~~ |

~~[**Note:** This Example does not illustrate the disclosures of income taxes paid required by paragraphs 740-10-50-22 through 50-23, for the year ended December 31, 19X1.]~~