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Shayne Kuhanek, Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: **File Reference 2019-700**

Dear Shayne:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*.

Grant Thornton supports the Board's intent to reduce complexity in accounting standards (the Simplification Initiative). We generally believe that the proposed amendments will result in reduced cost and complexity while maintaining or improving the usefulness of the information provided to users of financial statements. Please see our responses to the questions below. We are available to discuss our responses to the questions for respondents with Board members or staff at their convenience.

Question 1: Do you agree that the amendments in this proposed Update would simplify the accounting for income taxes? If not, please explain which proposed amendment(s) you disagree with and why.

Overall, we believe the amendments in this proposed update would simplify the accounting for income taxes. We have provided further commentary related to certain aspects of the proposed amendments both directly below and in our responses to other questions.

Exception to the incremental approach for intraperiod tax allocation

We would like to provide commentary related to the proposed amendment to eliminate the existing exception in ASC 740-20-45-7 which indicates that all items, i.e., discontinued operations, other comprehensive income, etc. should be considered in determining the amount of tax benefit, if any, that results from a loss from continuing operations that should be allocated to continuing operations. We recognize that intraperiod allocation has been identified as a very challenging aspect of income tax accounting and provides complexities for preparers that often result in inconsistencies in practice. In general, a pretax gain in a category other than continuing operations provides a source

of income that may be available to utilize a tax attribute included in continuing operations. By eliminating the exception and applying the with-and-without approach, the continuing operations benefit and utilization of the related income tax asset result in a disconnect between the two categories as presented on the balance sheet. We understand that users of the financial statements may find it challenging to reconcile the overall tax provision in circumstances where the overall income tax expense is zero, but an income tax benefit is allocated to continuing operations and an income tax expense is allocated to discontinued operations. While this presentation may be counterintuitive, we feel it best reflects the financial position of the entity in which a category other than continuing operations provided a source of taxable income and resulted in a direct impact to a tax attribute associated with the continuing operations. Please refer to our response to Question 2 for other considerations related to this proposed amendment.

Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment

The Board has proposed eliminating the existing guidance under ASC 740-30-25-15 that provides for an exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investee. This exception essentially requires “freezing” the outside basis difference when a subsidiary becomes an investee. We agree that accruing income taxes on any outside basis difference that exists subsequent to the transition to an investee aligns with existing guidance elsewhere in the codification, eliminates complexity related to tracking the basis difference, and results in consistent treatment amongst all investments. We acknowledge, however, that in limited circumstances, the entity might be able to control the manner of reversal of its investee whether through legal agreements or other such contractual agreements, and therefore avoid recognition of the deferred tax liability.

Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary

The Board has also proposed eliminating the existing exception that addresses the result of an unconsolidated foreign investee that becomes a subsidiary as provided in ASC 740-30-25-16. This exception essentially “freezes” any historical deferred tax liability recorded on the outside basis difference of the foreign investee prior to becoming a subsidiary. We agree with the Board’s proposal to remove this exception as the exception increases complexity and does not align with the general principles related to indefinite reinvestment and the ability to control the reversal of an outside basis difference. We do note, however, that the existing guidance related to a business combination achieved in stages in ASC 805-10-25-10 requires that in a transaction where an unconsolidated foreign investee becomes a subsidiary, the entity is required to re-measure the previously held interest at acquisition date fair value, with any differences recorded in the income

statement. Acquisition of the remaining interest is accounted for under the business combination guidance in ASC 805 such that there is no income statement impact. We suggest the Board clarify whether entities should account for the elimination of any historical deferred tax liability upon transition from unconsolidated foreign investee to subsidiary as a benefit to continuing operations income (loss) or under the business combination guidance.

Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction

We suggest the Board consider clarifying the circumstances under which this proposed guidance might apply. Specifically, the Board should consider clarifying whether the proposed amendment applies to events included as part of business combinations or only to those events outside of the scope of ASC 805 and the step up of tax goodwill triggered by a post measurement period event.

Question 2: Do the proposed amendments maintain or improve the usefulness of information provided to users? Alternatively, would the proposed amendments result in the elimination of decision-useful information? Please explain why or why not.

Overall, we believe that the proposed amendments would maintain and in many cases improve the usefulness of information provided to users. We have provided further commentary below.

Exception to the incremental approach for intraperiod tax allocation

We believe that the proposed elimination of the exception provided by ASC 740-20-45-7 related to intraperiod allocation when there is pretax loss in continuing operations might eliminate information useful in certain circumstances. While we agree that the existing exception results in additional complexity, this exception reflects the actual accounting results and benefit attributable to continuing operations. For income tax purposes, losses of the continuing operations might offset the gains related to items outside of continuing operations and therefore the benefit of these losses should be reflected. We acknowledge there may be circumstances when it is useful to present continuing operations without the allocated income tax benefit in order to better reflect ongoing operations without the impact of certain items, i.e., a one-time gain in discontinued operations. However, in general, we believe the true accounting results and impact on continuing operation income tax attributes is the more useful presentation.

Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year

While we agree that the amendments would simplify the accounting for income taxes, the proposal might result in increased variability in interim income tax expense as year-to-date losses will be benefitted notwithstanding the lower full-year forecasted losses. This might impact the integrity of the information presented on an interim basis.

Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income in accordance with Topic 740 and account for any incremental amount incurred as non-income-based tax

Lastly, the proposed amendments related to recognition of a franchise tax that is partially based on income might impact certain balance sheet analytics and pretax income versus tax expense. For example, an entity that historically recorded all or a significant portion of a franchise tax as part of pre-tax income based on existing guidance might now record the same tax as part of income tax expense as a result of the proposed amendment. Further, changes to how the financial measure known as “EBITDA” is determined might impact an entity’s operations and financial results. For example, EBITDA might be the financial measure used as a benchmark when an entity determines (1) amounts due under employee compensation arrangements, (2) whether the entity has complied with financial covenants under a borrowing arrangement, and (3) amounts to pay former owners of acquired businesses under contingent consideration arrangements

Question 3: Are the proposed amendments operable and auditable? If not, which aspects pose operability or auditability issues and why? Would any of the proposed amendments impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

Overall the proposed amendments are operable and auditable. The proposed amendments in many cases should provide additional transparency and more meaningful presentation of the relevant information. We defer to those in practice to comment on potential incremental costs.

Question 4: Are the transition requirements and transition disclosures for the proposed amendments appropriate? If not, what transition approach or transition requirements would be more appropriate and why?

Overall, the transition requirements and transition disclosures for the proposed amendments are appropriate. We do suggest that the Board consider permitting the application of modified retrospective basis relative to the proposal for franchise taxes that are partially based on income. This would avoid the potential impact on deferred income tax and valuation allowance considerations that may result from recasting the prior periods under a retrospective approach.

Question 5: How much time would be needed to adopt the proposed amendments? Should early adoption be permitted? Should entities other than public business entities be provided with an additional year to implement the proposed amendments? Why or why not?



We defer to those in practice to comment on the time that will be required to implement the proposed amendments. We believe that non-public business entities might require more time to implement the proposed amendments given they often have less personnel and financial resources than public business entities. Accordingly, we believe these entities would benefit from a later effective date.

We believe that early adoption should be permitted.

We would be pleased to discuss our comments with you. If you have any questions, please contact Ciro Buttacavoli, Partner, at (954) 727-5690 (Ciro.Buttacavoli@us.gt.com) or April Little, Partner, at (832) 476-3730 (April.Little@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP