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May 24, 2023

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856

File Reference No. 2023-ED100

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (proposed Update or proposal).

Overall, we support the Board's proposal that would enhance income tax disclosures by improving the rate reconciliation disclosure and disclosures of income taxes paid. We applaud the Board's decision to differentiate between the disclosures that would be required of public versus nonpublic business entities by exempting nonpublic business entities from the proposed quantitative tabular rate reconciliation. We also support the Board's decision to replace the term "public entity" with "public business entity," which would improve consistency in the Codification. However, as discussed further in our responses to the questions below, we believe there are opportunities to improve the overall clarity and operability of the proposed ASU by providing incremental guidance and illustrative examples, some of which can be accomplished by simply codifying explanations currently included in the proposal's basis for conclusion. We also believe that additional guidance on identifying "significant" changes that would require supplemental explanation within the notes could be beneficial to improve the overall decision-usefulness of the proposed disclosures.

Our responses to the questions posed in the proposed Update, other than those specifically directed solely at investors or preparers, are included in the remainder of this letter.

Responses to Questions for Respondents

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

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We believe the proposed specific categories for the effective tax rate reconciliation are reasonable and generally consistent with those already presented by public business entities. However, based on the statements included in paragraph BC15 of the proposed ASU, it's unclear whether an entity would be required to separately disclose each of the eight proposed categories regardless of materiality. We recommend that the Board clarify its intent, and if the categories are required to be disclosed regardless of materiality, explain how that conclusion reconciles with the requirements for the proposed 5 percent threshold in paragraph 740-10-50-12A(b), including the guidance in paragraph 105-10-05-6 of Topic 105, *Generally Accepted Accounting Principles*, which states that "[t]he provisions of the Codification need not be applied to immaterial items."

We believe the guidance provided in the proposed ASU is generally sufficient to determine how to categorize certain income tax effects within the proposed rate reconciliation categories. We concur with the Board's decision to make the categories general to accommodate potential changes to the tax environment. We also agree with the guidance in paragraph 740-10-50-12C of the proposed ASU that when judgment has been applied to categorize certain tax items, including when an item may fall into more than one category, explanations should accompany the reconciliation.

Lastly, we agree with the proposed 5 percent threshold for a disaggregated disclosure of reconciling items because it is consistent with existing U.S. Securities and Exchange Commission (SEC) Regulation S-X 210.4-08(h)(2) applied by public business entities, and therefore should not result in significant incremental effort to prepare (and audit) the proposed information.

Applicability to Non-issuer Broker Dealers

We recommend that non-issuer broker dealers (which meet the definition of a public business entity) be exempted from this proposal's quantitative rate reconciliation disclosures. For the reasons noted in our comment letter dated December 14, 2022 to the FASB's separate proposed ASU, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* - File Reference No. 2022-ED100, we do not believe the proposed disclosures would be meaningful for these entities when they are closely held.

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 agree with the Board's decision not to require a quantitative disclosure of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category. As the Board noted above, state and local tax provisions are generally calculated using a single composite tax rate for multiple jurisdictions. Consequently, the costs of providing a quantitative disclosure would likely outweigh the benefits. However, for the same reason, we believe that the costs of providing 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 may also outweigh the benefits.

Many public business entities file for automatic six-month extensions to the federal, state and local income tax filing deadlines, and therefore do not prepare their tax returns and the related detailed supporting

documentation on a jurisdiction-by-jurisdiction basis prior to their SEC reporting deadlines. Consequently, affected entities may need to either accelerate the completion of their tax returns or perform additional work and compile incremental documentation to support the qualitative description(s) of the state and local tax jurisdictions that contribute to the majority of the effect of the state and local income tax category. In addition, the degree of additional work effort and documentation necessary to prepare and support the proposed disclosure would vary depending on several factors, including the number of tax jurisdictions involved, the tax rates and rules in those jurisdictions and the extent to which the entity's operations in each jurisdiction contributes to the entity's overall taxes.

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.

We agree with the proposed disclosure but recommend that the Board provide incremental guidance to explain what is meant by "significant" year-over-year (YOY) changes of the reconciling items, if not otherwise evident. Specifically, the Board should clarify whether a significant YOY change refers to the individual reconciling item's reporting currency amount, percentage change or both. To avoid potentially obscuring the disclosure with information about inconsequential matters, we recommend that the explanations provided be limited to changes in reconciling items that are both significant in reporting currency amount and percentage. In addition, we recommend that consideration also be given to the significance of the change relative to the impact on the reporting entity's financial statements taken as a whole. Doing so would encourage the use of higher reporting currency thresholds and (or) percentages that may otherwise be used if the impact was assessed only on the income tax expense (benefit) line item.

Question 5: For preparers and practitioners, would the proposed amendments to the rate reconciliation disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between one- time costs and recurring costs.

For practitioners, the one-time and recurring costs to audit or review the proposed disclosures may vary significantly depending on multiple factors including, but not limited to:

- Size and complexity of the reporting entity's legal and tax structure;
- Nature and type of taxable income;
- Number of taxable jurisdictions involved and the extent to which the tax rates and laws vary;
- Whether the entity's financial systems and processes necessary to capture, record, and extract the appropriate level of disaggregated information are properly designed, and the extent to which such financial systems and processes are automated; and
- Design and operating effectiveness of the entity's internal controls over financial reporting.

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

Except for those matters noted in our responses to Questions 1 and 3, we believe the proposed amendments to the rate reconciliation disclosure are 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 understand that the Board decided not to provide incremental guidance because outreach with investors and preparers did not identify a need for such guidance. However, to promote greater comparability in the type of rate reconciliation disclosures provided in 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, we believe incremental guidance and illustrative sample rate reconciliations would be helpful to all stakeholders. At a minimum, it would be helpful if the FASB codified the acknowledgement in paragraph BC21 of the proposed ASU, which clarifies that affected “entities may consider materiality or use a normalized pretax income (or loss) amount or a higher federal or national tax rate for purposes of preparing the rate reconciliation to provide more relevant and meaningful information.”

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 generally agree with the proposed amendments that 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. However, similar to our recommendation in our response to Question 3, we believe additional guidance for determining significant changes in the effective tax rate requiring a qualitative description would be helpful to drive greater consistency across reporting entities and to avoid potentially obscuring the disclosure with information about inconsequential matters.

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 defer to the users of the financial statements as to whether the proposed disaggregation of income taxes paid disclosure would provide decision-useful information.

However, to improve the operability of the proposed requirement and to promote greater comparability in how the information disclosed is calculated, we recommend that the Board codify the following statement from paragraph BC31 of the proposed ASU's basis for conclusions (content *italicized*, underlined and in **bold**) as application guidance to proposed paragraph 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 5 percent of total income taxes paid (net of refunds received). **An entity should apply the 5 percent quantitative threshold by comparing the absolute value of the net payment or refund in each jurisdiction with the absolute value of total income taxes paid (net of refunds received) when determining the jurisdictions for separate disclosure.**

Question 11: For preparers and practitioners, would the proposed amendments to the income taxes paid disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs.

For practitioners, the one-time and recurring costs to audit or review the proposed disclosures may vary significantly depending on multiple factors. Examples of such factors are included within our response to Question 5.

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

Except for those matters noted in our response to Question 9, we believe that the proposed amendments to the income taxes paid disclosure are clear and operable.

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 agree with the proposed frequency for the proposed disclosures.

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

Except for those matters noted in our responses to Questions 3 and 8, we believe the proposed amendments to the rate reconciliation for entities other than public business entities are clear and operable.

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 believe that applying the proposed amendments on a retrospective basis would be operable because the information necessary to update prior periods should be available within an entity's financial systems. We also believe that applying the proposed amendments retrospectively would provide the most decision-useful information because comparable information would be provided for each of the reporting periods presented.

However, we acknowledge that applying the retrospective method could be challenging for certain entities and that the costs of such method may outweigh the benefits. Accordingly, we would also support allowing entities an option to apply the proposed disclosures prospectively.

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 generally defer to the preparers of financial statements regarding the time needed to implement the proposed amendment, which will be a function of the number of taxable entities included in the financial statements being presented, including the number and diversity of the jurisdictions in which they operate and the extent to which the reporting entity already routinely gathers the information necessary to implement the proposed ASU.

Because entities other than public business entities often do not have the same deep level of in-house tax expertise, systems and processes as would public business entities, we believe that they should be provided an additional year to adopt the proposed ASU. We also believe early adoption should be permitted for all entities because we see no significant detriments by allowing entities to do so.

We would be pleased to respond to any questions the Board or its staff may have about our comments and ask that questions be directed to Jack Rominger at 949.255.6555 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

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