Audit Alert: Proposed ASU to enhance income tax disclosure requirements

The Board issued proposed ASU, [Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes](), which is intended to enhance disclosure requirements for income taxes. The proposed ASU would both modify existing disclosure requirements and provide additional required disclosures.

The key provisions of the proposed ASU would:

- replace the term public entity in ASC 740, Income Taxes, with the term public business entity, as defined in the Master Glossary of the ASC.
- require all entities to make (1) additional qualitative disclosures related to tax law changes and changes in assertions about the indefinite reinvestment of foreign earnings, and (2) additional quantitative disclosures of earnings, income tax expense or benefit, and income taxes paid on a disaggregated basis between domestic and foreign sources, along with cash held by foreign subsidiaries.
- require all entities to disclose the description of any legally enforceable agreement with a government that could reduce its tax burden On the Horizon 2.
- require all public business entities to disclose (1) cash settlements separately from deferred tax asset settlements of uncertain tax positions, (2) the amounts of unrecognized tax benefits and the line items in the balance sheet where they are presented, (3) the amounts and explanations of the valuation allowances recognized and/or released during the period, and (4) the amount of unrecognized tax benefits that offsets deferred tax assets for carry forwards.

- require all public business entities to disclose the tax effected (deferred tax assets) and not tax effected amounts of federal, state, and foreign carry forwards by time period of expiration for each of the five years after the reporting date, as well as a total for any remaining years; all other entities would only be required to

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For assistance in this matter, please contact us via luiscarlos.marcano@pr.gt.com

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disclose the not tax effected totals of these amounts, along with their expiration dates.

- eliminate the requirement for all entities to (1) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months, and (2) if applicable, state that an estimate of the range cannot be made.
- modify the existing rate reconciliation requirement for public business entities to be consistent with the rules of SEC Regulation S-X.

The Board will determine the effective date and whether the proposed guidance may be early adopted after it considers feedback on the proposed guidance. Entities would be required to adopt the guidance prospectively.

Comments on the proposed guidance are due September 30, 2016.

Source: Grant Thornton, *On the Horizon*, August 4, 2016

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