May 29, 2015

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Two Proposed Accounting Standards Updates, Income Taxes (Topic 740):

I. Intra-Entity Asset Transfers (File Reference No. 2015-200)
And
II. Balance Sheet Classification of Deferred Taxes (File Reference No. 2015-210)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned exposure drafts.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards updates and prepared the attached comments. If you would like additional discussion with us, please contact Robert M. Rollmann, Chair of the Financial Accounting Standards Committee at (914) 421-5605, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A
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Scott M. Adair
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATES, INCOME TAXES (TOPIC 740):

I. INTRA-ENTITY ASSET TRANSFERS (File Ref. No. 2015-200)
AND
II. BALANCE SHEET CLASSIFICATION OF DEFERRED TAXES (File Ref. No. 2015-210)

May 29, 2015

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NYSSCPA 2014 – 2015 Accounting & Auditing Oversight Committee

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Comments on

Two Proposed Accounting Standards Updates, Income Taxes (Topic 740):

I. Intra-Entity Asset Transfers (File Reference No. 2015-200)
And
II. Balance Sheet Classification of Deferred Taxes (File Reference No. 2015-210)

General Comments

We welcome the opportunity to respond to the Financial Accounting Standards Board's (the Board) invitation to comment on the Proposed Accounting Standards Updates, Income Taxes (Topic 740): I. Intra-Entity Asset Transfers and II. Balance Sheet Classification of Deferred Taxes.

We support the Board's broad initiative to reduce complexity in accounting standards as well as its efforts to align U.S. Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards, when appropriate. However, we believe that the proposed Accounting Standards Updates may not fully accomplish these goals. Although we agree that simplification may be accomplished by the classification of all deferred taxes as non-current, we believe that the proposed recognition of taxes relating to intra-entity asset transfers could create a more complex protocol.

Please see our specific responses to the Board's questions for the background and explanation of our views.

Questions for Respondents

Intra Entity Transfers (File Reference No. 2015-200)

Question 1: Should the current and deferred income tax consequences of an intra-entity asset transfer be recognized when the transfer occurs? If not, why?

Response: We believe that current guidance, prohibiting the recognition of a deferred tax asset for an intra-entity difference between the tax basis of the assets in the buyer's tax jurisdiction and its cost as reported in the consolidated financial statements, is appropriate. Our concerns with the proposed changes are as follows:

- The impact of the proposed guidance could materially affect financial reporting for public entities, especially with respect to earnings per share, thereby causing confusion in the investor community. This effect could carry forward into future periods depending upon the movement of intra-asset transfers and the associated tax in the subsidiary's (transferee's) jurisdiction.

- It is unclear whether the change in the timing of such recognition would simplify the processes required within an entity to calculate deferrals and maintain supporting records. Further, it is unclear that the time required to maintain the additional records and calculations required to support the deferrals would be reduced.

- It is unclear how the "diversity in practice" identified in the current model was determined. In order to fully understand the rationale for the proposal, the Board should identify the stakeholders who requested this area of potential simplification. For example, the IRS, on March 30, 2015, issued its report on stakeholders participating in the "Advance Pricing and Mutual Agreement Program" (APMA). From 1991 to 2015, the report identifies that only 1,964 applications have filed for the program, and we question whether this is a material number considering the number of potential applications throughout the entire country. Further, not all of those applications have been executed. We would question if it's the Board's goal to align the complex process of transfer pricing with GAAP. An alternative resolution could be to provide additional explanatory guidance in order to eliminate the potential for diversity in practice without actually changing existing guidance.

- The impact of this proposal could vary across industries. For instance, in manufacturing entities, it may be less complex to calculate deferrals related to the transfer of inventory whereas, in technology entities, it may be more complex to calculate deferrals related to its assets. Consideration should be given as to whether this "one size fits all" approach will result in simplification.

- In the simplest of examples, if one were to consider the transfer of inventory from a U.S. manufacturer to a wholly owned distributor subsidiary in another country, say Australia, the consolidated statement (under the proposed standard) would present that inventory net of a tax adjustment related to Australia. Further, if the final sale of that inventory item occurs not in Australia, but rather in Japan, we question whether the proposed standard would represent a proper completed taxable transaction in the first instance. A multitude of such transactions could create a complex material calculation related not only to the deferred tax calculation, but also to the proposed valuation allowance.

Question 2: If the income tax consequences should not be recognized when the transfer occurs, should the income taxes payable or paid upon transfer be expensed as incurred? If not, how should income taxes payable or paid be recognized?

Response: We believe that the income tax presentation should remain consistent with existing Subtopic 810-10-45-8 which states that "(i)f income taxes have been paid on intra-entity profits on assets remaining within the consolidated group, those taxes shall be deferred or the intra-entity profits to be eliminated in consolidation shall be appropriately reduced."

Question 3: Should the proposed guidance be applied on a modified retrospective basis? Are the transition disclosures appropriate?

Response: We believe that, rather than implement this guidance at this time, the Board should continue to study the impact of the proposed amendment on entities reporting under GAAP.

Question 4: Should the amendments in this proposed Update be effective for:

- **a. Public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2016**
- **b. All other entities for annual periods beginning after December 15, 2017, and interim periods in annual periods beginning after December 15, 2018, with early adoption permitted, but not before the effective date for public business entities?**

Response: Please see our prior responses.

Question 5: What would be the expected transition costs of adopting the guidance in the proposed Update? What would be the expected recurring costs of applying the proposed guidance compared with the costs of applying current GAAP?

Response: Implementation of changes would negatively impact costs in initial years of adoption and not provide any cost savings in subsequent years as there would still be a need to "track" the differences between the bases of book and tax.

*Balance Sheet Classification of Deferred Taxes (***File Reference No.** *2015-210)*

Question 1: Should all deferred income tax liabilities and assets be presented as noncurrent in a classified statement of financial position? If not, why, and what alternatives should the Board consider, and what is the conceptual basis for the alternatives?

Response: We agree that deferred income tax liabilities and assets should be presented as noncurrent in a classified statement of financial position. Such a presentation would eliminate the burden and complexity to calculate the differences between the current and noncurrent amounts. Therefore, the costs to maintain and calculate those deferrals could be reduced.

Question 2: Should the proposed guidance be applied on a prospective basis?

Response: We agree that prospective application is appropriate.

Question 3: Should the amendments in this proposed Update be effective for:

- **a. Public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2016**
- **b. All other entities for annual periods beginning after December 15, 2017, and interim periods in annual periods beginning after December 15, 2018, with early adoption permitted, but not before the effective date for public business entities?**

Response: We agree with the timing of the proposal.

Question 4: What would be the expected transition costs of adopting the guidance in the proposed Update? What would be the expected recurring costs of applying the proposed guidance compared with the costs of applying current GAAP?

Response: We believe that the transition cost would be minimal and that the recurring costs would not increase or could be reduced.