



June 5, 2023

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

File Reference No. 2023-ED100

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update: *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures* (Proposed Statement). The Committee is a voluntary group of CPAs from public practice, industry, and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

The Committee appreciates the Board’s efforts to improve transparency, particularly regarding income taxes, thereby providing financial statement users with more detailed information. As indicated below, we have some reservations as to certain of the proposed requirements as well as their usefulness to non-issuers. In addition, certain members expressed concern about the auditability of the granular disclosures, given that the thresholds, while potentially significant to a reader, could often be immaterial in the scope of an audit, but would still appear in disclosures that a reader would assume to have been audited in detail.

## **Responses:**

### **Rate Reconciliation**

Question 1a. The inclusion or exclusion of categories is largely dependent upon whether a reconciling item meets the five percent (5%) threshold of income or (loss) from continuing operations. To assess this, the tax or financial professional will have to include the entire population of categories and then disclose those that meet or exceed the 5% threshold. The Board should not necessarily eliminate categories from the included list, but we suggest the Board provide guidance to appropriate reporting should elements of the tax expense encompass multiple categories. It is incumbent upon the Board to be specific about the categories and to keep the list current and relevant without becoming too prescriptive.

Question 1b. Incremental guidance on categorization should be provided, for consistency among respondents, otherwise the data provided by category will only be meaningful to the business and not the investor or regulatory communities.

Question 1c. The 5% threshold is a good starting point for large publicly traded companies that have teams capable of preparing the additional disclosures. However, smaller organizations should have both a percentage and dollar amount threshold that should be met for disclosure because the information may not be material, especially when considering the threshold is as a percentage of tax expense.

Question 2. Qualitative disclosures would be preferred given the use of a single apportioned tax rate for multiple jurisdictions. Furthermore, with over 13,000 state and local taxing authorities in the United States, itemizing the tax effect of each jurisdiction places an unnecessary burden on the organization if the data does not materially change when using the apportioned tax rate.

Question 3. The Board has provided a 5% threshold for overall disclosure but has not provided a percent change by category that would require further disclosure by the entity. This unnecessarily burdens the organization to determine whether further disclosure is necessary. The Board should be more specific as to the disclosure requirements for year-over-year changes, and category breakdown, to facilitate consistent and informative financial reporting submissions.

Question 4. The proposed amendments would most likely provide additional transparency and decision-useful information to retail, day trading, investors for issuers, as their reports are issued shortly after period-end by rule. Institutional investors may already model this information based on existing disclosures related to both income taxes and segment reporting, and the additional disclosures will reinforce whether their models are accurate.

Question 5. In general, new proposals or amendments have an incremental cost impact by preparers and practitioners. Large publicly traded organizations may incur a slight cost increase as the disclosures being requested may already be available or easily accessible to such a group. Smaller companies may incur a greater cost burden for the following:

- Compiling the additional data
- Preparer/Practitioner reconciliation of the data
- Additional submission review efforts

Most of the items described above will have substantial one-time costs with declining recurring costs. We are unsure the additional preparation time and expense will provide significant benefit to non-issuers and related user entities.

Question 6. The 5% threshold is clear, but the categorization of rate reconciliation items and certain disclosure requirements for year-over-year changes has not been made clear. The Board may consider further guidance. The Board should consider some combination of an overall rate threshold and dollar limit for smaller publicly traded and private companies due to materiality.

Question 7. Incremental guidance for entities operating at or near breakeven should be provided. From a strict interpretation perspective, near breakeven status would make most jurisdictional taxes material to the income statement. Without additional guidance, implementation of the standard in such instances will likely be inconsistent even within industries, thus reducing the impact of the proposed standard. Entities domiciled in a jurisdiction with no or minimal statutory tax rate but has business activities with higher statutory tax rates should also have available incremental guidance for similar reasons.

Question 8. Reporting qualitative descriptions on an annual basis is appropriate, as are qualitative disclosures on an interim basis for significant changes with additional guidance on what is deemed to be “significant” (is it meant to be “material”, a percentage of a base, etc.).

## **Income Taxes Paid**

Question 9. The 5% threshold for large publicly traded companies that have teams capable of preparing the additional disclosures is appropriate, but smaller organizations should have both a percentage and dollar amount threshold that should be met for disclosure because the information may not be material and could be costly to accumulate. The disclosure of taxes paid net of refunds provides a consistent cash flow message but should already be disclosed as a supplemental disclosure with the statement of cash flows. Investors are

interested in an entity's cash flow and reporting only gross taxes paid may materially distort an entity's tax circumstance. Furthermore, excluding the tax refunds may cause a material reconciling item to cash flow.

Question 10. Yes, the proposed amendments would provide greater transparency and decision-useful information. The disclosed "taxes paid" data allows an investor the opportunity to evaluate paid taxes with the rate reconciliation information to assess consistent reporting. An investor would also be able to hold management accountable for investments in risky, less opportunistic jurisdictions or policies. However, certain of the disclosures appear already to be required; are they to be repeated, or are readers to be expected to know about the topic they are reading?

Question 11. The proposed amendments may have little impact on incremental costs for large publicly traded companies as many companies may already have some form of reporting that would support the Board's proposals. Smaller publicly traded and private companies would likely incur a heavier incremental time and cost burden due to the following:

One Time Costs:

- Initial data development.
- Availability of a practitioner or preparer skilled in tax reconciliation reporting.
- Accounting database limitations.
- Team member training.
- Costs incurred if the Securities and Exchange Commission (SEC) raise a question with the new proposal.

Recurring Costs:

- Staff time.
- Potential additional staff member.

Question 12. The proposed amendments to the income taxes paid disclosure appear clear and operable, with certain exceptions noted above, though there is still a question as to whether they are truly necessary in certain situations such as non-issuers. The Board is requesting for taxes paid data that can be measured by jurisdiction and should be supported by the rate reconciliation schedule. Further, the frequency of reporting the taxes paid information is to be on an interim and annual basis. The frequency helps to mitigate the risk of reporting inaccuracies, and the occurrence of "peaks and valleys".

Question 13. Disclosing (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 is reasonable. The disclosure frequency of item (a) already exists in many footnote disclosures. The jurisdictional information, item (b), disclosures on an annual basis removes the variability and complexity of reporting on an interim basis.

### **Private Company Considerations**

Question 14. The proposed amendments would provide limited decision-useful information for some non-issuers given that accessible private company data is generally limited in scope and not readily available to investors.

Question 15. The amendments are generally clear and operable for private companies, with concerns as noted above. The 5% threshold is clear, but the categorization of rate reconciliation items and the disclosure requirements for year-over-year changes has not been made clear. The Board may consider further guidance. The Board should consider some combination of an overall rate threshold and dollar limit for smaller publicly traded and private companies due to materiality.

## **Transition and Effective Date**

Question 16. The Committee believes application on a retrospective basis would be decision useful as the data helps investors develop a measurable trend. However, the Committee also believes implementing the amendments on a retrospective will materially add to the one-time cost of implementation.

Question 17. It is the Committee's opinion that a minimum of at least one (1) year should separate implementation between public and private businesses. And "yes" early adoption should be permitted because some large publicly traded business may already be tracking the disclosure information.

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We appreciate the opportunity to provide our comments and observations on the Proposed Statement and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

**Matt Mitzen, CPA**

Chair, Accounting Principles Committee

**Jason Plourde, CPA**

Vice Chair, Accounting Principles Committee

APPENDIX A  
ACCOUNTING PRINCIPLES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2023-2024

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education, and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed, and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**National:**

|                                 |                    |
|---------------------------------|--------------------|
| Ryan Brady, CPA                 | Grant Thornton LLP |
| Ashley Carboni, CPA             | KPMG LLP           |
| Timothy Delaney, CPA            | RSM US LLP         |
| Matthew Denton, CPA             | Sikich LLP         |
| Jason Eaves, CPA                | Crowe LLP          |
| William Keirse, CPA             | Ernst & Young LLP  |
| Daniel Lisella, CPA             | BDO USA, LLP       |
| Melissa Lynch, CPA              | Plante Moran, PLLC |
| Jason Plourde, CPA (Vice-Chair) | Grant Thornton LLP |
| David Wentzel, CPA              | Crowe LLP          |

**Local :**

|                          |                                   |
|--------------------------|-----------------------------------|
| Peggy Brady, CPA         | Selden Fox, Ltd.                  |
| Kelly Buchheit, CPA      | Ostrow Reisen Berk & Abrams, Ltd. |
| Jennifer Cataldo, CPA    | Miller Cooper & Company Ltd       |
| Brian Kot, CPA           | Cray Kaiser Ltd CPAs              |
| Danielle Martin, CPA     | Porte Brown LLC                   |
| Matt Mitzen, CPA (Chair) | Bronswick Benjamin P.C.           |

**Educators:**

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|----------------|--|
| John Hepp, CPA | University of Illinois at Urbana-Champaign (retired) |
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**Industry:**

|                          |                            |
|--------------------------|----------------------------|
| John Becerril, CPA       | Elkay Manufacturing Co.    |
| Jeffrey Ellis, CPA       | FTI Consulting, Inc.       |
| Anthony Ferreri, CPA     |                            |
| Ronald Hui, CPA          | Federal Signal Corporation |
| Thomas Masterson, CPA    | Medix Staffing Solutions   |
| Lisa Sezonov, CPA        | Northern Trust Corp.       |
| Aliya Sultaninkarim, CPA | SmithBucklin Corporation   |
| Richard Tarapchak, CPA   | Verano Holdings            |
| William Wang, CPA        | Union Tank Car Company     |

**Staff Liaison:**

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|-------------------|----------------------|
| Paul Pierson, CPA | Illinois CPA Society |
|-------------------|----------------------|