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May 31, 2023

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

Via Email to director@fasb.org

Re: File reference No. 2023-ED100

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on *Proposed Accounting Standard Update Income Taxes (Topic 740): Improvements to Income Tax Disclosures.*

We support the proposal to enhance income tax disclosures. We recommend certain clarification or examples in areas such as the categorization of certain rate reconciling items, the application of 5 percent in the effective tax rate reconciliation, and the application of 5 percent to the disclosure of income taxes paid.

Our comments and suggestions are outlined in our responses to select questions from the Exposure Draft below.

Question 1: The amendments in the 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.**

The categories are acceptable as originally drafted. There will obviously be unique circumstances; however, these categories should cover the vast majority of the rate reconciliation items.

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.

Yes, it would be helpful to provide examples of items that would typically be included in each category since there may be some uncertainty that creates diversity in practice. For example, would foreign tax credits be included in foreign tax effects, tax credits, or a different category? In addition, incremental guidance related to how cross border tax effects are categorized would help reduce diversity in presentation. For example, would the tax effects of transfer pricing adjustments be included in foreign tax effects?

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

We generally agree with the 5% threshold. We believe the 5% threshold should also apply to the required rate reconciliation categories.

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 that the qualitative disclosures would be easier to implement and suggest that an example of the qualitative disclosures be provided. Additionally, clarifying guidance on what constitutes "majority" would be helpful. For example, is the "majority" of state and local jurisdictions based on the total number of jurisdictions, majority of the state and local tax expense, or a percentage of the total state and local tax expense?

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.

Yes, we agree with the proposed disclosure. We believe many companies already have this type of disclosure so it may not be a significant burden to implement.

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.

One-time costs may be incurred in setting up or coding software and establishing policies and controls, but we do not believe that recurring costs would be significant.

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

Yes, we believe the proposed amendments 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?

It may be useful to have an objective test that may reduce the disclosure burden when entities have this specific fact pattern. For example, a company with domestic losses and a full domestic valuation allowance but with foreign income and tax expense may find that utilizing 5% of a close to breakeven income leads to a significant number of items meeting the threshold related to foreign activity, making the disclosure less decision-useful and more cumbersome. We recommend that the guidance provided in BC21 be incorporated into the Codification.

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 agree with the approach as this is in line with current reporting requirements.

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 generally agree that income taxes paid, net of refunds received, should be disaggregated. However, a 5 percent threshold may result in fairly voluminous disclosures for some entities. We recommend further outreach with preparers and users of financial statements related to the 5 percent threshold. Additionally, reporting net of refunds in instances where there are significant, non-recurring refunds (such as from a tax accounting method change or amended tax return) may not provide sufficient information for users of financial statements to understand the entity's cash tax footprint.

With respect to the 5 percent threshold, the guidance should clarify whether the disclosure is based on absolute values in order to disclose jurisdictions where a refund (in absolute dollars) is greater than 5 percent of the total taxes paid.

Further, additional guidance should be provided related to purchased or transferred credits used by the taxpayer. Should the cash paid for transferrable credits be included in income taxes paid in the period of purchase or use of the credit?

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.

One-time costs may be incurred in setting up processes and controls around the disclosure. Additionally, there will be recurring costs related to evaluating the information required for this disclosure, as the disclosed jurisdictions may change significantly from period to period.

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

These amendments appear to be clear and operable.

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

These amendments appear to be 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 recommend that the amendments be required to be applied on a prospective basis with an option to apply retrospectively. Alternatively, additional implementation time is needed in order to evaluate and disclose prior period comparative information.

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.

If retrospective application is required, additional time will be required for entities to gather, evaluate, and review the required historical information. Due to the likely complexities related to these amendments, we propose an effective date in 2025. This would give companies time to assess the impacts and analyze what additional information they may need to adhere to the amendments.

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We would be pleased to discuss our comments with you. If you have any questions, please contact April Little, Partner, at april.little@us.gt.com or 832-476-3730 or Rahul Gupta, Partner, at rahul.gupta@us.gt.com or 312-602-8084.

Sincerely,

/s/ Grant Thornton LLP