

Interpretation of the Emerging Accounting Issues Working Group

INT 01-14: EITF 00-16: Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation

ISSUE NULLIFIED BY SSAP NO. 104

INT 01-14 Dates Discussed

December 4, 2000; March 26, 2001

INT 01-14 References

SSAP No. 13—Stock Options and Stock Purchase Plans (SSAP No. 13)

INT 01-14 Issue

1. *Topic No. D-83, Accounting for Payroll Taxes Associated with Stock Option Exercises* requires that payroll taxes incurred in connection with stock-based compensation be recognized as an expense, but it does not address the timing of that expense recognition. Costs incurred by companies for employer payroll taxes on employee stock-based compensation have become more significant for U.S. companies as a result of the increased use of options as a form of employee compensation and the rapid growth in the fair value of underlying stocks in certain market sectors. Consequently, the predominant current practice of recognizing those costs when the event that triggers payment to the taxing authority occurs (for an option, that event is employee exercise), has been called into question.

2. This Issue addresses how an entity should account for employer payroll taxes on stock-based compensation under *APB Opinion No. 25, Accounting for Stock Issued to Employees* (APB No. 25) and *FASB Statement 123, Accounting for Stock-Based Compensation*. That stock-based compensation may be in the form of options to buy the employer entity's stock, restricted stock awards, stock appreciation rights, or other arrangements covered by that literature. This Issue does not address the accounting consequences under APB No. 25 of an employer recovering from employees some or all of the employer's obligation for those payroll taxes.

3. The issue is when an employer should recognize a liability and corresponding cost for employer payroll taxes on employee stock compensation.

INT 01-14 Discussion

4. The working group reached a consensus to adopt the position of *EITF 00-16, Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation* (EITF 00-16) as an interpretation of SSAP No. 13. The adopted EITF 00-16 position is as follows:

The Task Force reached a consensus that a liability for employee payroll taxes on employee stock compensation should be recognized on the date of the event triggering the measurement and payment of the tax to the taxing authority (for a nonqualified option in the United States, generally the exercise date).

INT 01-14 Status

5. No further discussion planned.