Interpretation of the Emerging Accounting Issues Working Group

INT 01-20: Utilization of Tax Planning Strategies for the Admissibility of Deferred Tax Assets

ISSUE NULLIFIED BY SSAP NO. 101

INT 01-20 Dates Discussed

March 26, 2001; June 11, 2001

INT 01-20 References

SSAP No. 10—Income Taxes (SSAP No. 10)

INT 01-20 Issue

1. An entity may have available certain actions or tax planning strategies that are prudent and feasible. However, the entity ordinarily might not take such actions, but for the expiration of an unused operating loss or other tax credit carryforward or for other valid reasons. In all cases the implementation of these strategies are entirely within the control of the entity. The tax planning strategy, if implemented, is expected to result in realization of deferred tax assets (DTAs) within one year of the balance sheet date. Accordingly, the DTAs are recoverable or realizable within one year of the balance sheet date, but the entity, in some circumstances, may not choose to take the action(s) necessary to realize the DTAs within that one year period. Absent the expiration of a carryforward, the strategy can be implemented in a subsequent year.

2. The accounting issues is whether an entity is expected to implement a tax planning strategy within one year of the balance sheet date in order to support the realizability of a tax asset within one year of the balance sheet date?

INT 01-20 Discussion

3. The working group reached a consensus that an entity needs to demonstrate that it has a prudent and feasible tax planning strategy available that, if implemented, would result in realization of deferred tax assets (DTAs) within one year of the balance sheet date. The entity must also have the intent to implement such strategy. In such circumstances an entity may recognize as admitted assets, the related DTAs that are recoverable as a result of the available tax planning strategy in accordance with paragraphs 10.a. and 10.b.(i) of SSAP No. 10, even though the entity may not implement that strategy within the 12 month period. This approach is similar to that outlined in Paragraph 22 of FASB Statement No. 109, *Accounting for Income Taxes* (FAS 109) that states:

> 22. In some circumstances, there are actions (including elections for tax purposes) that (a) are prudent and feasible, (b) an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused, and (c) would result in realization of deferred tax assets. This Statement refers to those actions as tax-planning strategies. An enterprise shall consider tax-planning strategies in determining the amount of valuation allowance required. Significant expenses to implement a tax-planning strategy or any significant losses that would be recognized if that strategy were implemented (net of any recognizable tax benefits associated with those expenses or losses) shall be included in the valuation allowance.

FAS 109 defines a tax planning strategy as:

An action (including elections for tax purposes) that meets certain criteria (paragraph 22) and that would be implemented to realize a tax benefit for an operating loss or tax credit carryforward before it expires…

INT 01-20 Status

4. During the June 11, 2001, the working group determined that a comprehensive implementation guide for SSAP No. 10 was needed rather than addressing this and several other issues individually. Therefore, further discussion planned at a future meeting.