Simplifying Classification of Deferred Taxes

On November 20, the Financial Accounting Standards Board (FASB) updated U.S. generally accepted accounting principles (GAAP) to simplify presentation of deferred taxes. Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes*, amends Accounting Standards Codification Topic 740 (formerly FAS 109), *Income Taxes*, by requiring the classification of all deferred tax liabilities and assets as noncurrent in a classified statement of financial position. The amendments in this ASU have no effect on entities not presenting a classified statement of financial position.

The standard is effective for annual and interim periods beginning after Dec. 15, 2016, for public business entities. For all other entities—including not-for-profit organizations and employee benefit plans with activities subject to income taxes—the amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. An entity may apply the amendments either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. All entities would disclose the nature of and reason for the change in accounting principle in both the interim and annual period first adopted. For prospective application, an entity would note that prior periods were not retrospectively adjusted; for retrospective application, an entity would disclose quantitative information about the effects of the accounting change on prior periods.

FASB's position is that presenting deferred tax assets and liabilities in one place, as a noncurrent asset or liability, won't negatively affect the quality of information given to investors because the current and noncurrent classification generally does not reflect when a temporary difference will reverse and become a taxable or deductible item. The board noted the predominant deferred tax asset or deferred tax liability often relates to assets and liabilities more associated with noncurrent assets and liabilities.

Current accounting guidance requires an entity to separate deferred taxes into a current asset or liability and a noncurrent asset or liability based on the classification of the related asset or liability. The update eliminates the requirement for entities to analyze whether deferred tax items are related to specific assets or liabilities for financial reporting, as well as the need to determine corresponding classification of those specific assets or liabilities. The amendments also eliminate the need to estimate the timing of reversal of temporary differences for classification when a deferred tax liability or asset is not related to an asset or liability for financial reporting.

The guidance will not amend the requirement that an entity offset and present as a single amount deferred tax liabilities and assets, as well as any related valuation allowance, of a tax-paying component of the entity within a particular tax jurisdiction.

In addition to simplifying accounting for income taxes, the ASU aligns presentation of deferred income tax assets and liabilities with International Financial Reporting Standards.

BKD's recent article on simplification standards issued and pending under FASB's initiative to reduce complexity in accounting standards has more information on this topic. If you need additional assistance, contact your BKD advisor.

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