

Ready to Evaluate Your Income Tax Positions?

What Are the New Requirements?

The FASB recently issued new requirements regarding how entities are to recognize, measure, and disclose uncertainty with respect to positions taken on their income tax returns.

The new requirements were issued in a document entitled "FASB Interpretation No. 48: Accounting for Uncertainty in Income Taxes." The Interpretation applies solely to federal, state, local, and foreign taxes based on income. The accounting for other types of taxes is unaffected by the Interpretation.

Only those positions that are judged by management to be more than 50% likely of being sustained upon examination will be permitted to be recognized. The term "examination" is defined broadly to encompass any related appeals process including litigation. Of particular note is a prohibition against considering the probability of examination. Instead, it is to be assumed that all tax positions will be examined by the relevant taxing jurisdiction and that the examiner will have full knowledge of all relevant information.

For those positions that do not meet the more-likely-than-not threshold, a liability for unrecognized tax benefits will need to be established. If a tax position meets the more-likely-than-not threshold, it is then subject to a second step to measure the amount to recognize in the financial statements. Additionally, any applicable interest and penalties will be required to be accrued for amounts not recognized.

Tax positions are defined quite broadly and include such matters as:

- Decisions as to whether to file a tax return in a jurisdiction
- Allocations of income between jurisdictions
- Decisions to exclude income and/or include expenses in a tax return, even if such decision is reversed in a future period
- Characterizations of capital gain versus ordinary income
- Classifying an entity or transaction as tax exempt

The following summarizes certain new prescribed disclosures to be made in annual financial statements in addition to those already required:

- The total amounts of interest and penalties recognized in the balance sheet and income statement, and the entity's policy as to whether it classifies interest and penalties as income taxes or elsewhere in the financial statements
- The tax years that remain subject to examination by major taxing jurisdictions
- A tabular reconciliation of gross changes in the liability for unrecognized tax benefits for each year presented (Note: This disclosure is only required for public companies.)

When Is Adoption Required?

The Interpretation is effective for certain qualifying nonpublic entities for fiscal years beginning after December 15, 2008.

What Should We Do Now?

Implementation of this Interpretation will require a thorough analysis of tax positions taken for all open years in all relevant taxing jurisdictions. In some cases, additional research or consultation with knowledgeable tax specialists may be necessary to determine the applicability of statutes, rulings, interpretations, and court precedents to your specific circumstances. Contact Boyer & Ritter to arrange a review of your specific situation and to help you develop an implementation plan.

Contact Information

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