

# Defining Issues<sup>®</sup>

KPMG LLP



## Alert

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## New Disclosures About Tax Uncertainties

Companies will be required to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions, according to decisions made yesterday by the FASB. The new disclosures will provide more information on uncertain tax positions than would have been required by the FASB's 2005 proposal.<sup>1</sup> A final Interpretation reflecting these decisions is expected to be issued in June. Its requirements would apply beginning in 2007.

### Tabular Presentation

The FASB decided at its May 10, 2006 meeting that quantitative and qualitative disclosures of potential tax benefits from positions taken for tax-return purposes that have not been recognized for financial reporting, along with a tabular presentation of significant changes during each period, are needed to enable financial-statement users to evaluate estimates that reflect a high degree of risk and judgment. The FASB had previously decided to lower the threshold required to recognize a financial-statement benefit for a position taken for tax-return purposes from "probable" that the position will be sustained, as the exposure draft proposed, to "more-likely-than-not" that the position will be sustained.

The Interpretation is expected to require a tabular presentation of potential tax benefits unrecognized at the beginning of the year and potential tax benefits unrecognized at year-end, with separate line items for significant categories of changes during the period. Those categories may include a) the amount of new exposure liabilities incurred during the period from tax positions not recognized for financial reporting, b) reductions for previously unrecognized tax benefits that were recognized for financial reporting during the period, c) the gross amounts of additions and deletions resulting from changes in judgment about the amounts that will

<sup>1</sup> FASB Proposed Interpretation, Accounting for Uncertain Tax Positions, July 2005, available at [www.fasb.org](http://www.fasb.org).



ultimately be realized, and d) reductions in accruals and payments for settlement of uncertain tax positions. However, the final requirements for the tabular disclosure will be determined as part of the drafting process for the Interpretation.

The disclosures will be required for unrecognized tax benefits on an aggregate, worldwide basis. No disaggregated tabular information for individual tax positions or jurisdictions will be required.

#### **Additional Disclosures**

In addition to the new tabular presentation, the Interpretation will require qualitative and quantitative disclosures related to estimates of unrecognized tax benefits if it is “reasonably possible” the estimate will significantly change in the 12 months after the balance-sheet date. This disclosure is expected to include the nature of the uncertainty, the nature of the events that could cause a change in the next 12 months, and an estimate of the range of reasonably possible changes or a statement that an estimate of the changes cannot be made.

#### **Timing of the Final Interpretation**

Yesterday’s meeting completes the FASB’s public deliberations on the proposed Interpretation. The FASB staff will draft a document reflecting all of the decisions on the Interpretation for final approval by the Board by written ballot. The final Interpretation is expected to be issued in June. Transition to the new Interpretation will be required at the beginning of a company’s first fiscal year beginning after December 15, 2006 (January 1, 2007 for calendar-year companies), and tax positions at the date of adoption will be remeasured using the new guidance in the Interpretation with a direct adjustment to retained earnings. Companies that have already issued interim financial statements will not be permitted to adopt the Interpretation early.

*Defining Issues* will describe the requirements in the final Interpretation after it is published.

The descriptive and summary statements in this presentation are not intended to substitute for the texts of any tax legislation, FASB pronouncements, or SEC regulations. Companies should apply the texts of the relevant laws, regulations, and accounting requirements, consider their particular circumstances, and consult their accounting, tax, and legal advisors.

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