

**2009**  
**CCH ACCOUNTING FOR**  
**INCOME TAXES**

**RICHARD R. PETERSEN**



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# **2009 CCH ACCOUNTING FOR INCOME TAXES**

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**Interpretations of FASB Statement No. 109,  
*Accounting for Income Taxes*,  
as amended**

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# CCH Accounting for Income Taxes

by Richard R. Petersen, CPA

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## Highlights

*CCH Accounting for Income Taxes* provides guidance on the application of FASB Statement No. 109, *Accounting for Income Taxes*, as amended. It also incorporates the various amendments to Statement 109 since 1992, including the guidance contained in FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*. This in-depth resource gives professionals indispensable guidance on the complex requirements of Statement 109 and FIN 48 and clarifies how to apply those requirements to a myriad of situations and events. It provides a practical reference tool by selectively combining information from the official text of the FASB, along with information drawn from the AICPA, consensuses of the EITF, SEC Staff Accounting Bulletins, and lessons learned from leading practitioners in the field.

## 2009 Edition

The 2009 Edition of *CCH Accounting for Income Taxes* contains the following added or updated interpretations:

- Revised Interpretation 4-4, “Michigan Business Tax,” which addresses the accounting for the repeal of the Michigan single business tax and the enactment of a modified gross receipts tax;

- Added Interpretation 4-8, “Mexican Flat Tax,” which addresses the applicability of Statement 109 to the Mexican tax system as revised effective January 1, 2008;
- Revised Interpretation 10-1, “Uncertain Tax Positions,” for the issuance of FASB Staff Position (FSP) FIN 48-1, “Definition of *Settlement* in FASB Interpretation No. 48”;
- Added Interpretation 13-3, “Identifying Temporary Differences in Tax Systems That Exclude Significant Types of Income or Expense From the Computation of the Base Amount Subject to Tax,” which clarifies how to identify temporary differences in certain tax jurisdictions (e.g., the Mexican Flat Tax noted above);
- Added Interpretation 35-11, “Allocation of Income Taxes to a Cumulative Effect of a Change in Accounting Reflected Directly to Beginning of the Period Retained Earnings,” which discusses an application issue associated with FASB Statement No. 154, *Accounting Changes and Error Corrections*;
- Revised Interpretation 36-4, “Effect on Diluted EPS Calculation of Excess Tax Benefits or Shortfalls of Tax Benefits From Stock Plans,” which clarifies the calculation of diluted earnings per share (EPS) in periods prior to stock option exercises;
- Revised Interpretation 36-11, “Accounting for the Shortfall in Tax Benefits Associated With an Equity Award,” which provides guidance when a subsidiary is sold or spun-off and the effect on the cumulative amount of excess tax benefits (commonly known as the “APIC pool”) as recorded by the consolidated group;
- Added Interpretation 36-13, “Income Tax Benefits of Dividends on Share-Based Payment Awards,” which reflects the guidance in EITF Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards,” by an enterprise when it receives a tax deduction for dividends on share-based arrangements;
- Added Interpretation FIN 48 4-1, “Applicability of FIN 48 to Entities That Typically Are Not Taxpayers,” which addresses the applicability of FIN 48 to not-for-profit entities or entities that are allowed a tax deduction for all distributed earnings (e.g., regulated investment companies and real estate investment trusts) or for all patronage dividends paid in money, qualified

written notices of allocation, and property (e.g., exempt cooperatives);

- Revised Interpretation FIN 48 10-1, "Effectively Settled Through Examination, Negotiation, or Litigation," to reflect the guidance in FSP FIN 48-1;
- Added Interpretation FIN 48 15-2, "Ratio of Earnings to Fixed Charges," which documents the views of the SEC staff on whether interest expense related to a liability for unrecognized tax benefits should be included in "fixed charges" when calculating the specified ratio as required by Rule 503 of Regulation S-K;
- Added Interpretation FIN 48 15-3, "Interest Income Related to Income Tax Uncertainties," which clarifies how an enterprise should account for interest income related to uncertain tax positions;
- Revised Interpretation FIN 48 17-2, "Balance Sheet Classification of Long-Term Liabilities for Unrecognized Tax Benefits," which documents the SEC staff's view that unrecognized tax benefits should be included in the contractual obligations table that is required by Rule 303 of Regulation S-K;
- Revised Interpretation FIN 48 18-1, "Interaction Between Net Operating Loss Carryforwards and Liabilities for Unrecognized Tax Benefits," which clarifies our understanding of the FASB staff's view on the presentation of income tax-related assets and liabilities in a statement of financial position;
- Added Interpretation FIN 48 21-5, "Treatment of the Federal Tax Benefit From State Tax Expense," which addresses the disclosure requirement of state income taxes on the total amounts of unrecognized tax benefits and related effect on the effective income tax rate disclosure; and
- Added Interpretation FIN 48 22A-1, "Effective Date for Nonpublic Enterprises," which documents the issuance of FASB Staff Position (FSP) FIN 48-2, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," in February 2008.

New Appendix V, "Compliance Checklist With FIN 48," was added to guide users when complying with the various requirements of FIN 48. Appendix III, "Sample Footnotes

and Disclosures," was updated to provide more recent examples that reflect how various U.S. public companies disclosed the information required by Statement 109 and FIN 48, as amended and interpreted. We also updated the "Recent Developments" section to give users a status of projects and related activities at the FASB that may affect the accounting for income taxes. This section includes a discussion of the changes to income tax accounting as a result of the issuance of FASB Statement No. 141 (Revised 2007), *Business Combinations*. This standard was issued by the FASB on December 4, 2007, and is effective for business combinations completed in the first annual reporting period beginning after December 15, 2008. Early adoption of Statement 141R is *prohibited*.

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# Preface

In February 1992, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 109, *Accounting for Income Taxes*. In the years since its issuance, the FASB staff has released FASB Staff Implementation Guide, *A Guide to Implementation of Statement 109 on Accounting for Income Taxes*, and the Emerging Issues Task Force (EITF) has dealt with a number of Statement 109 implementation issues, as well. In July 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of Statement No. 109*, to address financial statement recognition and measurement by an enterprise of a tax position taken or expected to be taken in a tax return.

This publication, *CCH Accounting for Income Taxes*, is organized according to paragraph number within Statement 109, as amended, with verbatim text of the statement set off in a box to distinguish it from the authors' commentary. The book provides the authors' interpretation on areas that have not been specifically addressed by the FASB or that require further explanation. A separate appendix (Appendix I) contains quoted material from FIN 48 together with the authors' interpretation. The analysis in this book is based on discussions with the staffs of the FASB and the Securities and Exchange Commission (SEC), combined with lessons learned from leading accounting practitioners. A glossary (Appendix II) is provided at the end of this publication, as well as an "Index of Accounting Literature Affecting Income Taxes" (Appendix IV), which includes cross-references to the interpretations that either refer to or incorporate the authoritative pronouncement in whole or in part. We also include an appendix (Appendix III) that contains examples reflecting how various U.S. public companies have disclosed the information required by Statement 109 as amended and interpreted, including the disclosures required by FIN 48. Finally, Appendix V, "Compliance Checklist With FIN 48," is provided to guide users when complying with the various requirements in FIN 48.

Practice continues to evolve on many of the issues that are addressed in this book. In addition, various regulatory agencies, such as the SEC, adopt new and different positions from time to time as developments occur. The positions set forth herein represent our understanding of current practice. Given the changing conditions and the complexity of certain issues, users should closely monitor the viewpoints expressed and consult with experts on specific matters, as appropriate. We will continue to update this publication as the need arises.

This publication combines material quoted directly from FASB Statement No. 109, *Accounting for Income Taxes*, as amended, FASB

Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, FASB Staff Implementation Guide, *A Guide to Implementation of Statement 109 on Accounting for Income Taxes*, FASB Staff Implementation Guide, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities*, and portions of *EITF Abstracts* with our commentary and interpretation. Quoted material is reprinted with permission of the FASB.

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# About the Authors

## LEAD AUTHOR

### **Richard R. Petersen**

Richard R. Petersen is a co-founder and Managing Director of Financial Reporting Advisors LLC (FRA). Based in Chicago, Illinois, FRA provides consulting services related to accounting and SEC reporting, and litigation support services.

Previously, Richard was a partner with Arthur Andersen LLP in its Professional Standards Group (PSG). In this role, he consulted with clients and engagement teams on complex financial reporting matters and authored interpretive guidance on topics, such as consolidations, income taxes, leases, and revenue recognition, for Andersen's worldwide practice. He also represented the firm before various standards setters, including the FASB, the SEC, and the AICPA.

Richard has served as the chair or member of various Emerging Issues Task Force working groups on a wide array of topics, such as consolidation, leases, income taxes, and revenue recognition. He also was a member of the AICPA Task Force on Reorganization that developed AICPA Practice Bulletin No. 11, *Accounting for Preconfirmation Contingencies in Fresh-Start Reporting*. Richard is currently a member of the AICPA's Accounting Standards Executive Committee (AcSEC).

From 1988 to 1990, Richard was a Practice Fellow at the FASB. He was the project manager for the reconsideration of FASB Statement No. 96, *Accounting for Income Taxes*, and FASB Statement No. 101, *Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71*. He also worked on issues related to business combinations and leveraged buyouts.

Richard received his Bachelor of Science in Business Administration from the University of Nebraska at Lincoln. He is a licensed Certified Public Accountant in Nebraska and Illinois and is a member of the AICPA and the Illinois CPA Society.

## EDITORIAL REVIEWING AUTHOR

### **Ronald G. Pippin**

*Editorial Managing Director, Accounting Research Manager*

Ron authors, maintains, and approves all of the updates to the accounting and SEC content on the Accounting Research Manager (ARM) database. He also provides oversight guidance to the audit and other material added to ARM. Among other responsibilities at ARM, Ron reviews the completeness of the content for this publication, *CCH Accounting for Income Taxes*.

Ron has 20 years of public accounting experience, including six years as an audit partner with Arthur Andersen. He also served as the senior technical accounting officer at a Chicago-based Fortune 50 firm for 10 years. His experience while working for the Fortune 50 firm included discussion of a complex financial statement presentation issue with the Chief Accountant of the SEC and others from the SEC's Office of the Chief Accountant.

Immediately before Ron joined CCH, he worked in Andersen's Professional Standards Group (commonly known as the "national office"), where he consulted on technical accounting matters and contributed to the authoring and maintenance of ARM's content. While in Andersen's national office, he also discussed numerous accounting and reporting issues with staff members of the SEC's Division of Corporation Finance. Wolters Kluwer purchased ARM from Andersen in 2002.

Ron is a CPA, a graduate of the University of Colorado in Boulder, and a member of Financial Executives International, the AICPA, and the Illinois Society of CPAs.

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**SECTION I**  
**INTERPRETATIONS**



# SECTION I INTERPRETATIONS

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