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Classified Information
FASB Issues ASU on Balance Sheet Classification of Deferred Taxes

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Introduction

On November 20, 2015, the FASB issued ASU 2015-17,[1] which will require entities to present deferred tax assets (DTAs) and deferred tax liabilities (DTLs) as noncurrent in a classified balance sheet. The ASU simplifies the current guidance, which requires entities to separately present DTAs and DTLs as current and noncurrent in a classified balance sheet.

Background and Key Provisions

The project on simplifying the balance sheet presentation of deferred taxes is part of the FASB's simplification initiative. Launched in June 2014, the simplification initiative is intended to improve U.S. GAAP by reducing costs and complexity while maintaining or enhancing the usefulness of the related financial information.

Under current guidance (ASC 740-10-45-4[2]), entities "shall separate deferred tax liabilities and assets into a current amount and a noncurrent amount. Deferred tax liabilities and assets shall be classified as current or noncurrent based on the classification of the related asset or liability for financial reporting." Stakeholder feedback indicated that the separate presentation of deferred taxes as current or noncurrent provided little useful information to financial statement users and resulted in additional costs to preparers. Therefore, the FASB issued the ASU to simplify the presentation of deferred taxes in a classified balance sheet. Netting of DTAs and DTLs by tax jurisdiction will still be required under the new guidance.

Noncurrent balance sheet presentation of all deferred taxes eliminates the requirement to allocate a valuation allowance on a pro rata basis between gross current and noncurrent DTAs, which constituents had also identified as an issue contributing to complexity in accounting for income taxes.

Editor's Note: The ASU will align with the current guidance in IAS 12,[3] which requires entities to present DTAs and DTLs as noncurrent in a classified balance sheet.

[1] FASB Accounting Standards Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes*.

[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

[3] IAS 12, *Income Taxes*.

The example below compares the classification of DTAs and DTLs under current U.S. GAAP with their classification under the new guidance.

Example — Classification of Deferred Taxes

Company ABC has a net DTA of $100 million as of December 31, 20X1, as shown in the table below (amounts in millions):

Balance Sheet as of 12/31/X1	DTA/(DTL)
Inventory	$ 50
Net operating loss (NOL) carryforward	350
Fixed assets	(300)
Total DTA/(DTL)	$ 100

Company ABC expects that $100 million of the NOL carryforward will be used in the following year. Below are the current and noncurrent classifications of the DTA/(DTL) as of December 31, 20X1 (amounts in millions):

	Current U.S. GAAP		ASU 2015-17	
Description	Current	Noncurrent	Current	Noncurrent
Inventory	$ 50			$ 50
NOL carryforward	100	$ 250		350
Fixed assets		(300)		(300)
Total DTA/(DTL)	$ 150	$ (50)	$ 0	$ 100

Effective Date and Transition

The ASU requires the following:

- For public business entities, the ASU will be effective for annual periods beginning after December 15, 2016, and interim periods within those years.
- For entities other than public business entities, the ASU will be effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018.

The Board decided to allow all entities to early adopt the ASU. Therefore, the ASU can be adopted by all entities for any interim or annual financial statements that have not been issued.

In addition, entities are permitted to apply the amendments either prospectively or retrospectively.

In the period the ASU is adopted, an entity will need to disclose "the nature of and reason for the change in accounting principle." If the new guidance is applied prospectively, the entity should disclose that prior balance sheets were not retrospectively adjusted. However, if the new presentation is applied retrospectively, the entity will need to disclose the quantitative effects of the change on the prior balance sheets presented.

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