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EITF Snapshot
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In This Issue

Summary of the March Meeting of the Emerging Issues Task Force

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This *EITF Snapshot* summarizes the March 24, 2022, meeting of the Emerging Issues Task Force ("EITF" or "Task Force"). Initial Task Force consensuses (consensuses-for-exposure) are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

The official EITF minutes will be posted to the Deloitte Accounting Research Tool (DART) and to the FASB's Web site (note that the official EITF minutes may contain details that differ from those in this publication). EITF meeting materials (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 21-A, "Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method"

Status: Initial deliberations.

Affects: Entities that invest in tax credit programs other than low-income housing tax credit (LIHTC) investments.

Background: Through the LIHTC program established by the federal government, tax credits are awarded to developers of low-income housing. These developers often monetize the value of tax credits with investors. For the investor to receive these tax credits, a limited liability entity is typically established in which the developer acts as the general partner and the investor acts as the limited partner.

In January 2014, the FASB issued ASU 2014-01[1] (codified in ASC 323-740[2]), which allows investors to use the proportional amortization method to account for LIHTC investments if the criteria in ASC 323-740-25-1 are met. ASC 323-740-35-2 states, in part, that "[u]nder the proportional amortization method, the investor amortizes the initial cost of the investment in proportion to the tax credits" received through the LIHTC investment. Further, the investor recognizes the amortization and the tax credits on a net basis in its income statement as a component of income tax expense from continuing operations. If the criteria in ASC 323-740-25-1 are not met, the investor typically uses the equity method to account for its investment.

Since the issuance of ASU 2014-01, stakeholders have continued to support expanding the proportional amortization method to investments in tax credit programs other than LIHTC investments. At its September 22, 2021, meeting, the FASB decided to add a project on this topic to the EITF's technical agenda. Accordingly, if the EITF reaches a consensus that such an expansion is appropriate, it will evaluate whether narrow clarifications should be made to the current criteria in ASC 323-740-25-1 to permit entities to use the proportional amortization method to account for investments in tax credit programs other than LIHTC investments.

At the EITF's November 11, 2021, meeting, the FASB staff held an educational session (i.e., non-decision-making meeting) on this Issue. During the meeting, the FASB staff gathered initial feedback from the Task Force on any technical topics on which additional research is needed as well as on any additional stakeholder outreach that the staff should perform. In addition, the Task Force discussed several tax credit structures, including the New Market Tax Credit Program, the Historic Rehabilitation Tax Credit Program, and the Renewal Energy Tax Credit (RETC) Program. The Task Force provided the FASB staff with substantial feedback on the RETC Program because of the timing, amount, and potential variability of the cash flows received by investors from this tax credit structure.

Since the EITF's November 11, 2021, meeting, the FASB staff has continued to perform outreach related to this Issue, including discussions with investors. The FASB staff and some Board members also held nonpublic educational meetings in January 2022.

Summary: The Task Force did not reach any final decisions on this Issue at its March 24, 2022, meeting. However, the Task Force made the following *preliminary* decisions:

- The scope of the proportional amortization method would be expanded to include all investments in tax credit programs that meet the criteria in ASC 323-740-25-1.
- An entity that elects the proportional amortization method would be required to apply it to all investments in tax credit programs that meet the criteria in ASC 323-740-25-1, as opposed to an election by individual tax credit program or by investment.
- The FASB will retain criteria (a)[3], (b)[4], and (c)[5] from ASC 323-740-25-1 without making any additional clarifications to them. Criterion (aa)[6] will also be retained, but the Board will clarify that the assessment is based on whether the investor can exercise significant influence over the operating and financial policies of the underlying project.

[1] FASB Accounting Standards Update No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* — a consensus of the FASB Emerging Issues Task Force.

[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] Criterion (a) states, "It is probable that the tax credits allocable to the investor will be available."

[4] Criterion (b) states, "The investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive."

[5] Criterion (c) states, "The investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment."

[6] Criterion (aa) states, "The investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity."

The Task Force is expected to address the following additional topics at a subsequent meeting:

- Criterion (aaa)[7] from ASC 323-740-25-1, specifically the following:
  - Whether to reconsider the threshold of "substantially all."
  - Whether the term "projected benefits" refers to total return, including tax credits, other tax benefits, and non-tax-related cash flows or benefits.
  - Whether entities should use discounted amounts in applying criterion (aaa).
  - If applicable, the appropriate discount rate to use (e.g., internal rate of return).
  - How eligibility for the proportional amortization method is affected by the existence of refundable tax credits.
- Reassessment considerations, including when (e.g., only upon a change in the nature of the investment or continuously) and how to perform any reassessment evaluations.
- Considerations related to subsequent measurement, including how to address variability in estimates of expected tax benefits and credits.
- Disclosure, including the scope of the tax credit investments that must be disclosed and the structure of the required disclosures.
- Transition.

Effective Date and Transition: If the Task Force reaches a consensus at a future meeting, it will discuss effective date and transition.

Next Steps: The Task Force is expected to redeliberate this Issue at its next meeting.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for June 16, 2022.

Other Items Discussed at the March Meeting — SEC Staff Observer Comments

At the March 24, 2022, EITF meeting, Jonathan Wiggins, senior associate chief accountant in the SEC's Office of the Chief Accountant, announced that the SEC staff is rescinding the following staff announcement and observer comment as a result of the issuance of ASU 2018-07:[8]

- SEC Staff Announcement, "Grantor Balance Sheet Presentation of Unvested, Forfeitable Equity Instruments Granted to a Nonemployee," which is codified in ASC 505-50-S99-1 (formerly EITF Topic D-90).
- SEC Observer Comment, "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees," which is codified in ASC 505-50-S99-2 (formerly paragraph 12 of EITF Issue 00-18).

In addition, Mr. Wiggins noted that the SEC staff is amending the SEC Staff Announcement "Classification and Measurement of Redeemable Securities." The amendment, which is codified in ASC 480-10-S99-3A (formerly EITF Topic D-98), clarifies language related to statutory tax withholding requirements and is being released in response to the issuance of ASU 2016-09.[9]

[7] Criterion (aaa) states, "Substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment)."

[8] FASB Accounting Standards Update No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*.

[9] FASB Accounting Standards Update No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*.

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