# Tax Accounting Perspectives

## ASC 740 considerations as income tax returns are finalized

September 28, 2018

**Tax provision processes include analyzing the impact of changes for "return-to-provision" items that result when estimates used for the provision are different than amounts reported on income tax returns. Companies should record the tax accounting impact in the period they identify the adjustments and may need to differentiate these from SAB 118 adjustments.**

### What's new?

**Potential tax expense (or benefit) for adjustments related to temporary differences**

The tax accounting impact of return-to-provision ("RTP") adjustments (also known as return-to-accrual adjustments or true-ups) should be recorded in the period identified. Adjustments may be identified or finalized in the period income tax returns are filed assuming they are not known in an earlier reporting period. For calendar-year companies, returns are due in the fourth quarter and companies finalize RTP adjustments at that time. This timeframe coincides with the end of the up to one-year measurement period provided by SAB 118 that requires final adjustments be recorded for the impact of tax reform. Therefore, many companies are evaluating both RTP and measurement period adjustments at the same time. After tax reform, adjustments for temporary differences that historically may not have impacted a company's overall tax expense may now impact a company's overall tax expense or benefit. For example, a calendar-year corporation may have a RTP adjustment that increases or decreases current taxes at a 35% rate with the offset to deferred taxes at a 21% rate, which would impact the overall tax expense.

### Highlights

**Analyzing return-to-provision adjustments**

The RTP analysis compares estimated book and tax differences identified during the provision to differences computed based on income tax returns. Any resulting differences should be evaluated to determine whether variances are changes in estimates or a correction of an error (further guidance provided in ASC 250).

*Refer to Tax Accounting Perspective: SAB 118 considerations for proposed regulations and interim reporting for further guidance on tax reform considerations.*

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**Highlights**
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**What does this mean for you**

- Documenting change in estimate versus error conclusions
- Reporting a prior period error
- Recording adjustments as a discrete item in period identified
- Assessing impact of RTP adjustment on operating effectiveness of controls

**Deloitte perspective**
Think ahead...Act now and understand return-to-provision adjustments

### What does this mean for you

Companies will need to determine whether adjustments are changes in estimates or corrections of errors. It is important to evaluate the change, report and record an adjustment appropriately, and determine whether it is an internal control deficiency.

#### Documenting change in estimate versus error conclusions

Determining whether a change in a prior year tax provision resulted from a change in an accounting estimate or an error is often difficult and requires judgement.

Changes in accounting estimates result when new information becomes available, a change in facts and circumstances arises, or information is identified that was not reasonably knowable or readily accessible as of the prior reporting period.

Conversely, errors can result from mathematical mistakes, mistakes in the application of generally accepted accounting principles ("GAAP"), or oversight or misuse of facts that existed at the time the financial statements were prepared.

Entities should consider whether the information was or should have been "reasonably knowable" or "readily accessible" from the entity's books and records in a prior reporting period and whether the application of information at that time would have resulted in different reporting. The determination of when information was or should have been reasonably knowable or readily accessible will depend on a company's facts and circumstances.

#### Reporting a prior period error

Errors discovered after financial statements have been issued should be analyzed to determine whether the impact is material.

Errors determined to be material may require restatement of previously issued financial statements, including additional filings, disclosures, and language in the audit report. Immaterial errors generally do not result in additional filings and are generally accounted for discretely in the period identified.

*Refer to Section 3.41 of the 2017 Deloitte Roadmap to Accounting for Income Taxes for further guidance on distinguishing a change in estimate from a correction of an error.*

#### Recording adjustments as a discrete item in period identified

For interim reporting, a RTP adjustment is considered a discrete item recorded in the period identified (unless it constitutes a material error). While the RTP adjustment is not included in the calculation of the Annual Effective Tax Rate ("AETR"), companies should evaluate the impact, if any, on current year estimates of similar items included in the AETR.

#### Assessing impact of an RTP adjustment on operating effectiveness of controls

Return-to-provision adjustments may indicate tax controls are missing, not operating effectively or not being executed as designed. Companies may need to consider controls related to identified "errors" to determine whether there is an issue with either the design or operating effectiveness of controls over tax reporting.

### Deloitte perspective

#### Think ahead…Act now to understand RTP and measurement period adjustments

Companies should evaluate both RTP and measurement period adjustments as income tax returns are finalized and as the up to one-year measurement period ends. It is important to determine the impact on tax expense or benefit, whether errors are material or immaterial, adjustments to finalize provisional amounts and required disclosures.


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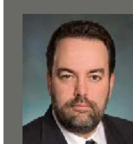

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