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Tax Accounting Perspectives

ASC 740 implications of cash repatriation from foreign investments

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On December 22, 2017, President Trump signed into law the tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the "Act"), that created a fundamental shift in U.S. cross-border taxation. The changes in tax law have many organizations reconsidering their reinvestment of foreign earnings. This perspective discusses some of the tax accounting considerations for cash repatriations and changes in the indefinite reinvestment assertion.

What's new?

U.S. multinationals cash repatriation and impacts to financial reporting

As a result of various tax law changes under the Act, many U.S. multinationals are reevaluating their intended use of foreign earnings. A change in management's intention, including a change in management's assertion related to indefinite reversal of outside basis differences in investments in foreign subsidiaries and corporate joint ventures that are essentially permanent in duration ("indefinite reinvestment assertions"), may have significant impacts for financial reporting purposes.

Highlights

Indefinite reinvestment assertions

Organizations should be aware of the impact to financial reporting when considering a change in indefinite reinvestment assertions. Under the new tax system an entity may still be subject to income tax on its foreign investments (e.g. foreign exchange gains or losses on distributions, capital gains on sale of investment, foreign income taxes, and withholding taxes) and should consider whether it needs to record any deferred taxes on outside basis differences.

Alternatively, if the organization has the intent and ability to continue to indefinitely reinvest the outside basis difference, it should have written plans of reinvestment documented in order to support that assertion.

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Indefinite reinvestment assertions

What does this mean for you
- Quantify outside basis difference
- Understand exceptions for recording deferred tax
- Evaluate changes under SAB 118
- Consider interim tax implications

Deloitte perspective
Evaluate the assertion and record impact in period of change in assertion

What does this mean for you

Quantify outside basis differences

An outside basis difference is the difference between the carrying amount of an entity's investment for financial reporting purposes, and the underlying tax basis in that investment (e.g. tax basis in the subsidiary's stock). From a consolidated financial reporting perspective, an entity's financial reporting carrying amount in a consolidated subsidiary is eliminated; however, book-to-tax differences in this amount may still result in the need to record deferred taxes. Deferred taxes are always recorded on taxable and deductible temporary differences unless a specific exception applies.

Understand the exceptions for recording deferred tax

Whether an exception in ASC 740 applies to an outside basis difference depends, in part, on whether the difference results in a taxable or deductible temporary difference.

DTLs are recorded for taxable temporary differences related to outside basis differences in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration unless the outside basis difference is indefinitely reinvested, or the earnings will be remitted in a tax-free liquidation.

DTAs should not be recorded on outside basis differences (attributable to an investment in a subsidiary or corporate joint venture) unless it is apparent that the temporary difference will reverse in the foreseeable future (e.g. generally within the next 12 months).

Evaluate changes under SAB 118

The SEC staff issued SAB 118, which provides for a measurement period (not to exceed one year) to finalize the accounting for effects of the Act. We believe that, during the measurement period, an entity should apply ASC 740 as it completes its plans for reinvestment of its outside basis difference, including its plans for reinvestment or repatriation of unremitted foreign earnings. To the extent that an entity has finalized its plans and can calculate the resulting tax effects, the entity should disclose those plans and record the associated tax effects. If an entity has completed all or portions of its assessment (e.g., made the decision to repatriate from all or certain entities) and has the ability to reasonably estimate the effects of that assessment, it should record provisional amounts for those effects and disclose the status of its efforts. If an entity has made insufficient progress to reasonably estimate its plans, it should disclose the status of its evaluation and should not adjust its previous indefinite reinvestment assertions for the effects of the Act.

Consider interim reporting implications

If an entity changes its assertion regarding its foreign investments, the beginning-of-the-year outside basis difference that is expected to reverse is recorded as a discrete item in the period of the change in assertion. The adjustment for the beginning-of-the-year outside basis difference is generally allocated to continuing operations and calculated by using the exchange rate at the beginning of the year. However, amounts, if any, pertaining to the current year ordinary income (as defined in ASC 740-270) will be captured within the estimated annual effective tax rate. Amounts pertaining to current year income/loss other than ordinary income (e.g. discontinued operations, other comprehensive income) are generally recorded discretely.

Refer to Section 9.03 of the [2017 Deloitte Roadmap to Accounting for Income Taxes]() for additional guidance.

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Evaluate the assertion and record impact in the period of change in assertion

An organization should continue to evaluate its plans for reinvestment or repatriation of unremitted foreign earnings throughout the year. As those plans change, the financial reporting impact and disclosures should be reflected in the period of change. Documentation should be maintained supporting the assertion.

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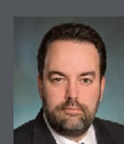

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