

**Case 15-9
Settled or Not Settled**

Fact Pattern 1

3D Printing Inc. (3D Printing), a calendar-year-end company, has multiple uncertain tax positions (UTPs) related to its 2010 federal tax return. Some UTPs met the more-likely-than-not recognition threshold on the basis of 3D Printing’s initial assessment while others did not. During 2012, the IRS audited the 2010 tax return. During Q3 2012, the examining agents verbally indicated the preliminary conclusion on certain UTPs, and the IRS and 3D Printing formalized their agreement on these UTPs by signing IRS Form 906, “Closing Agreement on Final Determination Covering Specific Matters,” in Q4 2012. Subsequently, in Q1 2013, the IRS completed its examination of the 2010 tax return, whereby the IRS and 3D Printing agreed to the final closing agreement. 3D Printing does not intend to appeal or litigate any aspects of the examined UTPs, and it is remote that the IRS would examine or reexamine any aspects of the 2010 federal tax return. Refer to the table below for further facts on each of the UTPs.

	Met Recognition Threshold?	Amount of Tax Benefit Recognized in the Financial Statements	Specifically Examined?	Verbally Communicated in Q3?	Listed on Q4 Form 906?	Benefit Sustained
UTP 1	No	0%	Yes	Yes	Yes	80%
UTP 2	No	0%	No	No	No	100%
UTP 3	No	0%	Yes	No	Yes	0%
UTP 4	Yes	65%	Yes	Yes	Yes	50%
UTP 5	Yes	70%	No	No	No	100%
UTP 6	Yes	60%	Yes	No	Yes	0%

Required:

1. For each tax position taken on its 2010 federal tax return:
 - a. When can 3D Printing assert an “effective settlement”?
 - b. When should 3D Printing adjust previously recognized amounts in the financial statements, if any?
2. Does 3D Printing have a basis to change its assessment of similar tax positions taken in other periods if it concludes that it meets the effective settlement conditions related to the UTPs included in its 2010 tax return?
3. If 3D Printing were to report under IFRSs, what are the main differences in accounting for uncertainty in income taxes it would encounter?

Fact Pattern 2

3D Printing spun off 100 percent of Subsidiary J to shareholders as a tax-free distribution in 2011. 3D Printing's 2010 federal tax return included Subsidiary J. As part of the spin-off, 3D Printing entered into a tax-sharing agreement in which Subsidiary J indemnified 3D Printing for any incremental tax payments due for the pre-spin periods arising from the ultimate resolution of tax positions directly related to Subsidiary J. At the time of the spin-off, 3D Printing accrued \$10 million of indemnification receivables.

Recording the indemnification receivables is deemed appropriate by 3D Printing because it represents a contractual recovery of a portion of the potential loss associated with its tax uncertainties, similar to an insurance contract. 3D Printing also concluded that the accounting for the indemnification receivables should (1) follow the same measurement accounting model as the related liability and (2) be adjusted accordingly for any adjustments to the recorded liability, excluding any concerns about the collectibility of the receivable. In addition, the indemnification receivables were not netted against the related unrecognized tax benefit (UTB) because the criteria for offset was not met as outlined in ASC 210-20, *Balance Sheet: Offsetting*.

During 2012, the IRS audited the 2010 tax return and concluded the examination in Q4 2012. On the basis of the terms of the IRS settlement, 3D Printing was required to remit a cash payment to the IRS of \$6 million, which consisted of \$4.9 million for the settlement of tax matters and \$1.1 million of interest. According to the tax-sharing agreement, Subsidiary J owed 3D Printing \$4 million related to the IRS settlement and remitted that amount in Q4 2012. Since all the UTPs of J have been resolved, the remaining indemnification receivable and UTB of \$6 million were both written off to the income statement, resulting in no impact to net income.

Required:

1. Assuming 3D Printing did not classify Subsidiary J as a discontinued operation, on what income statement line item(s) (operating expense or income tax expense) should the reversal of the indemnification receivable and UTB each be presented?
2. Assuming 3D Printing classified Subsidiary J as a discontinued operation, in what income statement item(s) (continuing operations or discontinued operations) should the reversal of the indemnification receivable and UTB each be presented?