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agreement with a proposal from the Financial Accounting Standards Board (FASB) that, if implemented, would standardize the treatment of net operating loss carryforwards or tax credit carryforwards on financial statements.

Jun. 17, 2013

NEW YORK – The New York State Society of Certified Public Accountants ([NYSSCPA](#)) expressed agreement with a proposal from the Financial Accounting Standards Board (FASB) that, if implemented, would standardize the treatment of net operating loss carryforwards or tax credit carryforwards on financial statements.

According to the FASB, the [Proposed Accounting Standards Update—Income Taxes \(Topic 740\): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists](#) (a consensus of the FASB [Emerging Issues Task Force](#), was developed to establish a consistent methodology for the treatment of unrecognized tax benefits on a business's financial statement.

To date, some entities present unrecognized tax benefits as a liability unless they are directly associated with a tax position taken in a tax year, while others treat them as a reduction of a deferred tax asset.

The Society, in its [comment letter](#), agreed with the proposal on all fronts. It concurred that there needed to be a standardized way of treating unrecognized tax benefits, and also that there should be an exception for those who practice in a jurisdiction where the proposed treatment would not be allowed.

Margaret A. Wood, an NYSSCPA past president and one of the letter's principal authors, said that, in general, the proposal will bring both clarity and convenience to the process.

Under the proposal, an unrecognized tax benefit, or a portion thereof, would be

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[Generally Accepted Accounting Principles] because they are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits,” the FASB said.

“They will better reflect an entity’s ability to settle additional income taxes that would result from the disallowance of a tax position when net operating loss carry forwards or tax credit carry forwards exist.”

According to the FASB, the amendments in the proposal would be applied retroactively, with early adoption permitted. The board will settle on an effective date after it weighs all stakeholder feedback. The Society published its comment letter on April 22. FASB’s proposal was released to the public on Feb. 21.

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