

Private Company Financial Reporting Committee

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JUDITH H. O'DELL
Chair

September 24, 2007

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*

Dear Mr. Herz:

The Private Company Financial Reporting Committee ("PCFRC") offers the following recommendation to the FASB related to FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). The recommendation represents the unanimous views of the PCFRC members in attendance.

This recommendation is based upon preliminary research conducted by the PCFRC as part of its effort to better understand the issues that private company financial statement users, preparers, and CPA practitioners are facing with the requirements of FIN 48. The preliminary research consisted of responses from certain key constituent organizations, members from key constituent organizations, and individual PCFRC Resource Group members.

The preliminary research unmistakably revealed the need for this recommendation and the need to offer it now, inasmuch as many private company financial statement preparers will soon be addressing the requirements of FIN 48 in their year-end financial statements and incurring costs in that effort. Therefore time is of the essence and immediate action is needed.

Recommendation - The PCFRC recommends that the FASB delay the effective date of FIN 48 for private companies. The effective date should be delayed until 1) clarification and guidance is issued on FIN 48's

implications for pass-through entities, and 2) further consideration is given to the usefulness of FIN 48's disclosure requirements for private companies. Further, this delay will allow for a higher level of awareness and education about FIN 48.

Clarification and Guidance for Pass-through Entities

The PCFRC believes many private company financial statement users, preparers, and CPA practitioners are unaware or just becoming aware of the implications of FIN 48. Importantly, this includes a lack of awareness of FIN 48's applicability to pass-through entities, which applies to many private company structures. Many private companies do not have the resources to follow FASB proceedings and they often learn about new requirements like FIN 48 at continuing education sessions after the effective date. Many public companies are still struggling with implementation issues, based on a BNA Accounting Policy and Practice Special Report ("An Early Look at FIN 48 Disclosures"; July 13, 2007; Vol.3, #6). Thus "best practices" are not in place as examples for private companies.

FASB Statement No. 109, *Accounting for Income Taxes*, does not directly address pass-through entities. As a result, many private company financial statement preparers and their CPA practitioners are unaccustomed to accounting for income taxes and are unaware of the implications of FIN 48, despite the attempts of many organizations (including FASB) to create that awareness. Clarification and guidance about FIN 48's implications to pass-through entities is needed. A number of issues arise from FIN 48's applicability to pass-through entities, including nexus for state income taxes, the level at which taxes are assessed (owner or entity), and the ramifications of FIN 48's requirements on acquisitions and tax indemnification. FIN 48 may apply to entities to which FASB Statement No. 109 does not apply. The PCFRC believes that pass-through entities will encounter a significant compliance hurdle when assessing the implications of FIN 48.

Accounting consistency, comparability, and financial reporting quality may be less than ideal at pass-through entities as they implement FIN 48, absent further clarification and guidance. For example, if a pass-through entity determines it is necessary to record a liability for an uncertain tax position, what is the debit? Is it a charge to capital or does it run through the income statement? If it runs through the income statement, is it tax expense? Any liability resulting from a tax audit is that of the owners of the pass-through entity – not the entity itself.

Usefulness of Disclosure Requirements

Preliminary research conducted by the PCFRC raises legitimate questions about the usefulness and relevance of the disclosure requirements of FIN 48 to users. Further research is necessary to determine whether the disclosure requirements of FIN 48 provide meaningful information to the lenders, sureties, investors, and others who use private company financial statements.

The PCFRC is continuing its outreach on FIN 48. We are conducting research with key constituent groups to gain additional knowledge about the issues they are facing as they assess the requirements of FIN 48. In particular, we are seeking input from key constituents about the usefulness and relevance of FIN 48's disclosure requirements, the implications for pass-through entities, and the need for implementation guidance. We may issue further recommendations to the FASB, based on the results of our research.

The PCFRC appreciates the FASB's consideration of this recommendation to delay the effective date of FIN 48. Please feel free to contact me if you have any questions or comments.

Sincerely,



Judith H. O'Dell
Chair
Private Company Financial Reporting Committee

Attachments

1. August 14, 2007 letter from National Rural Electric Cooperative Association.
2. September 18, 2007 letter from National Cooperative Business Association