

FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2017-15
December 2017

Codification Improvements to Topic 995, U.S. Steamship Entities

Elimination of Topic 995

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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401 Merritt 7
PO Box 5116
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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The FASB is issuing this Update to supersede Topic 995, U.S. Steamship Entities, because its guidance is no longer relevant. FASB Statement No. 109, *Accounting for Income Taxes*, provided an option in the reporting of deferred taxes for steamship entities that had statutory reserve deposits that were made before December 15, 1992. The Department of Transportation program from which these statutory reserve deposits originate and the Internal Revenue Service (IRS) provide a 25-year time frame in which to use the reserves or forfeit the tax deferral. The Board decided that all steamship entities with statutory reserve funds should be reporting all deferred taxes in accordance with Topic 740, Income Taxes, and that the guidance in Topic 995 on transitioning to the requirements of Topic 740 is no longer relevant because statutory funds deposited on or before December 15, 1992, have reached the 25-year limit.

The Board has an ongoing project on its agenda about *FASB Accounting Standards Codification*® improvements to clarify the Codification or to correct unintended application of guidance. Those Codification improvement items generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments in this Update are of a similar nature of those items and, therefore, the Board is addressing the suggested improvements through the Codification improvements project (formerly the Technical Corrections and Improvements project). The Board decided to issue a separate Update for the elimination of Topic 995 to increase stakeholder awareness of the amendments to the Codification and to expedite improvements to generally accepted accounting principles (GAAP).

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect all entities that have unrecognized deferred taxes related to statutory reserve deposits that were made on or before December 15, 1992.

What Are the Main Provisions?

The amendments in this Update supersede obsolete guidance in Topic 995 on unrecognized deferred taxes related to certain statutory reserve deposits. If an entity has unrecognized deferred income taxes related to statutory deposits made

on or before December 15, 1992, the entity would be required to recognize the unrecognized income taxes in accordance with Topic 740.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The Board does not anticipate any change in current practice because all steamship entities with statutory reserve deposits appear to be reporting deferred taxes in accordance with Topic 740. Steamship entities are required to report deferred taxes resulting from deposits made on or before December 15, 1992, in accordance with Topic 740 (1) when those unrecognized temporary differences reverse or (2) in their entirety at the beginning of the fiscal year for which Statement 109 was first applied. Any remaining unrecognized tax deferrals resulting from deposits made on or before December 15, 1992, appear to have been recognized either by use of funds or through forfeit of the deferred tax benefit as required by the Department of Transportation and the IRS.

When Will the Amendments Be Effective?

The amendments in this Update are effective for fiscal years and first interim periods beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period.

An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. Entities also should disclose the amounts and types of temporary differences for which a deferred tax liability had not previously been recognized.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Topic 995

2. Supersede Subtopic 995-740, U.S. Steamship Entities—Income Taxes, with a link to transition paragraph 740-10-65-6. **[For ease of readability, the Subtopic is not shown struck out.]**

Amendments to Subtopic 740-10

3. Amend paragraph 740-10-05-4, with a link to transition paragraph 740-10-65-6, as follows:

Income Taxes—Overall

Overview and Background

740-10-05-4 Other Topics, including industry-specific Topics, may also have Income Taxes Subtopics that address the Topic-specific requirements for income taxes. Guidance in those Subtopics is intended to be incremental to the guidance otherwise established in the Income Taxes Topic. Topics with incremental Income Taxes Subtopics are:

- a. Investments—Equity Method and Joint Ventures, Subtopic 323-740
- b. Compensation—Stock Compensation, Subtopic 718-740
- c. Business Combinations, Subtopic 805-740
- d. Foreign Currency Matters, Subtopic 830-740
- e. Reorganizations, Subtopic 852-740
- f. Entertainment—Casinos, Subtopic 924-740
- g. Extractive Activities—Oil and Gas, Subtopic 932-740
- h. Financial Services—Depository and Lending, Subtopic 942-740

- i. Financial Services—Insurance, Subtopic 944-740
- j. Health Care Entities, Subtopic 954-740
- k. Real Estate—Common Interest Realty Associations, Subtopic 972-740
- l. Regulated Operations, Subtopic 980-740
- m. Subparagraph superseded by Accounting Standards Update No. 2017-15, U.S. Steamship Entities, Subtopic 995-740.

4. Amend paragraph 740-10-25-3(b), with a link to transition paragraph 740-10-65-6, and the following pending content, with no additional link to a transition paragraph, as follows:

Recognition

740-10-25-3 The only exceptions in applying those basic requirements are:

- b. Subparagraph superseded by Accounting Standards Update No. 2017-15, Recognition of temporary differences related to deposits in statutory reserve funds by U.S. steamship entities (see paragraph 995-740-25-2)

Pending Content:

Transition Date: (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

740-10-25-3 The only exceptions in applying those basic requirements are:

- b. Subparagraph superseded by Accounting Standards Update No. 2017-15, Recognition of temporary differences related to deposits in statutory reserve funds by U.S. steamship entities (see paragraph 995-740-25-2)

5. Add paragraph 740-10-65-6 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2017-15, Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995

740-10-65-6 The following represents the transition and effective date information related to Accounting Standards Update No. 2017-15, *Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995*:

- a. An entity shall apply the pending content that links to this paragraph for fiscal years and first interim periods beginning after December 15, 2018.

- b. An entity shall recognize and present separately the cumulative effect of the change in accounting principle of the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the period in which it is first applied. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of the pending content that links to this paragraph and the amounts recognized in the statement of financial position at initial application of the pending content that links to this paragraph.
- c. Early application of the pending content that links to this paragraph is permitted.
- d. In the first interim period and fiscal year of the first application of the pending content that links to this paragraph, an entity shall disclose the amount and types of deferred income taxes that were recognized upon adoption of the pending content that links to this paragraph.

Amendments to Status Sections

6. Amend paragraph 740-10-00-1, by adding the following items to the table, as follows:

740-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
740-10-05-4	Amended	2017-15	12/05/2017
740-10-25-3	Amended	2017-15	12/05/2017
740-10-65-6	Added	2017-15	12/05/2017

7. Amend paragraph 995-740-00-1, by adding the following items to the table, as follows:

995-740-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Deferred Tax Liability	Superseded	2017-15	12/05/2017

Paragraph	Action	Accounting Standards Update	Date
Taxable Temporary Difference	Superseded	2017-15	12/05/2017
Temporary Difference	Superseded	2017-15	12/05/2017
995-740-05-1	Superseded	2017-15	12/05/2017
995-740-15-1	Superseded	2017-15	12/05/2017
995-740-25-1	Superseded	2017-15	12/05/2017
995-740-25-2	Superseded	2017-15	12/05/2017
995-740-50-1	Superseded	2017-15	12/05/2017
995-740-50-2	Superseded	2017-15	12/05/2017

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Marsha L. Hunt
Harold L. Monk, Jr.
R. Harold Schroeder
Marc A. Siegel

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The amendments in this Update simplify the Codification by eliminating an option for steamship entities to not recognize deferred income taxes related to statutory reserve deposits made on or before December 15, 1992. The Board decided that steamship entities either have opted to follow the requirements of Topic 740 or no longer have deposits that would qualify for the nonrecognition option.

BC3. The FASB issued a proposed Accounting Standards Update, *Technical Corrections and Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995*, on June 27, 2017, with a 60-day comment period. The Board received three comment letters. Overall, respondents supported the proposed amendments but recommended that the Board provide an effective date and transition guidance rather than having the amendments be effective immediately.

Background Information

BC4. Topic 995 provides deferred income tax guidance for a very limited group of steamship entities. The option to not recognize deferred income taxes but, rather, to disclose deferred income taxes relates to deposits in statutory reserve funds made on or before December 15, 1992.

BC5. The option to disclose deferred taxes in Topic 995 dates back to APB Opinion No. 11, *Accounting for Income Taxes*, which was issued in December 1967. Opinion 11 did not modify the accounting for income taxes in five special areas identified as requiring further study, including deposits in statutory reserve funds by U.S. steamship companies. The statutory reserves relate to funds that vessel owners could accumulate for constructing new vessels or overhauling existing vessels under a tax-deferred arrangement. The program was available to large vessels and was administered by the Maritime Administration (MARAD) as part of the Merchant Marine Act of 1936.

BC6. In 1972, the exception was carried over to APB Opinion No. 23, *Accounting for Income Taxes—Special Areas*, again because of the need for further study because the regulations of the Merchant Marine Act of 1970 (1970

Act) were not available and “experience under the 1970 Act, which substantially modified the Merchant Marine Act of 1936 [was] limited.” An important modification of the 1970 Act extended the Capital Construction Fund Program to U.S. fishing entities, not just “steamship” entities. No amendments were made to the guidance at that time to specifically prohibit fishing vessels from the exception in Opinion 23 or in subsequent FASB guidance that continued to preserve the exception. Therefore, the exception to recognizing deferred income taxes and the current disclosure requirements for statutory reserve funds for steamship entities, which was carried over to FASB Statement No. 96, *Accounting for Income Taxes*, also can be interpreted to be applicable to the statutory reserve funds of fishing entities.

BC7. Deposits can be made from pretax operating income or proceeds from the sale of a vessel. The interest and capital gains accumulated on the accounts also are deferred. Thus, deposits by an entity can generate deferred taxes related to operating income, interest income, and capital gains.

BC8. MARAD oversees the capital construction funds for nonfishing entities. The National Oceanic and Atmospheric Administration (NOAA) oversees capital construction funds for fishing entities. The most recent public information found for the MARAD Capital Construction Fund participants identified 157 capital construction fund (statutory deposit reserve) holders as of December 31, 2014. NOAA has about 1,400 participants that have, on average, much smaller dollar amounts in reserve accounts compared with MARAD participants.

BC9. The guidance in Topic 995 is related to special transitional procedures for the recognition of deferred income taxes in Statement 109. The transition guidance in paragraph 32 of Statement 109 stated:

The tax effects of temporary differences related to deposits in statutory reserve funds by U.S. steamship enterprises that arose in fiscal years beginning on or before December 15, 1992 and that were not previously recognized shall be recognized when those temporary differences reverse or in their entirety at the beginning of the fiscal year for which this Statement is first applied.

BC10. Paragraph 181 in the basis for conclusions of Statement 109 indicated that the Board intended to allow U.S. steamship entities the option to recognize the differences associated with deposits in statutory reserve funds when the deferred tax reversed or when an entity first applied Statement 109. That paragraph stated:

The Board sees little similarity between Opinion 23 differences and U.S. steamship enterprise differences. Opinion 23 differences reverse in indefinite future periods. U.S. steamship enterprise differences reverse in predictable future periods and, in substance, are no different from depreciation differences for which recognition of deferred taxes is required. For those reasons, the Exposure Draft proposed to eliminate the exception for U.S. steamship

enterprises on a prospective basis. After consideration of responses to the Exposure Draft, however, the Board decided that recognition of the entire deferred tax liability for those temporary differences that exist at the beginning of the year for which this Statement is first applied also should be permitted.

BC11. Deposits in statutory reserve accounts are governed by individual contractual agreements with either MARAD or NOAA, and participants must comply with specific IRS rules about the structuring of the statutory reserve accounts and annual reporting. One of the IRS rules governing the deposits is that an amount not withdrawn from the fund after 25 years from deposit is taxed as a nonqualified withdrawal on an escalating penalty scale. The penalty ranges from 20 percent of the unspent funds taxed at the highest marginal tax rate as a nonqualified withdrawal in year 26 to 100 percent of the unspent funds taxed at the highest marginal tax rate in year 30. The 25-year limitation applies to both MARAD contracts and NOAA contracts.

Basis for Conclusions

Elimination of Topic 995

BC12. For entities that elected the option to not recognize the deferred tax liability, paragraph 995-740-50-2 requires an entity to disclose (a) a description of the types of temporary differences and the types of events that would cause those temporary differences to become taxable, (b) the cumulative amount of each type of temporary difference, and (c) the amount of the deferred tax liability for temporary differences attributable to the statutory reserve funds that is not recognized in accordance with paragraph 995-740-25-2. A search of eXtensible Business Reporting Language (XBRL) data revealed only two entities that disclosed deposits in statutory reserve funds; however, both entities recognized deferred taxes related to those deposits. Accordingly, no disclosures related to paragraph 995-740-50-2 about unrecognized tax liabilities for deposits in statutory reserve funds were found.

BC13. A review of publicly available information for the Capital Construction Fund participants did not reveal any of the disclosures required by Topic 995. Some entities provided disclosures about deposits in statutory reserves; however, none of the disclosures were related to deposits on or before December 15, 1992. The absence of disclosures about Topic 995 could indicate that no material statutory reserves or unrecognized deferred taxes related to deposit amounts before 1992 remain. Most of the participants on the list are private entities, and no disclosures by those entities were available.

BC14. As of December 15, 2017, the deposits covered by the deferred tax recognition exception become subject to the IRS's 25-year rule. The Board noted that any remaining unrecognized tax liabilities resulting from deposits made on or

before December 15, 1992, would have been recognized either by use of the funds or through forfeiture of the deferred tax benefit.

BC15. The Board decided that Topic 995 should be superseded and that all entities should recognize any remaining unrecognized deferred tax liabilities that are related to deposits in statutory reserves in accordance with Topic 740. The Board also decided that the amendments in this Update simplify (a) the measurement and reporting requirements for entities that may still have unrecognized deferred income taxes related to deposits in statutory reserves and (b) the information provided to users of financial statements by eliminating the option to disclose rather than recognize deferred income taxes. In addition, the Board noted that the amendments improve consistent application of GAAP by *all* entities with statutory reserve deposits for vessel improvements. The Board does not anticipate that entities will incur significant costs as a result of the amendments. As such, the Board concluded that the benefits of the amendments justify any costs.

BC16. The Board considered but rejected an alternative to supersede Topic 995 and move all guidance on the exception to recognition of deferred income taxes to Subtopic 740-30, Income Taxes—Other Considerations or Special Areas. The Board rejected that alternative because an entity with a material amount of funds subject to the IRS rule would be incentivized to spend any pre-December 15, 1992 funds in full before filing its tax return that includes December 15, 2017. One Board member did not agree with that assessment; that Board member noted that some entities, particularly private entities, might still be taking advantage of the exception and that there might be ongoing accounting and disclosure implications. However, because of the absence of evidence of any unrecognized income taxes related to statutory reserve deposits made on or before December 15, 1992, the Board is unaware of the existence of material deposits that qualify for this optional treatment.

Effective Date and Transition

BC17. The Board decided that the amendments in this Update are effective for fiscal years and first interim periods beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period.

BC18. The Board decided that the amendments in this Update should be applied through a modified-retrospective transition approach that requires a cumulative-effect adjustment directly to retained earnings in the statement of financial position as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle.

BC19. The Board decided that an entity should disclose the amounts and types of temporary differences for which a deferred tax liability had not previously been recognized upon adoption of the amendments in this Update.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update (ASU) require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Proposed changes to the Taxonomy are available for public comment through ASU Changes provided at www.fasb.org and will be incorporated into the final 2018 Taxonomy.