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FASB Rule on Tax Credit Investments Won't Create Deferred Taxes.

Financial Accounting Standards Board guidance on the accounting for investments in low-income housing tax credits would not require companies to record deferred taxes for the book-tax basis differences related to those investments, practitioners said February 5.

Financial Accounting Standards Board guidance on the accounting for investments in low-income housing tax credits (LIHTCs) would not require companies to record deferred taxes for the book-tax basis differences related to those investments, practitioners said February 5.

Angie Storm of KPMG LLP said during a webcast hosted by her firm that deferred taxes generally will not be recorded for basis differences under the new FASB standard because the tax benefits resulting from the LIHTC investments will be recognized in the financial statements in the same period they are also reflected on the tax return. As a result, a basis difference shouldn't arise relative to the period of recognition regarding the amortization of the investment and the tax benefit received on the tax return, she said.

Issued January 15, Accounting Standards Update (ASU) No. 2014-01, "Investments — Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects," allows a reporting entity to account for an investment in a qualified affordable housing project using the proportional amortization method when specific conditions are met.

ASU 2014-01, developed by FASB's Emerging Issues Task Force (EITF), directs entities to amortize the initial cost of the investment in proportion to the tax credits and other tax benefits allocated to the investor, and to recognize the net investment performance amortization in the income statement as a component of income taxes.

Storm said that under the new standard, LIHTC investments will be accounted for similarly to the purchase of tax benefits under EITF Issue No. 98-11, "Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations." According to KPMG, that guidance is also provided in the accounting standards codification topics on the purchase of future tax benefits.

EITF member Mark Bielstein of KPMG said that although ASU 2014-01 fails to provide a specific citation stating that companies should not record deferred taxes for those basis differences, an example included in the standard detailing the application of the proportional amortization method doesn't illustrate the recognition of deferred taxes.

ASU 2014-01 will be effective for the annual and interim reporting periods of public entities beginning after December 15, 2014, and for the annual periods of all other entities beginning after that date. Early adoption will be permitted.

Bielstein said that several companies have expressed interest in early adoption of the new standard because it will help improve the financial statement presentation of their LIHTC investments.

by Thomas Jaworski