LEXSTAT 2007 TNT 49-44

Tax Notes Today

MARCH 13, 2007 TUESDAY

DEPARTMENT: News, Commentary, and Analysis; Viewpoint

CITE: *2007 TNT 49-44*

MAGAZINE-CITE: Tax Notes, Mar. 12, 2007, p. 1031;
114 Tax Notes 1031 (Mar. 12, 2007)

LENGTH: 704 words

HEADLINE: #44 2007 TNT 49-44 FIN 48 AND INTEREST ACCRUALS -- A DISCUSSION WITH FASB. (Section 6621 -- Interest Rate Determinations) (Release Date: FEBRUARY 26, 2007) (Doc 2007-4979)

CODE: *Section 6621* -- Interest Rate Determinations

ABSTRACT: W. Scott Rogers and Raymond G. Andrews explain what they learned from the Financial Accounting Standards Board regarding paragraph 15 of FASB Interpretation No. 48, which deals with interest accruals.

SUMMARY:

Published by Tax AnalystsTM

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GEOGRAPHIC: United States

REFERENCES: Subject Area:
Accounting periods and methods

TEXT:

FIN 48 and Interest Accruals -- A Discussion With FASB

Release Date: FEBRUARY 26, 2007

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Over the past few months, our Fortune 500 clients have expressed much confusion as to the scope of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes -- An Interpretation of FASB Statement No. 109" (FIN 48), paragraph 15, which reads as follows:

> When the tax law requires interest to be paid on an underpayment of income taxes, an enterprise shall begin recognizing interest expense in the first period the interest would begin accruing according to the provisions of the relevant tax law. The amount of interest expense to be recognized shall be computed by applying the applicable statutory rate of interest to the difference between the tax position recognized in accordance with this interpretation and the amount previously taken or expected to be taken in a tax return.

The executives who contacted us were unclear whether FIN 48 requires them to include in their accruals the types of interest adjustments normally pursued by account review practitioners like us after the IRS or other tax regulatory authority has completed its examination of a tax period or periods. For example, practitioners normally assist corporations in determining the interest netting benefit of overlapping overpayments and underpayments as set forth in *section 6621(d)* after examination or appeals actions have concluded and the IRS has computed interest on any tax adjustments agreed to.

Rather than simply issue an alert stating our own opinion, we decided to approach FASB directly to discuss the issue. We spoke several times in January with our FASB contacts, seeking clarification as to whether corporations will have to estimate interest netting and other postexamination interest adjustments before the conclusion of the examinations and the subsequent IRS determination of interest due from or payable to a corporation. Our FASB contacts advised us that corporations should accrue for interest as follows:

1. Corporations should accrue interest to best approximate the amount they expect the revenue agent to assess at the conclusion of an examination.

2. There is no need for corporations to consider interest netting in their presettlement financial statements, given that netting computations are fluid, evolving constantly as adjustments are made to corporate payroll and excise taxes, taxes accruing in subsidiary corporations, and other adjustments to tax that will be considered by account review practitioners on a postexamination or appeals basis once engaged.

3. If a corporation is certain before settlement that it will pursue a specific interest adjustment once the examination has closed, the corporation should accrue for that adjustment proactively.

We are aware of no interest adjustments that meet the "certainty" criteria set forth in 3 above. In fact, anticipated interest adjustments are frequently rendered moot by unexpected movement of funds between corporations' various federal tax accounts by the IRS. Thus, arguably, a corporation need accrue interest only from the due date of the year under consideration to the close of the reporting period, without giving consideration to postexamination interest adjustments that are merely speculative amounts before the IRS presentation of its interest computations.

We hope corporate tax executives will breathe a sigh of relief now that there is some clarification of paragraph 15. We would be pleased to provide contact information for our FASB contacts, should a reader wish to speak with them directly.