Deloitte.

Sample Disclosures
Accounting for Income Taxes

February 2015

Contents

Use of These Sample Disclosures

The sample disclosures in this document reflect accounting and disclosure requirements outlined in SEC Regulation S-K, SEC Regulation S-X, and ASC 740[1] that are effective as of December 31, 2014. SEC registrants should also consider pronouncements that were issued or effective subsequently that may be applicable to the financial statements, as well as other professional literature such as AICPA audit and accounting guides.

Portions of certain sample disclosures in this document are based on actual disclosures from public filings. Details that would identify the registrants have been removed, including dollar amounts and specific references to the business.

The sample disclosures are intended to provide general information only. While entities may use them to help assess whether they are compliant with U.S. GAAP and SEC requirements, they are not all-inclusive and additional disclosures may be deemed necessary by entities or their auditors. Further, the sample disclosures are not a substitute for understanding reporting requirements or for the exercise of judgment. Entities are presumed to have a thorough understanding of the requirements and should refer to accounting literature and SEC regulations as necessary.

[1] FASB Accounting Standards Codification Topic 740, *Income Taxes*. For titles of other *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

Management's Discussion and Analysis — General

Before the enactment of tax law proposals or changes to existing tax rules, SEC registrants should consider whether the potential changes represent an uncertainty that management reasonably expects could have a material effect on the results of operations, financial position, liquidity, or capital resources. If so, registrants should consider disclosing information about the scope and nature of any potential material effects of the changes.

After the enactment of a new tax law, registrants should consider disclosing, when material, the anticipated current and future impact of the law on their results of operations, financial position, liquidity, and capital resources. In addition, registrants should consider disclosures in the critical accounting estimates section of management's discussion and analysis (MD&A) to the extent that the changes could materially affect existing assumptions used in estimating tax-related balances.

The SEC staff expects registrants to provide early-warning disclosures to help users understand various risks and how these risks potentially affect the financial statements. Examples of such risks include situations in which (1) the registrant may have to repatriate foreign earnings to meet current liquidity demands, resulting in a tax payment that may not be accrued for; (2) the historical effective tax rate is not sustainable and may change materially; (3) the valuation allowance on net deferred tax assets may change materially; and (4) tax positions taken during the preparation of returns may ultimately not be sustained. Early-warning disclosures give investors insight into the underlying assumptions made by management and conditions and risks facing an entity before a material change or decline in performance is reported.

MD&A — Results of Operations

See SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Sample Disclosure — Results of Operations

Our effective tax rate for fiscal years 20X3, 20X2, and 20X1 was XX percent, XX percent, and XX percent, respectively. Our tax rate is affected by recurring items, such as tax rates in foreign jurisdictions and the relative amounts of income we earn in those jurisdictions, which we expect to be fairly consistent in the near term. It is also affected by discrete items that may occur in any given year but are not consistent from year to year. In addition to state income taxes, the following items had the most significant impact on the difference between our statutory U.S. federal income tax rate of XX percent and our effective tax rate:

20X3

1. A $XXX (XX percent) reduction resulting from changes in unrecognized tax benefits for tax positions taken in prior periods, related primarily to favorable developments in an IRS position.

   Note: A detailed explanation of the change and the amount previously recorded as an unrecognized tax benefit would be expected.

2. A $XXX (XX percent) increase resulting from multiple unfavorable foreign audit assessments.

   Note: A detailed explanation of the change and the amount previously recorded as an unrecognized tax benefit would be expected.

3. A $XXX (XX percent) reduction resulting from rate differences between U.S. and non-U.S. jurisdictions. No U.S. taxes were provided for those undistributed foreign earnings that are indefinitely reinvested outside the United States.

   Note: A discussion of the countries significantly affecting the overall effective rate would be expected.

4. A $XXX (XX percent) increase from noncash impairment charges for goodwill that is nondeductible for tax purposes.

20X2

1. A $XXX (XX percent) increase resulting from the resolution of U.S. state audits.
2. A $XXX (XX percent) increase resulting from a European Commission penalty, which was not tax deductible.
3. A $XXX (XX percent) reduction resulting from rate differences between U.S. and non-U.S. jurisdictions.

Note: The notes accompanying the 20X3 items above also apply to 20X2.

20X1

1. A $XXX (XX percent) reduction resulting from the reversal of previously accrued taxes from an IRS settlement.
2. A $XXX (XX percent) reduction resulting from rate differences between U.S. and non-U.S. jurisdictions.

Note: The notes accompanying the 20X3 items above also apply to 20X1.

Note: Regulation S-K, Item 303(a)(3)(ii) requires registrants to "[d]escribe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations." The sample disclosures below present various descriptions registrants might provide under this requirement.

Sample Disclosure — Effects in Future Periods of Tax Costs Related to Intra-Entity Sale of Intellectual Property

We recorded deferred charges during the year ended December 31, 20X1, related to the deferral of income tax expense on intercompany profits that resulted from the sale of our intellectual property rights (including intellectual property acquired during the current year) outside North and South America to our subsidiary in Country X. The deferred charges are included in the "prepaid expenses and other current assets" and "other assets" lines of the consolidated balance sheets in the amounts of $XXX and $XXX, respectively. The deferred charges are amortized as a component of income tax expense over the five-year economic life of the intellectual property.

Note: The tax associated with intra-entity asset transfers should be accounted for under ASC 740-10-25-3(e) and ASC 810-10-45-8. In some cases, these transactions could significantly affect the consolidated financial statements. Entities should discuss the nature of those transactions and their current and future financial statement effects.

Sample Disclosure — Early Warning of Possible Valuation Allowance Recognition in Future Periods

As of December 31, 20X1, we had approximately $XX million in net deferred tax assets (DTAs). These DTAs include approximately $XX million related to net operating loss carryforwards that can be used to offset taxable income in future periods and reduce our income taxes payable in those future periods. Many of these NOL carryforwards will expire if they are not used within certain periods. At this time, we consider it more likely than not that we will have sufficient taxable income in the future that will allow us to realize these DTAs. However, it is possible that some or all of these NOL carryforwards could ultimately expire unused, especially if our component X restructuring initiative is not successful. Therefore, unless we are able to generate sufficient taxable income from our component Y operations, a substantial valuation allowance to reduce our U.S. DTAs may be required, which would materially increase our expenses in the period the allowance is recognized and materially adversely affect our results of operations and statement of financial condition.

Sample Disclosure — Early Warning of Possible Valuation Allowance Reversal in Future Periods

We recorded a valuation allowance against all of our deferred tax assets as of both December 31, 20X2, and December 31, 20X1. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility that within the next 12 months, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

Note: Companies should specify the positive and negative evidence they evaluated, the jurisdiction, and the potential amount of valuation allowance that may be recognized or reversed.

Sample Disclosure — Change in Tax Laws Affecting Future Periods

Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. In January 20X4, country X made significant changes to its tax laws, including certain changes that were retroactive to our 20X3 tax year. Because a change in tax law is accounted for in the period of enactment, the retroactive effects cannot be recognized in our 20X3 financial results and instead will be reflected in our 20X4 financial results. We estimate that a benefit of approximately $XXX will be accounted for as a discrete item in our tax provision for the first quarter of 20X4. In addition, we expect this tax law change to favorably affect our estimated annual effective tax rate for 20X4 by approximately X percentage points as compared to 20X3.

MD&A — Critical Accounting Estimates[2]

See SEC Interpretation Release Nos. 33-8350, 34-48960, FR-72, "Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations."

Sample Disclosure

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best estimate of current and future taxes to be paid. We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgments and estimates are required in the determination of the consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future state, federal, and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require the use of significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income (loss).

As of December 31, 20X3, we have federal and state income tax net operating loss (NOL) carryforwards of $XXX and $XXX, which will expire on various dates from 20X4 through 20Y8 as follows:

20X4–20X8	$ XXX
20X9–20Y3	XXX
20Y4–20Y8	XXX
	$ XXX

We believe that it is more likely than not that the benefit from certain state NOL carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance of $XX on the deferred tax assets related to these state NOL carryforwards. If our assumptions change and we determine that we will be able to realize these NOLs, the tax benefits related to any reversal of the valuation allowance on deferred tax assets as of December 31, 20X3, will be accounted for as follows: approximately $XXX will be recognized as a reduction of income tax expense and $XXX will be recorded as an increase in equity.

[2] At the 2013 AICPA Conference on Current SEC and PCAOB Developments (the "AICPA Conference"), in remarks related to disclosures about valuation allowances on deferred tax assets, the SEC staff discouraged registrants from providing "boilerplate" information and instead recommended that they discuss registrant-specific factors (e.g., limitations on their ability to use net operating losses and foreign tax credits). The SEC staff also stated that it has asked registrants to disclose the effect of each source of taxable income on their ability to realize a deferred tax asset, including the relative magnitude of each source of taxable income. In addition, the staff recommended that registrants consider disclosing the material negative evidence they evaluated, since such disclosures could provide investors with information about uncertainties related to a registrant's ability to recover a deferred tax asset. For additional information, see Deloitte's December 16, 2013, *Heads Up* on the AICPA Conference.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. ASC 740 states that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits.

We (1) record unrecognized tax benefits as liabilities in accordance with ASC 740 and (2) adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

We believe that it is reasonably possible that an increase of up to $XX in unrecognized tax benefits related to state exposures may be necessary within the coming year. In addition, we believe that it is reasonably possible that approximately $XX of our currently remaining unrecognized tax benefits, each of which are individually insignificant, may be recognized by the end of 20X4 as a result of a lapse of the statute of limitations.

We consider the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our specific plans for reinvestment of those subsidiary earnings. We have not recorded a deferred tax liability related to the U.S. federal and state income taxes and foreign withholding taxes on approximately $XX of undistributed earnings of foreign subsidiaries indefinitely invested outside the United States. If we decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States.

MD&A — Liquidity and Capital Resources[3]

See SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Sample Disclosure 1

We earn a significant amount of our operating income outside the United States, which is deemed to be indefinitely reinvested in foreign jurisdictions. As a result, as discussed under Cash and Investments, most of our cash and short-term investments are held by foreign subsidiaries. We currently do not intend or foresee a need to repatriate these funds. We expect existing domestic cash and short-term investments and cash flows from operations to continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as regular quarterly dividends, debt repayment, and capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

If we should require more capital in the United States than is generated by our domestic operations (e.g., to fund significant discretionary activities such as business acquisitions and share repurchases), we could elect to repatriate future earnings from foreign jurisdictions or raise capital in the United States through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, or dilution of our earnings. We have borrowed funds domestically and continue to believe we have the ability to do so at reasonable interest rates.

Note: The SEC staff expects registrants to disclose the amount of cash and short-term investments held by foreign subsidiaries that would not be available to fund domestic operations unless the funds were repatriated. In the sample disclosure above, the registrant had disclosed this information in the Cash and Investments section of its MD&A.

[3] At the 2011 AICPA Conference, Nili Shah, deputy chief accountant in the SEC's Division of Corporation Finance, and Mark Shannon, associate chief accountant in the SEC's Division of Corporation Finance, discussed certain income tax matters in relation to registrants' significant foreign operations. Ms. Shah indicated that when a registrant with significant amounts of cash and short-term investments overseas has asserted that such amounts are indefinitely reinvested in its foreign operations, the SEC staff would expect the registrant to provide the following disclosures in an MD&A liquidity analysis: (1) the amount of cash and short-term investments held by foreign subsidiaries that is not available to fund domestic operations unless the funds were repatriated; (2) a statement that the company would need to accrue and pay taxes if repatriated; and (3) if true, a statement that the company does not intend to repatriate those funds.

At the 2013 AICPA Conference, the SEC staff also reminded registrants when making the assertion of indefinitely reinvested foreign earnings, companies are required to disclose (1) the amount of the unrecognized deferred tax liability or (2) a statement that estimating an unrecognized tax liability is not practicable. In addition, the staff indicated that it evaluates the indefinite reinvestment assertion in taking into account registrants' potential liquidity needs and the availability of funds in U.S. and foreign jurisdictions.

Sample Disclosure 2

We consider the undistributed earnings of our foreign subsidiaries as of December 31, 20X3, to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. As of December 31, 20X3, the amount of cash associated with indefinitely reinvested foreign earnings was approximately $XX. We have not, nor do we anticipate the need to, repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

MD&A — Contractual Obligations

See SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Sample Disclosure1

The table below contains information about our contractual obligations that affect our short- and long-term liquidity and capital needs. The table also includes information about payments due under specified contractual obligations and is aggregated by type of contractual obligation. It includes the maturity profile of our consolidated long-term debt, operating leases, and other long-term liabilities.

	Contractual Obligations				
	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
			(in millions)		
Long-term debt obligations	$ XXX	$ XXX	$ XXX	$ XXX	$ XXX
Interest payments on long-term debt	XXX	XXX	XXX	XXX	XXX
Operating lease obligations	XXX	XXX	XXX	XXX	XXX
Capital lease obligations	XXX	XXX	XXX	XXX	XXX
Unrecognized tax benefits, including interest and penalties	XXX	XXX	XXX	XXX	XXX
Other liabilities reflected on consolidated balance sheet	XXX	XXX	XXX	XXX	XXX
Total	**$ XXX**	**$ XXX**	**$ XXX**	**$ XXX**	$ XXX

In the table above, the unrecognized tax benefits, including interest and penalties, are related to temporary differences. The years for which the temporary differences related to the unrecognized tax benefits will reverse have been estimated in the schedule of obligations above. In addition, approximately $XX of unrecognized tax benefits have been recorded as liabilities, and we are uncertain about whether or, if so, when such amounts may be settled. We also recorded a liability for potential penalties of $XX and interest of $XX for the unrecognized tax benefits not included in the table above.

Sample Disclosure 2

The following table presents certain payments due under contractual obligations with minimum firm commitments as of December 31, 20X3:

	Payments Due In				
	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
			(in millions)		
Operating lease obligations	$ XXX	$ XXX	$ XXX	$ XXX	$ XXX
Purchase obligations	XXX	XXX	XXX	XXX	XXX
Other obligations	XXX	XXX	XXX	XXX	XXX
Total	**$ XXX**	**$ XXX**	**$ XXX**	**$ XXX**	**$ XXX**

Our other noncurrent liabilities in the consolidated balance sheet include unrecognized tax benefits and related interest and penalties. As of December 31, 20X3, we had gross unrecognized tax benefits of $XX and an additional $XX for interest and penalties classified as noncurrent liabilities. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years in connection with these tax liabilities; therefore, such amounts are not included in the above contractual obligation table.

Note: Entities may disclose in either a footnote to the table or an "other" column added to the table a liability for unrecognized tax benefits for which reasonable estimates about the timing of payment cannot be made.

For additional information, see Discussion Document E, "Disclosure of FIN 48 Liabilities in the Contractual Obligations Table," from the April 2007 SEC Regulations Committee joint meeting with the SEC staff.

Notes to Consolidated Financial Statements

Note A — Summary of Significant Accounting Policies

Income Taxes

Sample Disclosure

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Classification of Interest and Penalties

See ASC 740-10-50-19.

Sample Disclosure 1

We recognize interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statement of operations. Accrued interest and penalties are included on the related tax liability line in the consolidated balance sheet.

Sample Disclosure 2

We recognize interest and penalties related to unrecognized tax benefits on the interest expense line and other expense line, respectively, in the accompanying consolidated statement of operations. Accrued interest and penalties are included on the related liability lines in the consolidated balance sheet.

Investment Tax Credit Recognition Policy

See ASC 740-10-50-20.

Sample Disclosure 1

We earn investment tax credits from the state of X's economic development program. We use the deferral method of accounting for investment tax credits.

Sample Disclosure 2

We use the flow-through method to account for investment tax credits earned on eligible scientific research and development expenditures. Under this method, the investment tax credits are recognized as a reduction to income tax expense in the year they are earned.

Note B — Statement of Cash Flows

Sample Disclosure

Supplemental cash flows and noncash investing and financing activities are as follows:

	Years Ended December 31		
	20X3	**20X2**	**20X1**
		(in millions)	
Noncash Investing and Financing Activities:			
Acquisition of property and equipment on account	$ XXX	$ XXX	$ XXX
Acquisition of property and equipment through long-term financing	XXX	XXX	XXX
Supplemental Cash Flow Information:			
Income taxes paid, net of refunds	XXX	XXX	XXX
Interest paid	XXX	XXX	XXX

Note: Under ASC 230-10-50-2, the supplemental cash flow information for income taxes paid is required when an indirect method is used. Such disclosure can be included in the company's statement of cash flows or in a footnote.

Note C — Acquisitions

See ASC 805-10-50-6 (financial effects of adjustments related to business combinations that occurred in the current or previous reporting periods) and ASC 805-30-50-1(d) (total amount of goodwill that is expected to be deductible for tax purposes).

Sample Disclosure 1

The preliminary purchase price allocation resulted in goodwill of $XX million, which is not deductible for income tax purposes. Goodwill consists of the excess of the purchase price over the fair value of the acquired assets and represents the estimated economic value attributable to future operations.

The purchase price allocation is preliminary and subject to revision. At this time, except for the items noted below, we do not expect material changes to the value of the assets acquired or liabilities assumed in conjunction with the transaction. Specifically, the following assets and liabilities are subject to change:

- Intangible customer contracts.
- Payments due from and to related parties.
- Deferred income tax assets and liabilities.

As management receives additional information during the measurement period, these assets and liabilities may be adjusted.

Under the acquisition method of accounting for business combinations, if we identify changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period, and they are related to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement-period adjustment, and we record the offset to goodwill. We record all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current-period income tax expense. This accounting applies to all of our acquisitions, regardless of acquisition date.

Sample Disclosure 2

Goodwill of $XX million was assigned to the X and Y segments in the amounts of $XX million and $XX million, respectively, and is deductible for tax purposes. The amounts of intangible assets and goodwill have been assigned to the X and Y segments on the basis of the respective profit margins of the acquired customer contracts. The transaction was taxable for income tax purposes, and all assets and liabilities have been recorded at fair value for both book and income tax purposes. Therefore, no deferred taxes have been recorded.

Note D — Income Taxes

See SEC Regulation S-X, Rule 4-08(h), "General Notes to Financial Statements: Income Tax Expense."[4]

Sample Disclosure 1

For financial reporting purposes, income before income taxes includes the following components:

	Years Ended December 31		
	20X3	20X2	20X1
		(in millions)	
United States	$ XXX	$ XXX	$ XXX
Foreign	XXX	XXX	XXX
Total	**$ XXX**	**$ XXX**	**$ XXX**

The expense (benefit) for income taxes consists of:

	Years Ended December 31		
	20X3	20X2	20X1
		(in millions)	
Current:			
Federal	$ XXX	$ XXX	$ XXX
State	XXX	XXX	XXX
Foreign	XXX	XXX	XXX
	$ XXX	$ XXX	$ XXX
Deferred and other:			
Federal	$ XXX	$ XXX	$ XXX
State	XXX	XXX	XXX
Foreign	XXX	XXX	XXX
	$ XXX	$ XXX	$ XXX
Total tax expense	**$ XXX**	**$ XXX**	**$ XXX**

[4] At the 2010 AICPA Conference, Jill Davis, associate chief accountant in the SEC's Division of Corporation Finance, stated that one of the requirements in SEC Regulation S-X, Rule 4-08(h), is to disclose the components of income (loss) before income tax expense (benefit) as either domestic or foreign. Ms. Davis indicated that some registrants' disclosures about these components have been limited in circumstances in which the registrants had a very low income tax expense because a substantial amount of profits were derived from countries with little or no tax. She explained that the disclosures provided should allow an investor to easily determine the effective tax rate for net income attributable to domestic operations and foreign operations and stated that the lack of such disclosure may result in SEC staff comments.

Sample Disclosure 2

For financial reporting purposes, income before income taxes includes the following components:

	Years Ended December 31		
	20X3	20X2	20X1
		(in millions)	
United States	$ XXX	$ XXX	$ XXX
Foreign	XXX	XXX	XXX
Total	**$ XXX**	**$ XXX**	**$ XXX**

The provision for income taxes for 20X3, 20X2, and 20X1 consisted of the following:

	Years Ended December 31		
	20X3	20X2	20X1
		(in millions)	
U.S. Federal:			
Current	$ XXX	$ XXX	$ XXX
Deferred	XXX	XXX	XXX
	$ XXX	$ XXX	$ XXX
U.S. State:			
Current	$ XXX	$ XXX	$ XXX
Deferred	XXX	XXX	XXX
	$ XXX	$ XXX	$ XXX
Foreign:			
Current	$ XXX	$ XXX	$ XXX
Deferred	XXX	XXX	XXX
	$ XXX	$ XXX	$ XXX
Provision for income taxes	**$ XXX**	**$ XXX**	**$ XXX**

Components of Income Tax Expense or Benefit

See ASC 740-10-50-9.

Sample Disclosure 1

	Years Ended December 31		
	20X3	20X2	20X1
		(in millions)	
Current tax expense (benefit)	$ XXX	$ XXX	$ XXX
Deferred tax expense (benefit)	XXX	XXX	XXX
Tax expense (benefit) related to an increase (decrease) in unrecognized tax benefits	XXX	XXX	XXX
Interest expense — gross of related tax effects	XXX	XXX	XXX
Penalties — gross of related tax effects	XXX	XXX	XXX
Tax expense recorded as an increase of paid-in capital	XXX	XXX	XXX
Total tax expense	**$ XXX**	**$ XXX**	**$ XXX**

Note: ASC 740-10-50-9 requires disclosure of other items, such as the effects of changes in tax law or in valuation allowances, that may be disclosed elsewhere (i.e., in the reconciliation of the effective tax rate).

Sample Disclosure 2

	Years Ended December 31		
	20X3	**20X2**	**20X1**
		(in millions)	
Current tax expense (benefit)	$ XXX	$ XXX	$ XXX
Deferred tax expense (benefit)	XXX	XXX	XXX
Other tax expense (benefit)	XXX	XXX	XXX
Total tax expense	**$ XXX**	**$ XXX**	**$ XXX**

Note: If presented, the other tax expense (benefit) line in Sample Disclosure 2 would include items affecting the expense that neither meet the definition of a deferred tax item (ASC 740-10-30-4) nor the definition of a current tax item (ASC 740-10-20). If material, the components of the other tax expense (benefit) should be separately described below the table.

Rate Reconciliation

See ASC 740-10-50-12 through 50-14.

Sample Disclosure 1

Reconciliation between the effective tax rate on income from continuing operations and the statutory tax rate is as follows:

	Years Ended December 31		
	20X3	**20X2**	**20X1**
		(in millions)	
Income tax expense (benefit) at federal statutory rate	$ XXX	$ XXX	$ XXX
State and local income taxes net of federal tax benefit	XXX	XXX	XXX
Foreign tax rate differential[5]	XXX	XXX	XXX
Change in valuation allowance	XXX	XXX	XXX
Effect of flow-through entity	XXX	XXX	XXX
Effect of double taxation net of dividend received deduction	XXX	XXX	XXX
Noncontrolling interest	XXX	XXX	XXX
Nondeductible/nontaxable items	XXX	XXX	XXX
Stock-based compensation	XXX	XXX	XXX
Tax audit settlements	XXX	XXX	XXX
Other — net	XXX	XXX	XXX
Income tax expense (benefit)	**$ XXX**	**$ XXX**	**$ XXX**

[5] At the 2013 AICPA Conference, the SEC staff noted the following issues with registrants' tax rate reconciliation disclosures:

- Labels related to reconciling items were unclear, and disclosures about material reconciling items did not adequately describe the underlying nature of these items.
- For material reconciling items related to foreign tax jurisdictions, registrants did not disclose in MD&A (1) each material foreign jurisdiction and its tax rate and (2) how each jurisdiction affects the amount in the tax rate reconciliation.
- Registrants have inappropriately aggregated material reconciling items. The SEC staff reminded registrants that Regulation S-X requires separate-line-item disclosure for reconciling items whose amount is greater than 5 percent of the amount calculated by multiplying the pretax income by the statutory tax rate.
- Amounts reflected in the tax rate reconciliation were inconsistent with related amounts disclosed elsewhere in a registrant's filing.
- Corrections of errors were inappropriately reflected as changes in estimates.

For additional information, see Deloitte's December 16, 2013, *Heads Up* on the AICPA Conference.

Note: SEC Regulation S-X, Rule 4-08(h)(2), indicates that for public entities, the reconciliation should disclose all components of the income tax expense or benefit that comprise 5 percent or more of income tax expense or benefit from continuing operations, determined by using the statutory tax rate. Nonpublic entities are permitted to omit this reconciliation but are required to disclose the nature of significant reconciling items.

Sample Disclosure 2

The differences between income taxes expected at the U.S. federal statutory income tax rate of 35 percent and the reported income tax (benefit) expense are summarized as follows:

	Years Ended December 31		
	20X3	**20X2**	**20X1**
		(in millions)	
Expected income tax (benefit) expense at federal statutory rate	$ XXX	$ XXX	$ XXX
Valuation allowance for deferred tax assets	XXX	XXX	XXX
Fair value of preferred stock equity conversion feature	XXX	XXX	
Residual tax on foreign earnings	XXX	XXX	XXX
Foreign rate differential[6]	XXX	XXX	XXX
Bargain purchase gain		XXX	
Gain on contingent purchase price reduction	XXX		
Meals and entertainment	XXX	XXX	XXX
Exempt foreign income	XXX	XXX	XXX
Unrecognized tax benefits	XXX	XXX	XXX
State and local income taxes	XXX	XXX	XXX
Dividends received deduction	XXX		
Capitalized transaction costs	XXX	XXX	
Other	XXX	XXX	XXX
Reported income tax (benefit) expense	**$ XXX**	**$ XXX**	**$ XXX**
Effective tax rate	**XX%**	**XX%**	**XX%**

Unrecognized Deferred Tax Liability Related to Investments in Foreign Subsidiaries

See ASC 740-30-50-2.[7]

Sample Disclosure 1

U.S. income tax has not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested outside the United States. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. The amount of such temporary differences totaled $XXX as of December 31, 20X3. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation.

Sample Disclosure 2

In general, it is our practice and intention to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of December 31, 20X3, we have not made a provision for U.S. or additional foreign withholding taxes on approximately $XXX of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

[6] See footnote 4.
[7] See footnote 2.

Components of the Net Deferred Tax Asset or Liability

See ASC 740-10-50-2, ASC 740-10-50-6, ASC 740-10-50-8, and ASC 740-10-50-16.

	December 31	
	20X3	**20X2**
	(in millions)	
Receivable allowances	$ XXX	$ XXX
Reserves and accruals not currently deductible for tax purposes	XXX	XXX
Stock-based compensation	XXX	XXX
Research and development costs	XXX	XXX
NOL and tax credit carryforwards	XXX	XXX
Restructuring and settlement reserves	XXX	XXX
Other	XXX	XXX
Subtotal	$ XXX	$ XXX
Less: valuation allowance	XXX	XXX
Total net deferred tax assets	$ XXX	$ XXX
Inventory valuation and other assets	$ XXX	$ XXX
Fixed Assets	XXX	XXX
Other	XXX	XXX
Total deferred tax liabilities	$ XXX	$ XXX
Net deferred tax liability	$ XXX	$ XXX

Operating Loss and Tax Credit Carryforwards

See ASC 740-10-50-3.

Sample Disclosure

We have income tax NOL carryforwards related to our international operations of approximately $XXX. We have recorded a deferred tax asset of $XXX reflecting the benefit of $XXX in loss carryforwards. Such deferred tax assets expire as follows:

20X4–20X8	$ XXX
20X9–20Y3	XXX
20Y4–20Y8	XXX
	$ XXX

Valuation Allowance[8] and Risks and Uncertainties

See ASC 275-10-50-8.

Sample Disclosure 1

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 20X3. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of December 31, 20X3, a valuation allowance of $XXX has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

Sample Disclosure 2

We have federal and state income tax NOL carryforwards of $XXX and $XXX, which will expire on various dates in the next 15 years as follows:

20X4–20X8	$ XXX
20X9–20Y3	XXX
20Y4–20Y8	XXX
	$ XXX

We believe that it is more likely than not that the benefit from certain state NOL carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance of $XXX on the deferred tax assets related to these state NOL carryforwards. If or when recognized, the tax benefits related to any reversal of the valuation allowance on deferred tax assets as of December 31, 20X3, will be accounted for as follows: approximately $XXX will be recognized as a reduction of income tax expense and $XXX will be recorded as an increase in equity.

The federal, state, and foreign NOL carryforwards in the income tax returns filed included unrecognized tax benefits. The deferred tax assets recognized for those NOLs are presented net of these unrecognized tax benefits.

Because of the change of ownership provisions of the Tax Reform Act of 1986, use of a portion of our domestic NOL and tax credit carryforwards may be limited in future periods. Further, a portion of the carryforwards may expire before being applied to reduce future income tax liabilities.

Valuation Allowance Reversal[9]

Sample Disclosure

As of December 31, 20X3, our deferred tax assets were primarily the result of U.S. NOL, capital loss, and tax credit carryforwards. A valuation allowance of $XXX and $XXX was recorded against our gross deferred tax asset balance as of December 31, 20X3, and December 31, 20X2, respectively. For the years ended December 31, 20X3, and December 31, 20X2, we recorded a net valuation allowance release of $XXX (comprising a full-year valuation

[8] At the 2011 AICPA Conference, Mark Shannon advised that entities must consider all available evidence, both positive and negative, in determining whether a valuation allowance is needed to reduce a deferred tax asset to an amount that is more likely than not to be realized. Mr. Shannon said that some registrants are placing less weight on recent losses when weighing the positive and negative evidence because they view the current economic downturn as an aberration, as given in an example in ASC 740-10-30-22. He stated that while each company's facts and circumstances could differ, in general it would be difficult to conclude the economic downturn is an aberration. He also reminded participants that overcoming such negative evidence would require significant objective positive evidence. At the 2012 AICPA Conference, Mr. Shannon reiterated these comments. He also emphasized the importance of evidence that is objectively verifiable and noted that it carries more weight than evidence that is not.

[9] At the 2012 AICPA Conference, Mark Shannon noted that registrants who have returned to profitability may be considering whether they should reverse a previously recognized valuation allowance. He indicated that factors to consider in making this determination include (1) the magnitude and duration of past losses and (2) the magnitude and duration of current profitability as well as changes in the factors that drove losses in the past and those currently driving profitability. Nili Shah further noted that registrants should assess the sustainability of current profits as well as their track record of accurately forecasting future financial results. She pointed out that registrants' disclosures should include a discussion of the factors or reasons that led to a reversal of a valuation allowance that effectively answers the question "why now." Such disclosures would include a comprehensive analysis of all available positive and negative evidence and how the entity weighed each piece of evidence in its assessment. She also reminded registrants that the same disclosures would be expected when there is significant negative evidence and a registrant concludes that a valuation allowance is necessary.

release of $XXX related to the X segment, partially offset by an increase to the valuation allowance of $XXX related to the Y segment) and $XXX, respectively, on the basis of management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. As of December 31, 20X3, in part because in the current year we achieved three years of cumulative pretax income in the U.S. federal tax jurisdiction, management determined that there is sufficient positive evidence to conclude that it is more likely than not that additional deferred taxes of $XXX are realizable. It therefore reduced the valuation allowance accordingly.

As of December 31, 20X3, and December 31, 20X2, we have NOL carryforwards of $XXX and $XXX, respectively, which, if unused, will expire in years 20Y6 through 20Z2. We have capital loss carryforwards totaling $XXX and $XXX as of December 31, 20X3, and December 31, 20X2, respectively, which, if unused, will expire in years 20X4 through 20X8. In addition, as of December 31, 20X3, and December 31, 20X2, we have low income housing tax credit carryforwards totaling $XXX and $XXX, respectively, which, if unused, will expire in years 20X8 through 20Z3, and alternative minimum tax credits of $XXX and $XXX, respectively, that may be carried forward indefinitely. Certain tax attributes are subject to an annual limitation as a result of the acquisition of our Subsidiary A, which constitutes a change of ownership as defined under Internal Revenue Code Section 382.

Deferred Tax Asset Attributable to Excess Stock Option Deductions

Sample Disclosure 1

As a result of certain realization requirements of ASC 718, the table of deferred tax assets and liabilities does not include certain deferred tax assets as of December 31, 20X3, and December 31, 20X2, that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation that are greater than the compensation recognized for financial reporting. Equity will be increased by $XXX if and when such deferred tax assets are ultimately realized. We use ASC 740 ordering when determining when excess tax benefits have been realized.

Sample Disclosure 2

As a result of certain realization requirements of ASC 718, the table of deferred tax assets and liabilities does not include certain deferred tax assets as of December 31, 20X3, and December 31, 20X2, that arose directly from tax deductions related to equity compensation greater than compensation recognized for financial reporting. Equity will be increased by $XXX if and when such deferred tax assets are ultimately realized. We use tax law ordering when determining when excess tax benefits have been realized.

Note: As of the date of adoption of FASB Statement No. 123(R), Share-Based Payment (now codified in ASC 718), an entity that previously recognized a deferred tax asset for excess tax benefits before its realization was required to discontinue that practice prospectively. As a result, some entities may continue to have deferred tax assets for an NOL carryforward that includes such excess tax benefits until the NOL carryforward is either used or expires. In this case, it may not be appropriate to reverse any related valuation allowance recorded in the same year the related deferred tax asset was first recorded, even if the facts and circumstances indicate that it is more likely than not that the deferred tax asset will be realized. These entities should modify the above samples accordingly.

Entities are required to present in the consolidated statements of cash flows the impact of the tax benefit of any realized excess tax deduction in accordance with ASC 230-10-45-14(e). The excess tax benefit is separate from taxes paid and is reported as a component of cash inflows from financing activities. The excess tax benefit should be determined on a gross basis (i.e., not netted with tax deficiencies related to share-based payment awards). Operating cash outflows are increased by the same amount, resulting in including in operating cash flows the income taxes that the entity would have paid had it not been for the excess tax benefit.

Tax Holidays

See SEC Accounting Bulletin Topic 11.C, "Tax Holidays."

Sample Disclosure

We operate under tax holidays in other countries, which are effective through December 31, 20X3, and may be extended if certain additional requirements are satisfied. The tax holidays are conditional upon our meeting certain employment and investment thresholds. The impact of these tax holidays decreased foreign taxes by $XXX, $XXX, and $XXX for 20X3, 20X2, and 20X1, respectively. The benefit of the tax holidays on net income per share (diluted) was $.XX, $.XX, and $.XX for 20X3, 20X2, and 20X1, respectively.

Tabular Reconciliation of Unrecognized Tax Benefits

See ASC 740-10-50-15A(a).

Note: This tabular reconciliation disclosure is not required for nonpublic entities.

Sample Disclosure 1

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

	20X3	20X2	20X1
		(in millions)	
Unrecognized tax benefits — January 1	**$ XXX**	**$ XXX**	**$ XXX**
Gross increases — tax positions in prior period	XXX	XXX	XXX
Gross decreases — tax positions in prior period	XXX	XXX	
Gross increases — tax positions in current period	XXX	XXX	XXX
Settlement	XXX	XXX	XXX
Lapse of statute of limitations	XXX	XXX	XXX
Unrecognized tax benefits — December 31	**$ XXX**	**$ XXX**	**$ XXX**

Sample Disclosure 2

Note: The table on the next page illustrates a selection of reconciling items that may be reported separately or aggregated on the basis of the specific facts and circumstances. The list is not intended to be all-inclusive. If reported separately, the descriptions should be appropriately titled so that the user of the financial statements will understand the nature of the reconciling item being reported.

	20X3	20X2	20X1
		(in millions)	
Unrecognized tax benefits — January 1	**$ XXX**	**$ XXX**	**$ XXX**
Current year — increase	XXX	XXX	XXX
Prior year — increase	XXX	XXX	XXX
Claims	XXX	XXX	XXX
Prior year — decrease	XXX	XXX	XXX
Accrual to return changes	XXX	XXX	XXX
Settlements	XXX	XXX	XXX
Statute expiration	XXX	XXX	XXX
Current year acquisitions	XXX	XXX	XXX
Divestitures	XXX	XXX	XXX
Currency	XXX	XXX	XXX
Unrecognized tax benefits — December 31	**$ XXX**	**$ XXX**	**$ XXX**

See ASC 740-10-50-15A(b) (unrecognized tax benefits that, if recognized, would affect the effective tax rate).

Note: This disclosure is not required for nonpublic entities.

Included in the balance of unrecognized tax benefits as of December 31, 20X3; December 31; 20X2; and December 31, 20X1, are $XXX, $XXX, and $XXX, respectively, of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits as of December 31, 20X3; December 31, 20X2; and December 31, 20X1, are $XXX, $XXX, and $XXX, respectively, of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes.

See ASC 740-10-50-15(c) (the total amounts of interest and penalties recognized in the statement of operations and the total amounts of interest and penalties recognized in the statements of financial position).

We recognize interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, we accrued penalties of $XX and interest of $XX during 20X3 and in total, as of December 31, 20X3, and recognized a liability for penalties of $XX and interest of $XX. During 20X2, we accrued penalties of $XX and interest of $XX and in total, as of December 31, 20X2, had recognized a liability for penalties of $XX and interest of $XX. During 20X1, we accrued penalties of $XX and interest of $XX.

See ASC 740-10-50-15(d) (tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits that will significantly increase or decrease within 12 months of the reporting date).

We believe that it is reasonably possible that a decrease of up to $XX in unrecognized tax benefits related to state exposures may be necessary within the coming year. In addition, we believe that it is reasonably possible that approximately $XX of current other remaining unrecognized tax benefits, each of which are individually insignificant, may be recognized by the end of 20X4 as a result of a lapse of the statute of limitations. As of December 31, 20X2, we believed that it was reasonably possible that a decrease of up to $XX in unrecognized tax benefits related to state tax exposures would have occurred during the year ended December 31, 20X3. During the year ended December 31, 20X3, unrecognized tax benefits related to those state exposures actually decreased by $XX as illustrated in the table above.

See ASC 740-10-50-15(e) (description of tax years that remain subject to examination by major tax jurisdictions).

We are subject to taxation in the United States and various states and foreign jurisdictions. As of December 31, 20X3, tax years for 20X0, 20X1, and 20X2 are subject to examination by the tax authorities. With few exceptions, as of December 31, 20X3, we are no longer subject to U.S. federal, state, local, or foreign examinations by tax authorities for years before 20X0. Tax year 20W9 was open as of December 31, 20X2.

Subsequent Events Disclosure

See ASC 855-10-50-2 (nonrecognized subsequent events).

Sample Disclosure

In January 20X4, we received notice of a tax incentive award of $XX that will allow us to monetize approximately $XX of state research and development tax credits. In exchange for this award, we pledged to hire more employees and maintain the additional headcount through at least December 31, 20X8. Failure to do so could result in our being required to repay some or all of these incentives.

Note: Disclosure of a nonrecognized subsequent event is required only when the financial statements would be considered misleading without such disclosure.

Schedule II — Valuation and Qualifying Accounts

The following schedule and accompanying footnote are reproduced from SEC Regulation S-X, Rule 12-09:

Column A — Description[1]	Column B — Balance at beginning of period	Column C — Additions (1) — Charged to costs and expenses	Column C — Additions (2) — Charged to other accounts — describe	Column D — Deductions — describe	Column E — Balance at end of period

[1] List, by major classes, all valuation and qualifying accounts and reserves not included in specific schedules. Identify each class of valuation and qualifying accounts and reserves by descriptive title. Group (a) those valuation and qualifying accounts that are deducted in the balance sheet from the assets to which they apply and (b) those reserves which support the balance sheet caption, Reserves. Valuation and qualifying accounts and reserves as to which the additions, deductions, and balances were not individually significant may be grouped in one total and in such a case the information called for under columns C and D need not be given.

Note: A liability for unrecognized tax benefits is not a valuation or qualifying account, whereas a valuation allowance on a deferred tax asset is a valuation account.

Interim Disclosures

See ASC 740-270-50-1 (variations in customary income tax expense relationships).

Sample Disclosure 1

Our effective tax rate (ETR) from continuing operations was XX percent and XX percent for the quarter and nine months ended September 30, 20X2, respectively, and XX percent and XX percent for the quarter and nine months ended September 30, 20X1, respectively. The following items caused the quarterly or year-to-date ETR to be significantly different from our historical annual ETR:

- During the third quarter and nine months ended September 30, 20X2, we recorded an income tax benefit of approximately $XX million as a result of a favorable settlement of uncertain tax positions in jurisdiction X, which reduced the ETR by XX percent and XX percent respectively.
- During the nine months ended September 30, 20X1, we recorded an income tax benefit of approximately $XX million related to an increase in tax rates in country X enacted in the third quarter, which increased the ETR by XX percent.

Sample Disclosure 2

When calculating the annual estimated effective income tax rate for the three months ended March 31, 20X1, we were subject to a loss limitation rule because the year-to-date ordinary loss exceeded the full-year expected ordinary loss. The tax benefit for that year-to-date ordinary loss was limited to the amount that would be recognized if the year-to-date ordinary loss were the anticipated ordinary loss for the full year.

Sample Disclosure 3

We have historically calculated the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to "ordinary" income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. We have used a discrete effective tax rate method to calculate taxes for the fiscal three- and six-month periods ended June 30, 20X2. We determined that since small changes in estimated "ordinary" income would result in significant changes in the estimated annual effective tax rate, the historical method would not provide a reliable estimate for the fiscal three- and six-month periods ended June 30, 20X2.

Separate Company Financial Statements

See ASC 740-10-50-17(b) (entities with separately issued financial statements that are members of a consolidated tax return).

Sample Disclosure

Our company is included in the consolidated tax return of Parent P. We calculate the provision for income taxes by using a "separate return" method. Under this method, we are assumed to file a separate return with the tax authority, thereby reporting our taxable income or loss and paying the applicable tax to or receiving the appropriate refund from P. Our current provision is the amount of tax payable or refundable on the basis of a hypothetical, current-year separate return. We provide deferred taxes on temporary differences and on any carryforwards that we could claim on our hypothetical return and assess the need for a valuation allowance on the basis of our projected separate return results.

Any difference between the tax provision (or benefit) allocated to us under the separate return method and payments to be made to (or received from) P for tax expense are treated as either dividends or capital contributions. Accordingly, the amount by which our tax liability under the separate return method exceeds the amount of tax liability ultimately settled as a result of using incremental expenses of P is periodically settled as a capital contribution from P to us.