STAFF PAPER

March 18, 2015

Project	**Revenue Recognition**
Paper topic	Sales Tax Presentation: Gross versus Net

CONTACT(S)			
	Andrea Willette	amwillette@fasb.org	+1 203 956 5374
	Cullen Walsh	cdwalsh@fasb.org	+1 203 956 5354
	Henry Rees	hrees@ifrs.org	+44 207 246 6466

Purpose

1. The purpose of this memo is to serve as a basis for the March 18, 2015 decision-making joint meeting of the FASB and the IASB (the Boards). The staff will ask the Boards to discuss several implementation issues related to Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* and IFRS 15 *Revenue from Contracts with Customers* (collectively referred to as the new revenue standard). One of the implementation issues relates to measuring the transaction price and excluding amounts collected on behalf of third parties. In particular, U.S. stakeholders have asked the Boards to consider adding a practical expedient to the new revenue standard to lessen the complexity and practical difficulties in assessing whether a sales tax is collected on behalf of a third party. The staff will ask the Boards to decide whether to add this project to its technical agenda, and if so, will deliberate alternatives to address concerns raised by stakeholders. The FASB staff's intention is that the FASB would complete deliberations for this topic, and the staff would proceed to issuing an Exposure Draft of a proposed Accounting Standards Update for vote by written ballot, which may include multiple revenue recognition topics discussed at the March 18 meeting.
2. A related topic to the issue described in this memo is the FASB's research project on *Revenue Recognition–Principal versus Agent (reporting revenue gross versus net)*, which also will be discussed at the March 18, 2015 joint Board meeting.

However, the staff's analysis of that issue does not specifically address stakeholders' requests for a practical expedient for presentation of sales taxes.

Questions for the Boards
Questions for the FASB: 1. Does the Board want to add a project to its technical agenda to enact revisions to the new revenue standard for presentation of sales taxes? 2. If so, which alternative (Alternative A1, A2, or A3) does the Board prefer for a practical expedient to the new revenue standard (each alternative requires disclosure of the election)? 3. For any alternative selected, what does the Board prefer for the scope of types of sales taxes to be included in the practical expedient (for example, existing U.S. GAAP)? 4. Have all relevant issues been deliberated? 5. Have Board members received sufficient information and analysis to make informed decisions on those issues? If not, what other information or analysis do they need? 6. Subject to what we learn through comment letters and other stakeholder outreach, do the expected benefits of the change justify the perceived costs of change? 7. Should the staff proceed to drafting a proposed ASU for vote by written ballot? If yes, what is the length of the comment period? **Question for IASB:** 1. Does the IASB agree with the IASB staff recommendation not to add a practical expedient to the new revenue standard for the presentation of sales tax?

Accounting Guidance in Topic 606/IFRS 15

3. Step 3 of the new revenue standard requires an entity to determine the transaction price. The following excerpts from the new revenue standard are relevant to the discussion about measurement of the transaction price and presentation of sales taxes:

> **606-10-32-2 [47]**[1] An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, **excluding amounts collected on behalf of third parties (for example, some sales taxes).** The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.
>
> **BC185.** The Boards decided to define the transaction price as the amount of consideration to which an entity expects to be entitled in exchange for transferring goods or services. Consequently, the objective in determining the transaction price at the end of each reporting period is to predict the total amount of consideration to which the entity will be entitled from the contract. In developing Topic 606, the Boards decided that the transaction price should not be adjusted for the effects of the customer's credit risk (see paragraphs BC259–BC265) unless the contract includes a significant financing component (see paragraphs BC229–BC247).
>
> **BC186.** The Boards clarified that the transaction price should include only amounts (including variable amounts) to which the entity has rights under the present contract. For example, the transaction price does not include

[1] IFRS 15 references are included in "[XX]" throughout this paper.

estimates of consideration from the future exercise of options for additional goods or services or from future change orders. Until the customer exercises the option or agrees to the change order, the entity does not have a right to consideration.

BC187. The Boards also clarified that the amounts to which the entity has rights under the present contract can be paid by any party (that is, not only by the customer). For example, in the healthcare industry, an entity may determine the transaction price based on amounts to which it will be entitled to payment from the patient, insurance companies, and/or governmental organizations. This may also occur in other industries in which an entity receives a payment from a manufacturer as a result of the manufacturer issuing coupons or rebates directly to the entity's customer. **However, it would not include amounts collected on behalf of another party such as some sales taxes and value added taxes in some jurisdictions.**

[Emphasis added.]

Background

4. As noted in background information originally included in Emerging Issues Task Force (EITF) Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation),* various types of taxes are assessed by governmental authorities at the federal, state, and local level on the production, use, or consumption of goods and services. Those taxes include, but are not limited to, sales, use, excise, value-added, and franchise taxes. Those assessed taxes significantly vary as to how the taxes are calculated, administered, and whether the seller or the buyer is primarily obligated for payment of the tax. In

addition, there are some taxes that are particular to certain industries, such as the gaming and entertainment, cable, medical devices, and airlines industries. A few types of taxes related to revenue-producing transactions are included below to illustrate the diversity of tax assessments.

a. Sales tax: A sales tax is a direct tax on the consumption of goods or services assessed by state and local governments, typically calculated as a percentage of the sales price. Certain purchases are exempt from sales taxes in some jurisdictions. Typically, the amount of sales taxes assessed is displayed separately on the invoice or sales receipt provided to the customer. In many cases, the entity is required to remit what it collects and, thus, has no discretion to retain a portion of amounts collected. Generally, jurisdictions can be characterized either as seller privilege tax jurisdictions or customer-levy tax jurisdictions. In seller privilege jurisdictions, taxes are imposed on retailers for the privilege of making sales in the state. Retailers have the option of absorbing the tax or passing along some or all of those taxes on to buyers. Conversely, customer-levy jurisdictions assess taxes on the buyer, so sellers are merely agents collecting taxes on the governmental authority's behalf. In this case, the tax is imposed on the buyer. Even though the characterizations exist, there are jurisdictions in which it is difficult to determine whom in fact the primary obligor is for payment of the sales tax.[2]

b. Use tax: A use tax is a derivative of sales tax and is assessed on purchases made outside of a buyer's (business or individual) state of

[2] As provided in EITF Issue No. 06-3, consider the complexity in determining primary obligor in the following case. Alabama Tax Code Section 40-23-2: *Tax Levied on Gross Receipts*; Certain Sales Exempt; Disposition of Funds levies a privilege tax against the person on account of the business activities in which that person is involved and in an amount to be determined by the application of rates against gross sales or gross receipts as the case may be. Section 40-23-26: *Tax to be Added to Purchase Price; Refund Unlawful; Tax a Direct Tax on Retail Consumer* states that all taxes paid shall conclusively be presumed to be a direct tax on the retail customer, precollected for the purpose of convenience and facility only. On the surface, those two sections conflict as to whom, either the seller or retail customer, the sales tax is ultimately assessed upon.

residence on taxable items that will be used, stored, or consumed in one's state of residence and no tax was collected in the state of purchase. Generally, use tax is paid at the same rate as the state's sales tax.

c. Value-added tax: The value-added tax (VAT) is consumption-based and collected from businesses at stages of production and distribution. In general, a seller collects VAT on its sales, takes credit for any VAT it has paid on purchases, and remits the net amount to the governmental authority. Because it is collected at stages throughout the selling process and is often embedded in the selling price, VAT differs from sales tax, which generally is assessed only on the final transaction and may or may not embedded in the selling price.

d. Excise tax: Excise tax is assessed at the federal, state, and local levels on transactions that include specific products or services. Examples include an assessed tax on the volume of a commodity produced or purchased, on the number of transactions, such as airline tickets purchased, or an excise tax on tobacco products. In general, U.S. stakeholders view excise tax as a tax on the producer of the goods or services and not on the end customer.

Current U.S. GAAP and IFRS Guidance

5. Current U.S. GAAP guidance applicable to the presentation of sales taxes, which will be superseded by the new revenue standard, results from EITF Issue No. 06-3, and is codified in paragraphs 605-45-50-3 through 50-4. The scope of the current guidance, which is included in paragraph 605-45-15-2(e), is "Taxes collected from customers and remitted to governmental authorities, including any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer. These taxes may include, but are not limited to, sales, use, value added, and some excise taxes. However, this Subtopic does not apply to tax schemes that are based

on gross receipts and taxes that are imposed during the inventory procurement process." Those in-scope taxes will be referred to collectively as "sales taxes" in this memo. Most respondents during the exposure process for EITF Issue No. 06-3 agreed that the scope of the guidance was appropriate, as they did not support an overly broad application to all nondiscretionary amounts assessed by governmental authorities and also did not think the scope should apply narrowly to only sales, use, and value-added taxes.

6. Current U.S. GAAP guidance permits an entity to make an accounting policy election to present in-scope sales taxes on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues). The policy should be disclosed pursuant to Topic 235, *Notes to Financial Statements.* For any in-scope taxes that are reported on a gross basis and the amounts are significant, an entity should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. The disclosure of those taxes can be done on an aggregate basis.
7. From the exposure process for EITF Issue No. 06-3, there were mixed views from external stakeholders on the policy election decision. Some respondents found the consensus to be acceptable because the optionality of gross or net presentation would still allow them to present sales taxes as they thought was reflective of the economics. Conversely, other respondents thought the Task Force should have been more prescriptive to require net presentation, as those respondents thought presentation on a net basis best reflected the economic substance of the majority of transactions.
8. Prior to the issuance of EITF Issue No. 06-3, entities applied EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, and EITF Issue No. 01-14[3], *Income Statement Characterization for Reimbursements*

[3] The Task Force reached a consensus that reimbursements received for out-of-pocket expenses should be characterized as revenue in the income statement (gross reporting) and also relied on the factors in Issue No. 99-19 to support that consensus. Therefore, this consensus supported presentation on a gross basis when taxes assessed are ultimately the responsibility of the seller, and thus, are another form of reimbursement for costs incurred by the seller.

Received for 'Out-of-Pocket' Expenses Incurred to determine proper presentation of sales taxes. The primary obligor indicator was emphasized when considering the indicators of gross versus net presentation provided in Issue No. 99-19. EITF Issue No. 06-3 did not readdress the accounting models in Issue No. 99-19 or Issue No. 01-14, but, rather, the applicability of those models to the presentation of various taxes in the income statement. That is, rather than use the principal versus agent analysis by analogy, an entity would instead be permitted to make the accounting policy election provided by EITF Issue No. 06-3.

9. IFRS stakeholders currently apply IAS 18 *Revenue*. IAS 18 defines revenue as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. Unlike current U.S. GAAP that permits an accounting policy election, paragraph 8 of IAS 18 requires amounts collected on behalf of third parties such as sales taxes, goods and services taxes, and VAT to be excluded from revenue, because those amounts are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, an entity applying IFRS today would be required to assess and exclude from revenue those amounts collected on behalf of third parties. This assessment to determine which amounts are collected on behalf of third parties is comparable to the assessment required in the new revenue standard.

Issue Description: Sales Tax Presentation

10. The new revenue standard does not provide specific guidance on identifying amounts that are collected on behalf of third parties. To address questions about the presentation of sales taxes raised by stakeholders, the staff discussed the guidance in the new revenue standard on determining the transaction price and application of the gross versus net guidance in the Joint Transition Resource Group for Revenue Recognition (TRG) Memo 2, *Gross versus Net Revenue: Amounts Billed to Customers* for the July 2014 meeting. That discussion primarily revolved around determining how to present some common amounts billed to

customers using the principal versus agent guidance. The staff included in that memo assessed taxes to be remitted to governmental authorities. Relevant excerpts from that memo are as follows:

> 11. Conversely, if an entity is not collecting an amount on behalf of a third party (for example, on behalf of a government or another service provider), that amount should be included in the transaction price. Sometimes it may not be entirely clear whether or not the amounts are collected on behalf of third parties. In those cases, some stakeholders have expressed the view that an entity should apply the principal-agent framework in the new revenue standard to determine whether it is merely a conduit for the amounts collected or whether it is the principal with respect to the obligation. An entity could use the principal-agent framework to help it to determine whether the customer is compensating the entity for a cost it incurred to provide a good or service (that is, as a principal) or, instead, whether the entity is arranging for the customer to pay its (the customer's) obligation to another party (that is, acting as an agent).
>
> 12. The principal versus agent implementation guidance assists an entity in determining whether the nature of its promise is a performance obligation to provide the specified goods or services itself or to arrange for another party to provide services. For items such as shipping and handling fees and other out-of pocket expenses, this guidance is applicable because those costs are incurred by the entity as part of satisfying a performance obligation. Since taxes and other assessments are generally an obligation to a governmental authority, rather than to a customer, the principal versus agent guidance is applied by analogy.

13. Below are some considerations about how stakeholders note that the principal versus agent guidance could be applied in determining how to present some common amounts billed to customers

(c) Taxes and other assessments remitted to governmental authorities—In determining whether the entity is a principal or an agent with respect to taxes and other assessments, one or more of the following might indicate that the entity is the principal (and therefore that the entity would present the billings as revenue and the remittances as a cost).

(i) The entity is primarily responsible for fulfilling the obligation (that is, the entity is primarily responsible for the tax or other assessment). For example, U.S. telecommunications companies historically have been required to pay Universal Service Fund (USF) fees to the U.S. Federal Communications Commission based on their revenues. They are responsible for that assessment regardless of whether they choose to seek full or partial reimbursement of that assessment through billings to their customers. In contrast, in some jurisdictions, the customer may be responsible for payment of sales (or use) taxes even though the jurisdiction may require the entity to collect the tax from the customer and remit the entire amount to the jurisdiction. If the entity (for example, an internet vendor) does not collect the tax, the customer may be responsible for remitting the applicable sales or use tax to the appropriate jurisdiction.

(ii) The entity has latitude with respect to the amount charged to the customer. Continuing with the examples above, entities that are required to collect sales tax from customers are required to do so at the amount owed to the jurisdiction and remit that amount to the jurisdiction, while U.S. telecommunications companies make their own decision about whether and how they recover the costs of their USF assessment from their customers.

(iii) The amount retained by the entity is not fixed. In the case of many sales taxes, the entity is required to remit what it collects and, therefore, its retention is fixed (at zero). Conversely, if the entity has discretion as to whether or how much it collects from the customer, then its margins on the tax or other assessment are not fixed and the price represents a business decision about the price customers will be willing to pay for its goods or services.

(iv) The entity has credit risk. If the entity is solely responsible for payment of the full tax or other assessment amount, regardless of whether it collects any amounts it has billed to its customers, it would have credit risk.

16. With respect to collections of taxes or other assessments, some stakeholders note that it is not clear whether those amounts represent consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer. In addition, they note that it can vary depending on the nature of the sales tax or other assessment from a governmental entity. Those billings may not relate to the entity's fulfillment of a promised good or service. This may be evident in circumstances when the price of the good or service varies among jurisdictions by the statutorily mandated tax or assessment amount. For example, when a good is sold over the internet, a sales tax amount is added (or not added) at time of checkout based on where the customer resides. In addition, in some jurisdictions, certain types of entities might not be required to pay sales tax for certain products, while other types of entities are required to pay sales tax for the same products. In those examples, since the price variation is entirely attributable to

the tax (and not attributable to any incremental performance), some assert that the tax amount should not be considered to be part of the consideration to which the entity is entitled in exchange for transferring the promised good or service to the customer. Those amounts would, therefore, be excluded from revenue.

17. Other stakeholders assert that a principal-agent analysis of the nature described above is appropriate to determine whether those amounts should be considered part of the transaction price because an obligation of the entity to a governmental authority that is required in order for the entity to conduct business is no different than other costs of the entity that are paid with the proceeds from the entity's sales. For example, assume an entity sells a product to a customer for CU 100 and, as a direct result of that sale, owes a third party a sales commission of CU 10 and owes a governmental authority a tax on the transaction of CU 8. There appears to be no substantive difference between the third-party commission and the tax. The two costs were incurred as a direct result of the specific sale transaction, and neither the commission nor the tax provide any additional good or service to the customer beyond the product purchased.

11. TRG members generally agreed with the principal versus agent analysis provided by the staff to determine which amounts are collected on behalf of third parties. However, at TRG meetings and from subsequent outreach, some U.S. stakeholders expressed concern about the application of the principal versus agent guidance to determine proper sales tax presentation. Those stakeholders assert that it would be costly, time-consuming, and complex for entities to identify and analyze sales taxes on a jurisdiction-by-jurisdiction basis to determine which amounts to exclude from the transaction price (as amounts collected on behalf of third parties) and which amounts to include in the transaction price (as reimbursements of the cost of taxes assessed on the seller). U.S. stakeholders in

particular have stated that complying with this aspect of the new revenue standard would be costly, primarily because of the complexity and possible ambiguity in determining which party is the primary obligor for payment of sales taxes, the number of jurisdictions in which entities conduct business[4], the variation and frequency of changes in tax laws amongst federal, state, and local jurisdictions, and the variability in product and service offerings of an entity to which specific tax laws apply.

12. Costs would be incurred not only by preparers and auditors but also by users to differentiate between the two bases of sales tax presentation determined based on an analysis of individual jurisdictions. Therefore, some U.S. stakeholders have asked the Boards to consider adding a practical expedient to the new revenue standard that lessens the cost and complexity in complying with the standard, as currently written, in determining proper presentation of sales taxes.

Staff Analysis

13. The staff identified the following three alternatives for sales tax presentation:

    (a) Alternative A1: Gross reporting for all in-scope sales taxes and disclosure of the policy

    (b) Alternative A2: Net reporting for all in-scope sales taxes and disclosure of the policy

    (c) Alternative A3: Policy election as either gross or net presentation for in-scope sales taxes and disclosure of (i) the policy election and (ii) significant amounts reported on a gross basis (current U.S. GAAP).

14. If the Boards select one of the three alternatives above, the staff thinks the Boards could decide to permit an entity to either (a) apply the alternative or (b) apply the new revenue standard, as issued, to presentation of sales taxes (that is, perform an analysis of each type of sales taxes on a jurisdiction by jurisdiction basis).

[4] Some estimate that there are about 10,000 different sales tax jurisdictions in the United States. Regardless of the total number of jurisdictions, the staff does not think it would be unusual for many entities to have many jurisdictions in which it conducts business activities.

15. If the Boards select one of the three alternatives above, the staff thinks the scope of the alternative should be the same as the scope of the sales tax policy election in current U.S. GAAP. The staff is not aware of practice issues with the scope, and the staff thinks this is confirmed by some stakeholders asking the Boards to add the policy election in current U.S. GAAP to the new revenue standard.

Alternative A1: Gross Reporting

16. This alternative would present all in-scope sales taxes on a gross basis (included in both revenues and expenses). In addition, the alternative would require an entity to disclose the policy. Proponents of this alternative believe no differentiation should be made between payments made to a governmental authority and payments made to suppliers or other third parties as part of an entity conducting its business activities. Therefore, proponents of this view state gross reporting best reflects sales tax as an additional cost to the seller of producing the product or providing the service. Those stakeholders also believe disclosure of tax amounts to be remitted, if significant, is sufficient for financial reporting purposes.
17. From outreach performed at a recent FASB Investor Advisory Committee (IAC) meeting, one member supported presentation of in-scope sales taxes on a gross basis. That member believes any remittance for which the entity is legally obligated should be included in both revenues and expenses in the financial statements and stated that the tax payment is no different from other operating costs an entity is required to pay in order to sell to customers in jurisdictions in which it operates.
18. Opponents of this alternative state that gross presentation of sales taxes is inconsistent with the objective of the transaction price measurement, which is to estimate the total amount of consideration to which the entity will be entitled in exchange for transferring promised goods or services to a customer. An entity is not necessarily entitled to an amount that is remitted to a governmental authority, particularly when that governmental authority is dictating the amount to be collected by setting a fixed tax rate or percentage based on the selling price. Additionally, payment of the tax is not necessarily related to the transfer of the

promised good or service to the customer, and thus, should not be measured in the transaction price. The variation in tax laws across jurisdictions indicates that the assessed taxes are not a characteristic of the promised good or service; rather, those assessed taxes are based on the tax laws enacted by various jurisdictions.

19. In addition, opponents of this alternative are concerned about the relevance of the revenue number, particularly its predictive and confirmatory value, if sales taxes are included in revenue. In particular, these stakeholders have expressed concern about how changes in tax rates in a specific state, changes in the proportion of the product mix subject to certain tax laws, or changes in the proportion of sales across jurisdictions with variations in tax rates would impact the usefulness of the revenue measurement. In particular, these stakeholders think gross presentation would distort margin analysis, analysis of other key financial metrics such as same store sales or sales per square foot in the retail industry, and add complexity to forecasting of future revenues. The variation and range of combined state and local sales tax rates could cause a significant difference in revenue measurements, and opponents of gross presentation note that this variation in state and local tax rates should not impact measurement of revenue.

Alternative A2: Net Reporting

20. This alternative would present all in-scope sales taxes on a net basis (excluded from both revenues and expenses). In addition, the alternative would require an entity to disclose the policy. Proponents of this alternative state net presentation best reflects the nature of the sales tax when payments are primarily assessed on the buyer and the seller ultimately remits amounts collected to the governmental authority.

21. Proponents of this alternative state net presentation is consistent with the definition of revenue in Concepts Statement No. 6, *Elements of Financial Statements,* which defines revenue as “inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations.” These stakeholders note collection and remittance of taxes do not represent the seller’s ongoing major or central

operations, as amounts collected are not directed towards carrying on the entity's central operations. Rather, those entities are collecting taxes to be used to support the governmental authority's operations.

22. Several respondents to EITF Issue No. 06-3 strongly expressed a preference for net presentation of sales taxes. Those respondents stated that including sales tax in revenue would not reflect the actual nature of the sales tax and would impair transparency and usefulness of the financial statements. One respondent, representing the retail industry, noted:

> The retail industry fully embraces sound and transparent financial reporting. There are many reasons why we do not believe the inclusion of certain sales taxes in revenue would provide sound financial reporting or add transparency for the reader. For example, the proposal would create great disparities in revenue recognition between regional sellers located in states where the seller is the primary obligor, as opposed to jurisdictions where the customer is the primary obligor. This disparity is compounded by the fact that there are hundreds of foreign, state, and local jurisdictions for which the primary obligation for the tax is unclear, thereby making it difficult—if not impossible—for retailers to interpret consistently.

23. Most FASB IAC members in the staff's current outreach supported presentation on a net basis and stated the revenue measurement would be more useful if amounts an entity is not entitled to keep are excluded from revenue, including tax amounts assessed on both the seller and the buyer. Additionally, FASB IAC members noted that if sales tax was presented on a gross basis, there would be additional complexity when forecasting future revenues.

24. Opponents of this alternative have stated that excluding sales taxes from revenues is inconsistent with other cost reimbursement guidance; that is, those stakeholders think tax payments to governmental authorities are no different from other operating costs paid to other suppliers or vendors and, thus, should be reflected in

both revenues and expenses. As noted above, one user expressed a preference for gross reporting of sales tax.

25. Other opponents of this alternative note that is has the potential to exclude from revenue some taxes that are a tax on the seller and for which the seller may or may not recover in the pricing of its goods or services (the tax is not an amount collected from the buyer on behalf of the tax authorities).

Alternative A3: Policy Election

26. Another alternative the Boards could choose would be a practical expedient that allows an entity to make an accounting policy election to present sales taxes on either a gross or a net basis. This would be consistent with current U.S. GAAP. That election can be applied at the sales tax category level, so *types* of sales taxes are elected to be presented on either a gross or net basis (as opposed to an entity-level election, in which one basis of presentation would have to be elected for *all* sales taxes). That policy election would be disclosed in accordance with paragraph 235-10-50-1, *Accounting Policies Disclosure*. If gross presentation was chosen for some taxes, an entity would be required to disclose material amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented.
27. Proponents of this alternative prefer to provide entities flexibility for presentation of sales taxes. That is, they think either gross or net basis of presentation may best reflect the economics of the transactions within certain industries or based on the assessment of primary obligor of the tax payment. Further, as long as sufficient disclosures are provided, a user would be able to exclude sales taxes included within revenue in order to compare to those entities that do not report sales taxes within revenue.
28. When EITF Issue No. 06-3 was originally exposed, comment letter respondents generally were supportive of the policy election alternative. Some thought the flexibility permitted companies to choose the presentation method that best reflected what they perceived to be the economics of certain transactions. Those stakeholders also preferred that flexibility, because certain industries that may be more likely to present sales taxes on a gross basis (oil and gas, for example)

would be permitted to do so. Other respondents were supportive of the policy election because they supported presentation on a net basis, and the flexibility of a policy election would still permit that presentation.

29. Opponents of the policy election think it would result in mixed presentation for types of sales taxes and diversity in practice amongst entities, resulting in less comparability. However, disclosure of the accounting policy election made and disclosure of amounts of taxes included in revenue if gross presentation is elected may lessen concerns about incomparable financial statements. Further, from communications with stakeholders prior to the issuance of EITF Issue 06-3, entities within a particular industry generally presented sales tax on a consistent basis. For example, in general the retail industry presented tax on a net basis, oil and gas presented tax on a gross basis, and airlines presented taxes assessed on the delivery of the service to the end customer on a gross basis and taxes assessed on the sale of ticket on a net basis. Therefore, although there may be discrepancies across types of sales taxes and entities in different industries, there would likely be a tendency for entities to report sales taxes using the same basis of presentation within similar industries. This could lessen some concerns about the policy election and mixed basis of presentation.
30. Opponents of this alternative do not find mixed presentation by types of sales taxes within an entity or the resulting diversity in practice across entities preferable. These stakeholders believe diverse presentation of sales taxes is contrary to users' expressed preference for comparable presentation of sales taxes.

FASB Staff Recommendation

31. The FASB staff has a split recommendation for a practical expedient on presentation of sales tax.
32. One staff member recommends that the FASB choose to add a practical expedient to the new revenue standard that allows entities to make a policy election to present types of in-scope sales taxes on either a gross or a net basis (Alternative A3). Because of the diversity across industries for sales taxes assessed and the

various factors that impact presentation on either a gross or a net basis, the staff believes it is reasonable to provide entities discretion in choosing how to present sales taxes, as long as that choice is disclosed. Sufficient disclosure could lessen concerns about different bases of presentation for different categories of sales taxes and across industries. Further, this alternative would result in no significant change to current practice for entities that follow U.S. GAAP, which is well understood.

33. Another staff member recommends that the FASB include a practical expedient in the new revenue standard that allows an entity to make a policy election to present all in-scope sales taxes on a net basis (Alternative A2). Similar to the alternative staff recommendation, the entity can apply the new revenue standard as issued (meaning that it would perform an assessment of sales taxes on a jurisdiction by jurisdiction basis to determine the appropriate presentation). This staff member thinks Alternative A2 would (a) reduce cost and complexity because an entity would not have to assess sales taxes in each jurisdiction and in some cases make a difficult judgment about the proper presentation and (b) improve comparability among entities because sales taxes would be presented consistently. Based on the staff's outreach with users, Alternative A2 would provide the most useful information to users.

IASB Staff Recommendation

34. The IASB staff observe that the topic in this paper is not an interpretative question, but rather largely a concern expressed by some stakeholders in the U.S. about the cost and complexity in making the assessments required by the new revenue standard in respect to sales taxes (as defined in this memo).
35. The new revenue standard has a clear principle with respect to sales taxes. They are excluded from the determination of the transaction price, and hence revenue, if the entity has collected them on behalf of tax authorities. That principle is intended to provide consistency in the measurement of revenue across entities

under different tax regimes in different jurisdictions. The form of those taxes will vary significantly in the jurisdictions in which the new standard is applied.

36. The IASB staff note that in some cases judgment will be required to determine whether a particular sales tax is a tax collected on behalf of the tax authorities. However, that is a judgment that IFRS stakeholders have been required to make under IAS 18.
37. IFRS stakeholders at the TRG meeting did not raise any of the concerns expressed by U.S. stakeholders. Furthermore, this was not a contentious issue in the development of the standard.
38. Consequently, the IASB staff do not recommend that the IASB amend the new revenue standard to add a practical expedient with respect to the presentation of sales taxes.