EITF Snapshot
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Summary of the December Meeting of the Emerging Issues Task Force

by Katy Rossino, Marla Lewis, Kristin Bauer, and Brandon Coleman, Deloitte & Touche LLP

This *EITF Snapshot* summarizes the December 1, 2022, meeting of the Emerging Issues Task Force ("EITF" or "Task Force"). Initial Task Force consensuses (consensuses-for-exposure) are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

The official EITF minutes will be posted to the Deloitte Accounting Research Tool (DART) and to the FASB's Web site (note that the official EITF minutes may contain details that differ from those in this publication). EITF meeting materials (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 21-A, "Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method"

Status: Final consensus.

Affects: Entities that invest in tax credit programs other than low-income housing tax credit (LIHTC) investments.

Background: Through the LIHTC program established by the federal government, tax credits are awarded to developers of low-income housing. These developers often monetize the value of tax credits with investors. For the investor to receive these tax credits, a limited liability entity is typically established in which the developer acts as the general partner and the investor acts as the limited partner.

In January 2014, the FASB issued ASU 2014-01[1] (codified in ASC 323-740[2]), which allows investors to use the proportional amortization method to account for LIHTC investments if the criteria in ASC 323-740-25-1 are met. ASC 323-740-35-2 states, in part, that "[u]nder the proportional amortization method, the investor amortizes the initial cost of the investment in proportion to the tax credits" received through the LIHTC investment. Further, the investor recognizes the amortization and the tax credits on a net basis in its income statement as a component of income tax expense from continuing operations. If the criteria in ASC 323-740-25-1 are not met, the investor typically uses the equity method to account for its investment.

Since the issuance of ASU 2014-01, stakeholders have continued to support expanding the proportional amortization method to investments in tax credit programs other than LIHTC investments. At its September 22, 2021, meeting, the FASB decided to add a project on this topic to the EITF's agenda. In this project, the EITF has considered whether such an expansion is appropriate and has evaluated whether narrow clarifications should be made to the current criteria in ASC 323-740-25-1 to permit entities to use the proportional amortization method to account for investments in tax credit programs other than LIHTC investments.

At its June 16, 2022, meeting, the Task Force reached a consensus-for-exposure on the accounting for tax equity investments.

In August 2022, the FASB issued a proposed ASU[3] based on the consensus-for-exposure that the EITF reached at its June 2022 meeting.

Summary: At its December 1, 2022, meeting, the Task Force discussed the comment letters received on the proposed ASU and reaffirmed the decisions reached in issuing the consensus-for-exposure.

Specifically, the Task Force reaffirmed the following:

- The scope of the proportional amortization method will be expanded to include all investments in tax credit programs that meet the criteria in ASC 323-740-25-1.
- The FASB will retain criteria (a),[4] (b),[5] and (c)[6] from ASC 323-740-25-1 without making any additional clarifications. Criterion (aa)[7] will also be retained, but the final ASU will clarify that the assessment is based on whether the investor can exercise significant influence over the operating and financial policies of the underlying project.
- When applying criterion (aaa)[8] in ASC 323-740-25-1, an investor will not automatically be precluded from applying the proportional amortization method when refundable tax credits exist. Accordingly, the final ASU will revise criterion (aaa) so that "projected benefits" clearly refer to total return, including tax credits, other tax benefits, and

[1] FASB Accounting Standards Update No. 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects* — a consensus of the FASB Emerging Issues Task Force.

[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

[3] FASB Proposed Accounting Standards Update, *Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* — a consensus of the Emerging Issues Task Force.

[4] Criterion (a) states, "It is probable that the tax credits allocable to the investor will be available."

[5] Criterion (b) states, "The investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive."

[6] Criterion (c) states, "The investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the investor's liability is limited to its capital investment."

[7] Criterion (aa) states, "The investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity."

[8] Criterion (aaa) states, "Substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment)."

non-tax-related cash flows. Further, the final ASU will clarify that (1) the refundable tax credits should be included in the denominator but not the numerator of the calculation when criterion (aaa) is applied, (2) discounted amounts should be used in applying the criterion, and (3) the discount rate to be used will not be specified but will be based on a principle that the discount rate used should be consistent with the cash flow assumptions used by the investor.

- An entity is permitted to elect the proportional amortization method on a tax-credit-program-by-tax-credit-program basis for tax credit investments that meet the criteria in ASC 323-740-25-1.[9]
- A reassessment of whether a tax credit investment meets the criteria for the proportional amortization method will be required only upon a change in (1) the nature of the investment or (2) the relationship with the project sponsor.
- Entities will be required to apply the flow-through method to account for the tax credit itself when tax equity investments qualify for, and are accounted for by using, the proportional amortization method.
- The disclosure requirements will apply to all investments in tax credit programs for which an entity elects the proportional amortization method. In addition, while the preexisting disclosure objective in ASC 323-740-50-1 will be retained, conforming amendments will be made. Further, the level of disclosure required by ASC 323-740-50-2 will be enhanced (e.g., the specific line items presented and discussion of any significant modifications to the investment).

The Task Force also reached a consensus that the following LIHTC-specific amendments that are unrelated to investments that qualify for proportional amortization will be made in the final ASU:

- LIHTC investments to which the cost method was previously applied under ASC 323-740-25-2A (as illustrated in ASC 323-740-55-7) must make the transition to ASC 321.
- The equity method analysis in Example 1 in ASC 323-740-55-8 will be eliminated because it was inconsistent with the determination of equity method impairment under ASC 323. LIHTC investments that were using the method in Example 1 must begin applying the guidance in ASC 323-10 upon transition.
- Entities will be required to apply the guidance in ASC 323-740-25-3 (on delayed equity contributions) only to investments for which the proportional amortization method is applied. Therefore, LIHTC investments that do not apply proportional amortization must discontinue that accounting upon transition.

Effective Date and Transition: The Task Force reached a final consensus that an entity will be required to (1) apply either the modified retrospective[10] transition method or the retrospective transition method and (2) comply with the disclosure requirements in ASC 250-10-50-1 and 50-2; however, an entity will not be required to justify the change on the basis of preferability. The Task Force reached a final consensus that the effective date of the amendments resulting from this Issue will be as follows:

- *Public business entities* — Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.
- *All other entities* — Fiscal years beginning after December 15, 2024, including interim periods within those fiscal years.

[9] At its March 24, 2022, meeting, the EITF preliminarily decided that the proportional amortization method would have to be applied as a policy to all tax credit investments that qualified. However, at its June 16, 2022, meeting, the EITF redeliberated the accounting policy election related to the proportional amortization method and reversed the preliminary decision made at its March 24, 2022, meeting.

[10] The proposed ASU originally referred to this approach as the modified prospective method. This terminology has been changed to modified retrospective to better reflect the mechanics of this transition method.

In addition, for all entities, early adoption will be permitted, including early adoption in any interim period as of the beginning of the fiscal year that includes that interim period.

Regarding the removal of the above LIHTC-specific provisions, the Task Force reached a consensus that the amendments would be applied by using either (1) the entity's general transition method (i.e., modified retrospective or retrospective) or (2) a prospective transition method. An entity can select a different transition method for each of the removed LIHTC-specific provisions; however, the method selected must be applied consistently.

Next Steps: FASB ratification is expected at the Board's January 2023 meeting, after which a final ASU will be issued.

Administrative Matters

The next EITF decision-making meeting is tentatively scheduled for March 30, 2023.

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