FASB Interpretation No. 18

FIN18 Status Page

Accounting for Income Taxes in Interim Periods

an interpretation of APB Opinion No. 28

March 1977

Financial Accounting Standards Board
of the Financial Accounting Foundation
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Paragraph Numbers

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INTRODUCTION AND BACKGROUND INFORMATION

1. The FASB has been asked to clarify the application of *APB Opinion No. 28*, "Interim Financial Reporting," with respect to accounting for income taxes in interim periods. In general, that Opinion requires that an estimated annual effective tax rate be used to determine interim period income tax provisions. Application of the general guideline to specific situations has resulted in differences in accounting for similar situations by different enterprises.

2. This Interpretation describes (a) the general computation of interim period income taxes (paragraphs 8 and 9), (b) the application of the general computation to specific situations (paragraphs 10-15), (c) the computation of interim period income taxes applicable to significant unusual or infrequently occurring items, discontinued operations, extraordinary items, and cumulative effects of changes in accounting principles (paragraphs 16-21), (d) special computations applicable to operations taxable in multiple jurisdictions (paragraph 22), (e) guidelines for reflecting the effects of new tax legislation in interim period income tax provisions (paragraphs 23 and 24), and (f) disclosure requirements (paragraph 25). Appendix A, "Excerpts from APB Opinions," quotes from *APB Opinion No. 28* on accounting for income taxes in interim financial reports and from the paragraphs of *APB Opinion No. 11*, "Accounting for Income Taxes," that prescribe the annual accounting for income taxes in certain situations. The computations described in paragraphs 10-24 are illustrated in Appendix C, "Examples of Computations of Interim Period Income Taxes."

3. An Exposure Draft of a proposed Interpretation on "Accounting for Income Taxes in Interim Periods" was issued October 7, 1976. The Board received 99 letters of comment in response to the Exposure Draft. This Interpretation incorporates a number of changes suggested by those respondents. Appendix E, "Summary of Consideration of Comments on Exposure Draft," describes certain of the comments and the FASB's consideration of them.

4. The Addendum to *APB Opinion No. 2*, "Accounting for the 'Investment Credit'," states that "differences may arise in the application of generally accepted accounting principles as

between regulated and nonregulated businesses, because of the effect...of the rate-making process," and discusses the application of generally accepted accounting principles to regulated industries. FASB Statements and Interpretations should therefore be applied to regulated companies that are subject to the rate-making process in accordance with the provisions of the Addendum.

INTERPRETATION

Definition of Terms

5. As a matter of convenience of expression, certain terms are defined in this Interpretation as follows:

a. *"Ordinary" income (or loss)* refers to "income (or loss) from continuing operations before income taxes (or benefits)" excluding significant "unusual or infrequently occurring items." Extraordinary items, discontinued operations, and cumulative effects of changes in accounting principles are also excluded from this term.[1] The term is *not* used in the income tax context of ordinary income v. capital gain.
b. *Tax (or benefit)* is the total income tax expense (or benefit), including the provision (or benefit) for income taxes both currently payable and deferred.

Concept of APB Opinion No. 28

6. APB Opinion No. 28 specifies that the tax (or benefit) for an interim period shall be determined under the provisions of APB Opinion No. 11, APB Opinion No. 23, "Accounting for Income Taxes—Special Areas," and APB Opinion No. 24, "Accounting for Income Taxes—Investments in Common Stock Accounted for by the Equity Method (Other than Subsidiaries and Corporate Joint Ventures)." [2] The tax (or benefit) related to "ordinary" income (or loss) shall be computed at an estimated annual effective tax rate and the tax (or benefit) related to all other items shall be individually computed and recognized when the items occur. Application of this general guidance to specific situations is described in the following paragraphs and illustrated in Appendix C.

Tax (or Benefit) Applicable to "Ordinary" Income (or Loss)

7. Paragraphs 8 and 9 describe the computation of interim period tax (or benefit) related to "ordinary" income (or loss). Paragraphs 10-15 describe the application of paragraphs 8 and 9 to specific situations. Paragraphs 14 and 15 describe special limitations that apply to the computations in paragraphs 8 and 9 if an enterprise has a year-to-date "ordinary" loss or anticipates an "ordinary" loss for the fiscal year.

8. *Estimated annual effective tax rate.*[3] paragraph 19 of *APB Opinion No. 28* [4] requires that an enterprise determine an estimated annual effective tax rate.[5] That rate "should reflect anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates, and other available tax planning alternatives." [6] The rate is revised, if necessary, as of the end of each successive interim period during the fiscal year to the enterprise's best *current* estimate of its annual effective tax rate. In some cases, the rate will be the statutory rate modified as may be appropriate in particular circumstances. In other cases, the rate will be the enterprise's estimate of the tax (or benefit) that will be provided for the fiscal year, stated as a percentage of its estimated "ordinary" income (or loss) for the fiscal year (see paragraphs 14 and 15 if an "ordinary" loss is anticipated for the fiscal year).[7]

9. *Computation of interim period tax (or benefit).* The estimated annual effective tax rate, described in paragraph 8 above, shall be applied to the year-to-date "ordinary" income (or loss) at the end of each interim period to compute the year-to-date tax (or benefit) applicable to "ordinary" income (or loss).[8] The interim period tax (or benefit) related to "ordinary" income (or loss) shall be the difference between the amount so computed and the amounts reported for previous interim periods of the fiscal year.

"Ordinary" income anticipated for fiscal year

10. *Year-to-date "ordinary" income.* If an enterprise has "ordinary" income for the year-to-date at the end of an interim period and anticipates "ordinary" income for the fiscal year, the interim period tax shall be computed as described in paragraph 9 above.

11. *Year-to-date "ordinary" loss.* If an enterprise has an "ordinary" loss for the year-to-date at the end of an interim period and anticipates "ordinary" income for the fiscal year, the interim period tax benefit shall be computed as described in paragraph 9 above, except that the year-to-date tax benefit recognized shall be limited to the amount determined in accordance with paragraphs 14 and 15 below.

"Ordinary" loss anticipated for fiscal year

12. *Year-to-date "ordinary" income*. If an enterprise has "ordinary" income for the year-to-date at the end of an interim period and anticipates an "ordinary" loss for the fiscal year, the interim period tax shall be computed as described in paragraph 9 above. The estimated tax benefit for the fiscal year, used to determine the estimated annual effective tax rate described in paragraph 8 above, shall not exceed the tax benefit determined in accordance with paragraphs 14 and 15 below.

13. *Year-to-date "ordinary" loss*. If an enterprise has an "ordinary" loss for the year-to-date at the end of an interim period and anticipates an "ordinary" loss for the fiscal year, the interim period tax benefit shall be computed as described in paragraph 9 above. The estimated tax benefit for the fiscal year, used to determine the estimated annual effective tax rate described in

paragraph 8 above, shall not exceed the tax benefit determined in accordance with paragraphs 14 and 15 below. In addition to that limitation in the effective rate computation, if the year-to-date "ordinary" loss exceeds the anticipated "ordinary" loss for the fiscal year, the tax benefit recognized for the year-to-date shall not exceed the tax benefit determined, based on the year-to-date "ordinary" loss, in accordance with paragraphs 14 and 15 below.

Limitations applicable to losses

14. *Recognition of the tax benefit of a loss.* Paragraphs 44 and 45 of *APB Opinion No. 11* [9] require that the tax benefit of a loss shall not be recognized until it is realized, unless future realization is assured beyond any reasonable doubt at the time the loss occurs. Therefore, the estimated tax benefit of an "ordinary" loss for the fiscal year, used to determine the estimated annual effective tax rate described in paragraph 8 above, and the year-to-date tax benefit of a loss recognized at an interim date shall be limited to the tax benefit realized or assured of future realization beyond any reasonable doubt. Paragraph 47 of *APB Opinion No. 11* [10] describes circumstances that may assure future realization of the tax benefit of a loss for a fiscal year beyond any reasonable doubt. Assurance beyond any reasonable doubt of future realization of the tax benefit of a loss at an interim date may also result from established seasonal patterns, as described in paragraph 20 of *APB Opinion No. 28*.[11] (See also paragraph 15 below.)

15. *Reversal of net deferred tax credits.* If an enterprise anticipates an "ordinary" loss for the fiscal year or has a year-to-date "ordinary" loss in excess of the anticipated "ordinary" loss for the fiscal year and all or a part of the tax benefit of the loss will not be realized or its realization is not assured beyond any reasonable doubt, existing deferred tax credits arising from timing differences shall be adjusted as required by paragraph 48 of *APB Opinion No. 11*.[12] The amount of the adjustment shall not exceed the lower of (a) the otherwise unrecognized tax benefit of the loss or (b) the amount of the net deferred tax credits that would otherwise be amortized during the carryforward period attributable to the loss. If the adjustment relates to an estimated "ordinary" loss for the fiscal year, the amount of the adjustment shall be considered additional current year tax benefit in the determination of the estimated annual effective tax rate described in paragraph 8 above.[13] If the adjustment relates to a year-to-date "ordinary" loss, the amount of the adjustment shall be considered additional tax benefit in computing the maximum tax benefit that shall be recognized for the year-to-date.[14]

Tax (or Benefit) Applicable to Significant Unusual or Infrequently Occurring Items, Discontinued Operations, or Extraordinary Items

16. *Basis of tax provision.* Paragraph 19 of *APB Opinion No. 28* [15] excludes taxes related to "significant unusual or extraordinary items that will be separately reported or reported net of their related tax effect" [16] from the estimated annual effective tax rate calculation. Paragraph 21 of *APB Opinion No. 28* [17] requires that those items be recognized in the interim period in which they occur. Paragraph 52 of *APB Opinion No. 11* [18] describes the method of applying tax

allocation within a period. Under paragraph 52 of Opinion No. 11, the difference between the tax computed on income including an item described in footnote 16 below and the tax computed on income excluding that item is the tax related to the item. This computation shall be made using the estimated fiscal year "ordinary" income and the items described in footnote 16 below for the year-to-date.

17. *Financial statement presentation.* Extraordinary items and discontinued operations that will be presented net of related tax effects in the financial statements for the fiscal year shall be presented net of related tax effects in interim financial statements. Unusual or infrequently occurring items that will be separately disclosed in the financial statements for the fiscal year shall be separately disclosed as a component of pretax income from continuing operations, and the tax (or benefit) related to such items shall be included in the tax (or benefit) related to continuing operations. Paragraphs 18 and 19 describe the application of the above to specific situations.

18. *Recognition of the tax benefit of a loss.* If an enterprise has a significant unusual, infrequently occurring, or extraordinary loss or a loss from discontinued operations, the tax benefit of that loss shall not be recognized until it is realized or realization is assured beyond any reasonable doubt. Realization is assured beyond any reasonable doubt (a) by offsetting year-to-date "ordinary" income, (b) by offsetting taxable income from an unusual, infrequently occurring, or extraordinary item, or from discontinued operations, or items credited directly to stockholders' equity accounts, or (c) if the loss can be carried back (after any anticipated fiscal year "ordinary" loss is carried back). Realization beyond any reasonable doubt would also appear to be assured by future taxable income that is virtually certain to occur soon enough to provide realization during the carryforward period, including anticipated "ordinary" income for the current year expected to result from an established seasonal pattern of loss in early interim periods offset by income in later interim periods.[19] If previously recorded net deferred tax credits that would be amortized during the carryforward period of the loss are present and all or a portion of the tax benefit of the loss is not realized and future realization is not assured beyond any reasonable doubt, see paragraph 15 above. If all or a part of the tax benefit is not realized and future realization is not assured beyond any reasonable doubt in the interim period of occurrence but becomes assured beyond any reasonable doubt in a subsequent interim period of the same fiscal year, the previously unrecognized tax benefit shall be reported that subsequent interim period in the same manner that it would have been reported if realization had been assured beyond any reasonable doubt in the interim period of occurrence, i.e., as a tax benefit relating to continuing operations, discontinued operations, or an extra ordinary item.

19. *Discontinued operations.* The computations described in paragraphs 16-18 shall be the basis for the tax (or benefit) related to both (a) the income (or loss) from operations of the discontinued segment [20] prior to the measurement date and (b) the gain (or loss) on disposal of discontinued operations (including any provision for operating loss subsequent to the measurement date). Income (or loss) from operations of the discontinued segment prior to the interim period in which the measurement date occurs will have been included in "ordinary"

income (or loss) of prior periods and thus will have been included in the estimated annual effective tax rate and tax (or benefit) calculations described in paragraphs 8-15 above. The total tax (or benefit) provided in the prior interim periods shall not be recomputed but shall be divided into two components, applicable to the remaining "ordinary" income (or loss) and to the income (or loss) from operations of the discontinued segment as follows. A revised estimated annual effective tax rate and resulting tax (or benefit) shall be computed, in accordance with paragraphs 8-15 above, for the remaining "ordinary" income (or loss), based on the estimates applicable to such operations used in the original calculations for each prior interim period. The tax (or benefit) related to the operations of the discontinued segment shall be the total of (a) the difference between the tax (or benefit) originally computed for "ordinary" income (or loss) and the recomputed amount for the remaining "ordinary" income (or loss) and (b) the tax computed in accordance with paragraphs 16-18 above for any unusual or infrequently occurring items of the discontinued segment.

Using a Prior Year Operating Loss Carryforward

20. Paragraph 61 of *APB Opinion No. 11* [21] requires that the tax benefit of an operating loss carryforward recognized in a subsequent year be reported as an extraordinary item. Paragraph 19 of *APB Opinion No. 28* [22] excludes extraordinary items from the effective tax rate computation, and paragraph 21 of *APB Opinion No. 28* [23] specifies that extraordinary items should not be prorated over the balance of the year. Accordingly, the tax benefit of a prior year operating loss carryforward shall be recognized as an extraordinary item in each interim period to the extent that income in the period and for the year-to-date is available to offset the operating loss carryforward.

Cumulative Effects of Changes in Accounting Principles

21. *FASB Statement No. 3*, "Reporting Accounting Changes in Interim Financial Statements," specifies that the cumulative effect of a change in accounting principle on retained earnings at the beginning of the year shall be reported in the first interim period of the fiscal year. *APB Opinion No. 20*, "Accounting Changes," specifies that the related income tax effect of a cumulative effect type accounting change shall be computed as though the new accounting principle had been applied retroactively for all prior periods that would have been affected.

Operations Taxable in Multiple Jurisdictions

22. If an enterprise that is subject to tax in multiple jurisdictions pays taxes based on identified income in one or more individual jurisdictions, interim period tax (or benefit) related to consolidated "ordinary" income (or loss) for the year-to-date shall be computed in accordance with paragraphs 8-15 above using one overall estimated annual effective tax rate except that:

a. If in a separate jurisdiction an enterprise anticipates an "ordinary" loss for the fiscal year or has an "ordinary" loss for the year-to-date for which, in accordance with paragraphs 14 and 15 above, no tax benefit can be recognized, the enterprise shall exclude "ordinary" income (or loss) in that jurisdiction and the related tax (or benefit) from the overall computations of the estimated annual effective tax rate and interim period tax (or benefit). A separate estimated annual effective tax rate shall be computed for that jurisdiction and applied to "ordinary" income (or loss) in that jurisdiction in accordance with paragraphs 9-15 above.

b. If an enterprise is unable to estimate an annual effective tax rate in a foreign jurisdiction in dollars or is otherwise unable to make a reliable estimate of its "ordinary" income (or loss) or of the related tax (or benefit) for the fiscal year in a jurisdiction, the enterprise shall exclude "ordinary" income (or loss) in that jurisdiction and the related tax (or benefit) from the overall computations of the estimated annual effective tax rate and interim period tax (or benefit). The tax (or benefit) related to "ordinary" income (or loss) in that jurisdiction [24] shall be recognized in the interim period in which the "ordinary" income (or loss) is reported.

Effect of New Tax Legislation

23. Paragraph 20 of *APB Opinion No. 28* [25] states that changes resulting from new tax legislation shall be "reflected after the effective dates prescribed in the statutes." If new tax legislation prescribes changes that become effective during an enterprise's fiscal year, the tax effect of those changes shall be reflected in the computation of the estimated annual effective tax rate beginning with the first interim period that ends after the new legislation becomes effective. Paragraph 24 describes the determination of when new legislation becomes effective.

24. *Effective date*. Legislation generally becomes effective on the date prescribed in the statutes. However, tax legislation may prescribe changes that become effective during an enterprise's fiscal year that are administratively implemented by applying a portion of the change to the full fiscal year. For example, if the statutory tax rate applicable to calendar-year corporations were increased from 48 percent to 52 percent, effective January 1, the increased statutory rate might be administratively applied to a corporation with a fiscal year ending at June 30 in the year of the change by applying a 50 percent rate to its taxable income for the fiscal year, rather than 48 percent for the first six months and 52 percent for the last six months. In that case the legislation becomes effective for that enterprise at the beginning of the enterprise's fiscal year.

Disclosure

25. Application of the provisions of *APB Opinion No. 28* that are described in this Interpretation may result in a significant variation in the customary relationship between income tax expense and pretax accounting income. The reasons for significant variations in the customary relationship between income tax expense and pretax accounting income shall be disclosed if they are not otherwise apparent from the financial statements or from the nature of the enterprise's business.[26]

Effective Date and Transition

26. The provisions of this Interpretation shall be effective for financial statements issued after March 31, 1977 for interim periods in fiscal years beginning after December 15, 1976. Earlier application is encouraged for any interim financial statements that have not been previously issued. This Interpretation shall not be applied retroactively for previously issued interim financial statements.

This Interpretation was adopted by the unanimous vote of the six members of the Financial Accounting Standards Board:

Marshall S. Armstrong, *Chairman*
Oscar S. Gellein
Donald J. Kirk
Arthur L. Litke
Robert E. Mays
Robert T. Sprouse

Appendix A: EXCERPTS FROM APB OPINIONS

27. This Appendix contains relevant excerpts from APB Opinions that relate to this Interpretation. It repeats the general guidance of *APB Opinion No. 28* on accounting for income taxes in interim financial reports and the specific paragraphs of *APB Opinion No. 11* that prescribe the annual accounting for income taxes in certain situations.

General Guidelines

28. Paragraph 19 of *APB Opinion No. 28* contains the following general guidelines for the computation of income tax provisions for interim periods:

> In reporting interim financial information, income tax provisions should be determined under the procedures set forth in APB Opinion Nos. 11, 23, and 24. At the end of each interim period the company should make its best estimate of the effective tax rate expected to be applicable for the full fiscal year. The rate so determined should be used in providing for income taxes on a current year-to-date basis. The effective tax rate should reflect anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates, and other available tax planning alternatives.

The paragraph continues with the following regarding the tax effects of unusual or extraordinary items:

> However, in arriving at this effective tax rate no effect should be included for the tax related to significant unusual or extraordinary items that will be separately reported or reported net of their related tax effect in reports for the interim period or for the fiscal year....

Recognition of the Tax Benefit of a Loss

29. Paragraph 44 of *APB Opinion No. 11* states the following with respect to tax benefits of loss carrybacks:

> The tax effects of any realizable loss carry*backs* should be recognized in the determination of net income (loss) of the loss periods. The tax loss gives rise to a refund (or claim for refund) of past taxes, which is both measurable and currently realizable; therefore the tax effect of the loss is properly recognizable in the determination of net income (loss) for the loss period. (Emphasis in original.)

30. Paragraph 45 of *APB Opinion No. 11* states the following with respect to tax benefits of loss carryforwards:

> The tax effects of loss carry*forwards* also relate to the determination of net income (loss) of the loss periods. However, a significant question generally exists as to realization of the tax effects of the carry*forwards*, since realization is dependent upon future taxable income. Accordingly, the Board [APB] has concluded that the tax benefits of loss carry*forwards* should not be recognized until they are actually realized, except in unusual circumstances when realization is *assured beyond any reasonable doubt* at the time the loss carry*forwards* arise. (Emphasis in original.)

31. Paragraph 47 of *APB Opinion No. 11* describes the circumstances that may assure future realization of the tax benefit of a loss carryforward beyond any reasonable doubt as follows:

> Realization of the tax benefit of a loss carry*forward* would appear to be assured beyond any reasonable doubt when both of the following conditions exist: (a) the loss results from an identifiable, isolated and nonrecurring cause and the company either has been continuously profitable over a long period or has suffered occasional losses which were more than offset by taxable income in subsequent years, and (b) future taxable income is virtually certain to be large enough to offset the loss carry*forward* and will occur soon enough to provide realization during the carry*forward* period. (Emphasis in original.)

32. Paragraph 20 of *APB Opinion No. 28* states the following with respect to losses that arise in the early portion of a fiscal year:

> The tax effects of losses that arise in the early portion of a fiscal year (in the event carryback of such losses is not possible) should be recognized only when realization is assured beyond any reasonable doubt (paragraph 45 of APB Opinion No. 11). An established seasonal pattern of loss in early interim periods offset by income in later interim periods should constitute evidence that realization is assured beyond reasonable doubt, unless other evidence indicates the established seasonal pattern will not prevail. The tax effects of losses incurred in early interim periods may be recognized in a later interim period of a fiscal year if their realization, although initially uncertain, later becomes assured beyond reasonable doubt. When the tax effects of losses that arise in the early portions of a fiscal year are not recognized in that interim period, no tax provision should be made for income that arises in later interim periods until the tax effects of the previous interim losses are utilized. . . .

Reversal of Net Deferred Tax Credits

33. Paragraph 48 of *APB Opinion No. 11* states the following with respect to reversal in a loss year of existing net deferred tax credits arising from timing differences:

> Net deferred tax credits arising from timing differences may exist at the time loss carry*forwards* arise. In the usual case when the tax effect of a loss carry*forward* is not recognized in the loss period, adjustments of the existing net deferred tax credits may be necessary in that period or in subsequent periods. In this situation net deferred tax credits should be eliminated to the extent of the lower of (a) the tax effect of the loss carry*forward*, or (b) the amortization of the net deferred tax credits that would otherwise have occurred during the carry*forward* period. (Emphasis in original.)

34. Paragraph 46 of *APB Opinion No. 11* suggests that existing net deferred tax credits arising from timing differences that will be amortized during the carryforward period of a current year operating loss carryforward should be accounted for the same as if there were assurance of realization of the tax benefits of the loss carryforward beyond any reasonable doubt when it states:

> In those rare cases in which realization of the tax benefits of loss carry*forwards* is assured beyond any reasonable doubt, the potential benefits should be associated with the periods of loss and should be recognized in the determination of results of operations for those periods. Realization is considered to be assured beyond any reasonable doubt when conditions such as those set

> forth in paragraph 47 are present. (Also see paragraph 48.) (Emphasis in original.)

Tax (or Benefit) Applicable to Significant Unusual or Infrequently Occurring Items, Discontinued Operations, or Extraordinary Items

35. Paragraph 21 of *APB Opinion No. 28* states the following with respect to significant unusual or infrequently occurring items, discontinued operations, or extraordinary items:

> Extraordinary items should be disclosed separately and included in the determination of net income for the interim period in which they occur. In determining materiality, extraordinary items should be related to the estimated income for the full fiscal year. Effects of disposals of a segment of a business and unusual and infrequently occurring transactions and events that are material with respect to the operating results of the interim period but that are not designated as extraordinary items in the interim statements should be reported separately.... Extraordinary items, gains or losses from disposal of a segment of a business, and unusual or infrequently occurring items should not be prorated over the balance of the fiscal year.

Tax Allocation within a Period

36. Paragraph 52 of *APB Opinion No. 11* states the following concerning tax allocation within a period:

> The Board [APB] has concluded that tax allocation within a period should be applied to obtain an appropriate relationship between income tax expense and (a) income before extraordinary items, (b) extraordinary items, (c) adjustments of prior periods (or of the opening balance of retained earnings) and (d) direct entries to other stockholders' equity accounts. The income tax expense attributable to income before extraordinary items is computed by determining the income tax expense related to revenue and expense transactions entering into the determination of such income, without giving effect to the tax consequences of the items excluded from the determination of income before extraordinary items. The income tax expense attributable to other items is determined by the tax consequences of transactions involving these items. If an operating loss exists before extraordinary items, the tax consequences of such loss should be associated with the loss.

Disclosure

37. Footnote 2 to paragraph 19 of *APB Opinion No. 28* states the following concerning the annual effective tax rate:

> Disclosure should be made of the reasons for significant variations in the customary relationship between income tax expense and pretax accounting income, if they are not otherwise apparent from the financial statements or from the nature of the entity's business (see APB Opinion No. 11, paragraph 63).

Paragraph 63 of *APB Opinion No. 11* requires disclosure of:

> Reasons for significant variations in the customary relationships between income tax expense and pretax accounting income, if they are not otherwise apparent from the financial statements or from the nature of the entity's business.

Using a Prior Year Operating Loss Carryforward

38. Paragraph 61 of *APB Opinion No. 11* specifies:

> When the tax benefit of an operating loss carry*forward* is realized in full or in part in a subsequent period, and has not been previously recognized in the loss period, the tax benefit should be reported as an extraordinary item...in the results of operations of the period in which realized. (Emphasis in original.)

Effect of New Tax Legislation

39. Paragraph 20 of *APB Opinion No. 28* also contains the following guidance with respect to the effect of new tax legislation:

> Changes resulting from new tax legislation should be reflected after the effective dates prescribed in the statutes.

Appendix B: CROSS REFERENCE TABLE

40. This Appendix provides a cross reference from the paragraphs of this Interpretation to the paragraphs in Appendixes C and D that illustrate the application of those paragraphs.

Interpretation Paragraph Numbers		**Example at Paragraph Numbers**
8	Estimated annual effective tax rate	43, 49, 53, 54
	Changes in estimates	48
9	Computation of interim period tax (or benefit) applicable to "ordinary" income (or loss): "Ordinary" income anticipated for fiscal year:	
10	Year-to-date "ordinary" income	44, 45
11	Year-to-date "ordinary" loss	46, 47
	"Ordinary" loss anticipated for fiscal year:	
12	Year-to-date "ordinary" income	51, 54
13	Year-to-date "ordinary" loss	50, 52, 53
14	Recognition of the tax benefit of a loss	50, 52, 53, 54
	Year-to-date loss-special computation	46, 47, 51
15	Reversal of net deferred tax credits	55
16	Tax (or benefit) applicable to significant unusual, infrequently occurring, or extraordinary items	57, 58
17	Financial statement presentation	71
18	Recognition of the tax benefit of a loss	57, 58
19	Tax (or benefit) applicable to discontinued operations	62
20	Using a prior year operating loss carryforward	59, 60, 61
21	Cumulative effects of changes in accounting principles	63, 64
22	Operations taxable in multiple jurisdictions	65
22a	"Ordinary" loss, realization not assured	66
22b	Unable to estimate in a jurisdiction	67
	Effect of new tax legislation:	
23	Effective in a future interim period	69
23	Effective in a past interim period	70

Appendix C: EXAMPLES OF COMPUTATIONS OF INTERIM PERIOD INCOME TAXES

41. This Appendix provides examples of application of this Interpretation for some specific situations. In general, the examples illustrate matters unique to accounting for income taxes at interim dates. The examples do not include consideration of the nature of tax credits and permanent differences or illustrate all possible combinations of circumstances.

42. Specific situations illustrated in this Appendix are:

Accounting for Income Taxes Applicable to "Ordinary" Income (or Loss) at an Interim Date If "Ordinary" Income Is Anticipated for the Fiscal Year

43. The following assumed facts are applicable to the examples of application of this Interpretation in paragraphs 44–47.

For the full fiscal year, an enterprise anticipates "ordinary" income of $100,000. All income is taxable in one jurisdiction at a 50 percent rate.

Anticipated tax credits for the fiscal year total $10,000. No permanent differences are anticipated. No changes in estimated "ordinary" income, tax rates, or tax credits occur during the year.

Computation of the estimated annual effective tax rate applicable to "ordinary" income is as follows:

Tax at statutory rate ($100,000 at 50%)	$ 50,000
Less anticipated tax credits	(10,000)
Net tax to be provided	40,000
Estimated annual effective tax rate ($40,000 ÷ $100,000)	40%

Tax credits are generally subject to limitations, usually based on the amount of tax payable before the credits. In computing the estimated annual effective tax rate, anticipated tax credits are limited to the amounts that are expected to be realized or are expected to be assured of future realization beyond any reasonable doubt at year-end. An exception to this general rule occurs in the computation of deferred taxes resulting from timing differences. If tax credits are not realized but the credits would have been realized if timing differences were not present, the credits are accounted for as a tax benefit and included in the estimated annual effective tax rate. If an enterprise is unable to estimate the amount of its tax credits for the year, see footnote 7 to paragraph 8.

44. Assume the facts stated in paragraph 43. The enterprise has "ordinary" income in all interim periods. Quarterly tax computations are:

	"Ordinary" Income		Estimated Annual	Tax		
Reporting Period	**Reporting Period**	**Year-to Date**	**Effective Tax Rate**	**Year-to-Date**	**Less Previously Provided**	**Reporting Period**
First quarter	$ 20,000	$ 20,000	40%	$ 8,000	$ —	$ 8,000
Second quarter	20,000	40,000	40%	16,000	8,000	8,000
Third quarter	20,000	60,000	40%	24,000	16,000	8,000
Fourth quarter	40,000	100,000	40%	40,000	24,000	16,000
Fiscal year	$100,000					$40,000

45. Assume the facts stated in paragraph 43. The enterprise has "ordinary" income and losses in interim periods; there is not an "ordinary" loss for the fiscal year-to-date at the end of any interim period. Quarterly tax computations are:

	"Ordinary" Income (loss)		Estimated Annual	Tax (or benefit)		
Reporting Period	**Reporting Period**	**Year-to-Date**	**Effective Tax Rate**	**Year-to-Date**	**Less Previously Provided**	**Reporting Period**
First quarter	$ 40,000	$ 40,000	40%	$16,000	$ —	$16,000
Second quarter	40,000	80,000	40%	32,000	16,000	16,000
Third quarter	(20,000)	60,000	40%	24,000	32,000	(8,000)
Fourth quarter	40,000	100,000	40%	40,000	24,000	16,000
Fiscal year	$100,000					$40,000

46. Assume the facts stated in paragraph 43. The enterprise has "ordinary" income and losses in interim periods, and there is an "ordinary" loss for the year-to-date at the end of an interim period. Established seasonal patterns assure the realization of the tax benefit of the year-to-date loss and realization of anticipated tax credits beyond any reasonable doubt. Quarterly tax computations are:

			Estimated	Tax (or benefit)		
	"Ordinary" Income (Loss)		Annual		Less	
Reporting Period	**Reporting Period**	**Year-to-Date**	**Effective Tax Rate**	**Year-to-Date**	**Previously Provided**	**Reporting Period**
First quarter	$(20,000)	$(20,000)	40%	$(8,000)	$ —	$(8,000)
Second quarter	10,000	(10,000)	40%	(4,000)	(8,000)	4,000
Third quarter	15,000	5,000	40%	2,000	(4,000)	6,000
Fourth quarter	95,000	100,000	40%	40,000	2,000	38,000
Fiscal year	$100,000					$40,000

47. Assume the facts stated in paragraph 43. The enterprise has "ordinary" income and losses in interim periods, and there is a year-to-date "ordinary" loss during the year. There is no established seasonal pattern, and realization of the tax benefit of the year-to-date loss and realization of the anticipated tax credits are not otherwise assured beyond any reasonable doubt. Quarterly tax computations are:

			Estimated	Tax		
	"Ordinary" Income (Loss)		Annual		Less	
Reporting Period	**Reporting Period**	**Year-to-Date**	**Effective Tax Rate**	**Year-to-Date**	**Previously Provided**	**Reporting Period**
First quarter	$(20,000)	$(20,000)	—*	$ —	$ —	$ —
Second quarter	10,000	(10,000)	—*	—	—	—
Third quarter	15,000	5,000	40%	2,000	—	2,000
Fourth quarter	95,000	100,000	40%	40,000	2,000	38,000
Fiscal year	$100,000					$40,000

*No benefit is recognized because realization of the tax benefit of the year-to-date loss is not assured beyond reasonable doubt.

48. During the fiscal year, all of an enterprise's operations are taxable in one jurisdiction at a 50 percent rate. No permanent differences are anticipated. Estimates of "ordinary" income for the year and of anticipated credits at the end of each interim period are as shown below. Changes in the estimated annual effective tax rate result from changes in the ratio of anticipated tax credits to tax computed at the statutory rate. Changes consist of an unanticipated strike that

reduced income in the second quarter, an increase in the capital budget resulting in an increase in anticipated investment tax credit in the third quarter, and better than anticipated sales and income in the fourth quarter. The enterprise has "ordinary" income in all interim periods. Computations of the estimated annual effective tax rate based on the estimate made at the end of each quarter are:

	Estimated, end of			
	First quarter	Second quarter	Third quarter	Actual fiscal year
Estimated "ordinary" income for the fiscal year	$100,000	$80,000	$80,000	$100,000
Tax at 50% statutory rate	$ 50,000	$40,000	$40,000	$ 50,000
Less anticipated credits	(5,000)	(5,000)	(10,000)	(10,000)
Net tax to be provided	$ 45,000	$35,000	$30,000	$ 40,000
Estimated annual effective tax rate	45%	43.75%	37.5%	40%

Quarterly tax computations are:

	"Ordinary" Income		Estimated	Tax		
Reporting Period	Reporting Period	Year-to-Date	Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$25,000	$25,000	45%	$11,250	$ —	$11,250
Second quarter	5,000	30,000	43.75%	13,125	11,250	1,875
Third quarter	25,000	55,000	37.5%	20,625	13,125	7,500
Fourth quarter	45,000	100,000	40%	40,000	20,625	19,375
Fiscal year	$100,000					$40,000

Accounting for Income Taxes Applicable to "Ordinary" Income (or Loss) at an Interim Date If an "Ordinary" Loss Is Anticipated for the Fiscal Year

49. The following assumed facts are applicable to the examples of application of this Interpretation in paragraphs 50–54.

For the full fiscal year, an enterprise anticipates an "ordinary" loss of $100,000. The enterprise operates entirely in one jurisdiction where the tax rate is 50 percent. Anticipated tax credits for the fiscal year total $10,000. No permanent differences are anticipated.

If realization of the tax benefit of the loss and realization of tax credits were assured beyond any reasonable doubt, computation of the estimated annual effective tax rate applicable to the "ordinary" loss would be as follows:

Tax benefit at statutory rate ($100,000 at 50%)	$(50,000)
Tax credits	(10,000)
Net tax benefit	$(60,000)
Estimated annual effective tax rate ($60,000 ÷ $100,000)	60%

The examples in paragraphs 50–54 state varying assumptions with respect to assurance of realization of the components of the net tax benefit. When the realization of a component of the benefit is not assured beyond any reasonable doubt, that component is not included in the computation of the estimated annual effective tax rate.

50. Assume the facts stated in paragraph 49. The enterprise has "ordinary" losses in all interim periods. Realization of the full tax benefit of the anticipated "ordinary" loss and realization of anticipated tax credits are assured beyond any reasonable doubt because they will be carried back. Quarterly tax computations are:

	"Ordinary" Loss		Estimated Annual	Tax Benefit		
Reporting Period	**Reporting Period**	**Year-to-Date**	**Effective Tax Rate**	**Year-to-Date**	**Less Previously Provided**	**Reporting Period**
First quarter	$(20,000)	$(20,000)	60%	$(12,000)	$ —	$(12,000)
Second quarter	(20,000)	(40,000)	60%	(24,000)	(12,000)	(12,000)
Third quarter	(20,000)	(60,000)	60%	(36,000)	(24,000)	(12,000)
Fourth quarter	(40,000)	(100,000)	60%	(60,000)	(36,000)	(24,000)
Fiscal year	$(100,000)					$(60,000)

51. Assume the facts stated in paragraph 49. The enterprise has "ordinary" income and losses in interim periods and for the year-to-date. Realization of the full tax benefit of the anticipated "ordinary" loss and realization of the anticipated tax credits are assured beyond any reasonable doubt because they will be carried back. Realization of the full tax benefit of the maximum year-to-date "ordinary" loss is also assured beyond any reasonable doubt. Quarterly tax computations are:

Reporting Period	"Ordinary" Income (Loss) Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Tax (or benefit) Year-to-Date Computed	Limited to	Less Previously Provided	Reporting Period
First quarter	$20,000	$20,000	60%	$ 12,000		$ —	$ 12,000
Second quarter	(80,000)	(60,000)	60%	(36,000)		12,000	(48,000)
Third quarter	(80,000)	(140,000)	60%	(84,000)	$(80,000)*	(36,000)	(44,000)
Fourth quarter	40,000	(100,000)	60%	(60,000)		(80,000)	20,000
Fiscal year	$(100,000)						$(60,000)

*Because the year-to-date "ordinary" loss exceeds the anticipated "ordinary"loss for the fiscal year, the tax benefit recognized for the year-to-date is limited to the amount that would be recognized if the year-to-date "ordinary" loss were the anticipated "ordinary" loss for the fiscal year. The limitation is computed as follows:

Year-to-date "ordinary" loss times the statutory rate ($140,000 at 50%)	$(70,000)
Estimated tax credits for the year	(10,000)
Year-to-date benefit limited to	$(80,000)

52. In the examples in paragraphs 50 and 51, if neither realization of the tax benefit of the anticipated loss for the fiscal year nor realization of anticipated tax credits were assured beyond any reasonable doubt, the estimated annual effective tax rate for the year would be zero and no tax (or benefit) would be recognized in any quarter. That conclusion is not affected by changes in the mix of income and loss in interim periods during a fiscal year. However, see footnote 7 to paragraph 8 above.

53. Assume the facts stated in paragraph 49. The enterprise has an "ordinary" loss in all interim periods. Realization of the tax benefit of the loss is assured beyond any reasonable doubt only to the extent of $40,000 of prior income available to be offset by carryback ($20,000 of tax at the 50 percent statutory rate). Therefore the estimated annual effective tax rate is 20 percent ($20,000 benefit assured divided by $100,000 estimated fiscal year "ordinary" loss). Quarterly tax computations are:

Reporting Period	"Ordinary" Loss Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Tax Benefit Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$ (20,000)	$ (20,000)	20%	$ (4,000)	$ —	$(4,000)
Second quarter	(20,000)	(40,000)	20%	(8,000)	(4,000)	(4,000)
Third quarter	(20,000)	(60,000)	20%	(12,000)	(8,000)	(4,000)
Fourth quarter	(40,000)	(100,000)	20%	(20,000)	(12,000)	(8,000)
Fiscal year	$(100,000)					$(20,000)

54. Assume the facts stated in paragraph 49. The enterprise has "ordinary" income and losses in interim periods and for the year-to-date. Realization of the tax benefit of the anticipated "ordinary" loss is assured beyond any reasonable doubt only to the extent of $40,000 of prior income available to be offset by carryback ($20,000 of tax at the 50 percent statutory rate). Therefore the estimated annual effective tax rate is 20 percent ($20,000 benefit assured divided by $100,000 estimated fiscal year "ordinary" loss), and the benefit that can be recognized for the year-to-date is limited to $20,000 (the benefit that is assured of realization). Quarterly tax computations are:

Reporting Period	"Ordinary" Income (Loss): Reporting Period	"Ordinary" Income (Loss): Year-to-Date	Estimated Annual Effective Tax Rate	Tax (or benefit): Year-to-Date: Computed	Tax (or benefit): Year-to-Date: Limited to	Tax (or benefit): Less Previously Provided	Tax (or benefit): Reporting Period
First quarter	$20,000	$20,000	20%	$ 4,000		$ —	$ 4,000
Second quarter	(80,000)	(60,000)	20%	(12,000)		4,000	(16,000)
Third quarter	(80,000)	(140,000)	20%	(28,000)	$(20,000)	(12,000)	(8,000)
Fourth quarter	40,000	(100,000)	20%	(20,000)		(20,000)	—
Fiscal year	$(100,000)						(20,000)

55. The enterprise anticipates a fiscal year "ordinary" loss. The loss cannot be carried back, and future profits are not assured beyond any reasonable doubt. Net deferred tax credits arising from timing differences are present. A portion of the timing differences relating to those credits will reverse within the loss carryforward period. Computation of the estimated annual effective tax rate to be used is as follows:

Estimated fiscal year "ordinary" loss		$(100,000)
The tax benefit to be recognized is the lesser of:		
Tax effect of the loss carryforward ($100,000 at 50% statutory rate)	$50,000	
Amount of the net deferred tax credits that would otherwise have been amortized during the carryforward period	$24,000	
Estimated annual effective tax rate ($24,000 ÷ $100,000)		24%

Quarterly tax computations are:

Reporting Period	"Ordinary" Loss: Reporting Period	"Ordinary" Loss: Year-to-Date	Estimated Annual Effective Tax Rate	Tax Benefit: Year-to-Date	Tax Benefit: Less Previously Provided	Tax Benefit: Reporting Period
First quarter	$(20,000)	$(20,000)	24%	$ (4,800)	$ —	$ (4,800)
Second quarter	(20,000)	(40,000)	24%	(9,600)	(4,800)	(4,800)
Third quarter	(20,000)	(60,000)	24%	(14,400)	(9,600)	(4,800)
Fourth quarter	(40,000)	(100,000)	24%	(24,000)	(14,400)	(9,600)
Fiscal year	$(100,000)					$(24,000)

Note: Changes in the timing of the loss by quarter would not change the above computation.

Accounting for Income Taxes Applicable to Unusual, Infrequently Occurring, or Extraordinary Items

56. The examples of computations in paragraphs 57 and 58 illustrate the computation of the tax (or benefit) applicable to unusual, infrequently occurring, or extraordinary items when "ordinary" income is anticipated for the fiscal year. These examples are based on the facts and computations given in paragraphs 43-47 plus additional information supplied in paragraphs 57 and 58. The computation of the tax (or benefit) applicable to the "ordinary" income is not affected by the occurrence of an unusual, infrequently occurring, or extraordinary item; therefore, each example refers to one or more of the examples of that computation in paragraphs 44-47 and does not reproduce the computation and the facts assumed. The income statement display for tax (or benefit) applicable to unusual, infrequently occurring, or extraordinary items is illustrated in Appendix D.

57. As explained in paragraph 56, this example is based on the computations of tax applicable to "ordinary" income that are illustrated in paragraph 44 above. In addition, the enterprise experiences a tax-deductible unusual, infrequently occurring, or extraordinary loss of $50,000 (tax benefit $25,000) in the second quarter. Because the loss can be carried back, the benefit of the loss is assured beyond any reasonable doubt at the time of occurrence. Quarterly tax provisions are:

			Tax (or Benefit) Applicable to	
Reporting Period	**"Ordinary" Income**	**Unusual, Infrequently Occurring, or Extraordinary Loss**	**"Ordinary" Income**	**Unusual, Infrequently Occurring, or Extraordinary Loss**
First quarter	$ 20,000		$ 8,000	
Second quarter	20,000	$(50,000)	8,000	$(25,000)
Third quarter	20,000		8,000	
Fourth quarter	40,000		16,000	
Fiscal year	$100,000	$(50,000)	$40,000	$(25,000)

Note: Changes in assumptions would not change the timing of the recognition of the tax benefit applicable to the unusual, infrequently occurring, or extraordinary item as long as realization is assured beyond any reasonable doubt.

58. As explained in paragraph 56, this example is based on the computations of tax applicable to "ordinary" income that are illustrated in paragraphs 44 and 45 above. In addition, the enterprise experiences a tax-deductible unusual, infrequently occurring, or extraordinary loss of $50,000 (potential benefit $25,000) in the second quarter. The loss cannot be carried back, and the current projection of "ordinary" income is not considered sufficiently reliable to assure

realization of the tax benefit of the year-to-date loss beyond any reasonable doubt. As a result, realization of the tax benefit of the unusual, infrequently occurring, or extraordinary loss is not assured beyond any reasonable doubt except to the extent of offsetting "ordinary" income for the year-to-date. Quarterly tax provisions under two different assumptions for the occurrence of "ordinary" income are:

			Tax (or Benefit) Applicable to				
			"Ordinary" Income (Loss)		Usual, Infrequently occurring, or extraordinary loss		
Assumptions and Reporting Period	**"Ordinary" Income (Loss)**	**Unusual, Infrequently Occurring, or Extraordinary Loss**	**Reporting Period**	**Year-to-Date**	**Year-to-Date**	**Less Previously Provided**	**Reporting Period**
Income in all quarters:							
First quarter	$ 20,000		$ 8,000	$ 8,000			
Second quarter	20,000	$(50,000)	8,000	16,000	$(16,000)	$ —	$(16,000)
Third quarter	20,000		8,000	24,000	(24,000)	(16,000)	(8,000)
Fourth quarter	40,000		16,000	40,000	(25,000)	(24,000)	(1,000)
Fiscal year	$100,000	$(50,000)	$40,000				$(25,000)
Income and loss quarters:							
First quarter	$ 40,000		$16,000	$16,000			
Second quarter	40,000	$(50,000)	16,000	32,000	$(25,000)	$ —	$(25,000)
Third quarter	(20,000)		(8,000)	24,000	(24,000)	(25,000)	1,000
Fourth quarter	40,000		16,000	40,000	(25,000)	(24,000)	(1,000)
Fiscal year	$100,000	$(50,000)	$40,000				$(25,000)

Using a Prior Year Operating Loss Carryforward

59. The examples of computations in paragraphs 60 and 61 illustrate the computation of the tax benefit that results from using a prior year operating loss carryforward. The examples are based on the following assumed facts.

For the full fiscal year, an enterprise anticipates "ordinary" income of $100,000. All income is taxable in one jurisdiction at a 50 percent rate. No tax credits or permanent differences are anticipated. If an operating loss carryforward is available, the estimated tax (or benefit) applicable to "ordinary" income (or loss) for the year is divided by the estimated "ordinary" income (or loss) for the year to arrive at an estimated annual effective tax rate. That rate is 50 percent in these examples. The estimated annual effective tax rate is applied to "ordinary" income (or loss) for the year-to-date to determine the year-to-date tax (or benefit) applicable to "ordinary" income (or loss), similar to the computations that are illustrated in paragraphs 44–47.

60. Assume the facts stated in paragraph 59. In addition, an operating loss carryforward is available that exceeds the estimated "ordinary" income for the year. Because *APB Opinion No. 28* requires that an extraordinary item be recognized in the interim period of its occurrence and not spread over the year, the extraordinary credit recognized for the year-to-date at the end of each interim period is the amount that is realized by offsetting year-to-date taxable income. Quarterly tax provisions under various assumptions for the occurrence of "ordinary" income are:

		Tax or (Benefit)		Extraordinary Charge (or Credit)*		
Assumptions and Reporting Period	**"Ordinary" Income (Loss)**	**Reporting Period**	**Year-to-Date**	**Year-to-Date**	**Less Previously Provided**	**Reporting Period**
Income in all quarters:						
First quarter	$ 20,000	$10,000	$10,000	$(10,000)	$ —	$(10,000)
Second quarter	20,000	10,000	20,000	(20,000)	(10,000)	(10,000)
Third quarter	20,000	10,000	30,000	(30,000)	(20,000)	(10,000)
Fourth quarter	40,000	20,000	50,000	(50,000)	(30,000)	(20,000)
Fiscal year	$100,000	$50,000				$(50,000)
Income and loss quarters; no year-to-date losses:						
First quarter	$ 40,000	$ 20,000	$20,000	$(20,000)	$ —	$(20,000)
Second quarter	40,000	20,000	40,000	(40,000)	(20,000)	(20,000)
Third quarter	(20,000)	(10,000)	30,000	(30,000)	(40,000)	10,000
Fourth quarter	40,000	20,000	50,000	(50,000)	(30,000)	(20,000)
Fiscal year	$100,000	$50,000				$(50,000)
Income and loss quarters and including year-to-date loss (realization of the tax benefit of the year-to-date "ordinary" loss and realization of anticipated tax credits are assured beyond any reasonable doubt by seasonal patterns):						
First quarter	$(20,000)	$(10,000)	$(10,000)	$ —	$ —	$ —
Second quarter	10,000	5,000	(5,000)	—	—	—
Third quarter	15,000	7,500	2,500	(2,500)	—	(2,500)
Fourth quarter	95,000	47,500	50,000	(50,000)	(2,500)	(47,500)
Fiscal year	$100,000	$ 50,000				$(50,000)
Income and loss quarters, including year-to-date loss (realization of the tax benefit of the year-to-date "ordinary" loss and realization of anticipated tax credits are not assured beyond any reasonable doubt):						
First quarter	$(20,000)	$ —	$ —	$ —	$ —	$ —
Second quarter	10,000	—	—	—	—	—
Third quarter	15,000	2,500	2,500	(2,500)	—	(2,500)
Fourth quarter	95,000	47,500	50,000	(50,000)	(2,500)	(47,500)
Fiscal year	$100,000	$50,000				$(50,000)

*Tax benefit resulting from using the operating loss carryforward.

61. Assume the facts stated in paragraph 59. In addition, an operating loss carryforward of $30,000 (tax benefit $15,000 at the 50 percent statutory rate) is available. Because *APB Opinion No. 28* requires that an extraordinary item be recognized in the interim period of its occurrence and not spread over the year, the extraordinary credit recognized for the year-to-date at the end of each interim period is the amount that is realized by offsetting year-to-date taxable income. Quarterly tax provisions are:

		Tax Provision		Extraordinary Credit		
Reporting Period	**"Ordinary" Income**	**Reporting Period**	**Year-to-Date**	**Year-to-Date**	**Less Previously Provided**	**Reporting Period**
Income in all quarters:						
First quarter	$ 20,000	$10,000	$10,000	$(10,000)	$ —	$(10,000)
Second quarter	20,000	10,000	20,000	(15,000)	(10,000)	(5,000)
Third quarter	20,000	10,000	30,000	(15,000)	(15,000)	—
Fourth quarter	40,000	20,000	50,000	(15,000)	(15,000)	—
Fiscal year	$100,000	$50,000				$(15,000)

Note: Differing patterns of occurrence of "ordinary" income and loss would result in computations similar to those in paragraph 60.

Accounting for Income Taxes Applicable to Income (or Loss) from Discontinued Operations at an Interim Date

62. An enterprise anticipates "ordinary" income for the year of $100,000 and tax credits of $10,000. The enterprise has "ordinary" income in all interim periods. The estimated annual effective tax rate is 40 percent, computed as follows:

Estimated pretax income	$100,000
Tax at 50% statutory rate	$ 50,000
Less anticipated credits	(10,000)
Net tax to be provided	$ 40,000
Estimated annual effective tax rate	40%

Quarterly tax computations for the first two quarters are:

	"Ordinary" Income		Estimated	Tax		
			Annual		Less	
	Reporting	Year-to-	Effective	Year-to-	Previously	Reporting
Reporting Period	**Period**	**Date**	**Tax Rate**	**Date**	**Provided**	**Period**
First quarter	$20,000	$20,000	40%	$ 8,000	$ —	$8,000
Second quarter	25,000	45,000	40%	18,000	8,000	10,000

In the third quarter a decision is made to discontinue the operations of Division X, a segment of the business that has recently operated at a loss (before income taxes). The pretax income (and losses) of the continuing operations of the enterprise and of Division X through the third quarter and the estimated fourth quarter results are as follows:

		Division X	
	Revised "Ordinary"	Loss	Provision for
	Income from	from	Loss on
Reporting Period	**Continuing Operations**	**Operations**	**Disposal**
First quarter	$ 25,000	$ (5,000)	
Second quarter	35,000	(10,000)	
Third quarter	50,000	(10,000)	$(55,000)
Fourth quarter	50,000*	—	—
Fiscal year	$160,000	$(25,000)	$(55,000)

*Estimated.

No changes have occurred in continuing operations that would affect the estimated annual effective tax rate. Anticipated annual tax credits of $10,000 included $2,000 of credits related to the operations of Division X. The revised estimated annual effective tax rate applicable to ordinary income from continuing operations is 45 percent, computed as follows:

Estimated "ordinary" income from continuing operations	$160,000
Tax at 50% statutory rate	80,000
Less anticipated tax credits applicable to continuing operations	(8,000)
Net tax to be provided	$ 72,000
Estimated annual effective tax rate	45%

Quarterly computations of tax applicable to "ordinary" income from continuing operations are as follows:

Reporting Period	"Ordinary" Income: Reporting Period	"Ordinary" Income: Year-to-Date	Estimated Annual Effective Tax Rate	Tax: Year-to-Date	Tax: Less Previously Provided	Tax: Reporting Period
First quarter	$25,000	$25,000	45%	$ 11,250	$ —	$11,250
Second quarter	35,000	60,000	45%	27,000	11,250	15,750
Third quarter	50,000	110,000	45%	49,500	27,000	22,500
Fourth quarter	50,000	160,000	45%	72,000	49,500	22,500
Fiscal year	$160,000					$72,000

Tax benefit applicable to Division X for the first two quarters is computed as follows:

Reporting Period	Tax Applicable to "Ordinary" Income: Previously Reported (A)	Tax Applicable to "Ordinary" Income: Recomputed (above) (B)	Tax Benefit Applicable to Division X (A–B)
First quarter	$ 8,000	$11,250	$(3,250)
Second quarter	10,000	15,750	(5,750)
			$(9,000)

The third quarter tax benefits applicable to both the loss from operations and the provision for loss on disposal of Division X are computed based on estimated annual income with and without the effects of the Division X losses. Current year tax credits related to the operations of Division X have not been recognized. It is assumed that the tax benefit of those credits will not be realized because of the discontinuance of Division X operations. Any reduction in tax benefits resulting from recapture of previously recognized tax credits resulting from discontinuance or current year tax credits applicable to the discontinued operations would be reflected in the tax benefit recognized for the loss on disposal or loss from operations as appropriate. If, because of capital gains and losses, etc., the individually computed tax effects of the items do not equal the aggregate tax effects of the items, the aggregate tax effects are allocated to the individual items in the same manner that they will be allocated in the annual financial statements. The computations are as follows:

	Loss from Operations Division X	Provision for Loss on Disposal
Estimated annual income from continuing operations	$160,000	$160,000
Loss from Division X operations	(25,000)	
Provision for loss on disposal of Division X		(55,000)
Total	$135,000	$105,000
Tax at 50% statutory rate	$ 67,500	$ 52,500
Anticipated credits from continuing operations	(8,000)	(8,000)
Tax credits of Division X and recapture of previously recognized tax credits resulting from discontinuance	—	—
Taxes on income after effect of Division X losses	59,500	44,500
Taxes on income before effect of Division X losses—refer to computation above	72,000	72,000
Tax benefit applicable to the losses of Division X	(12,500)	(27,500)
Amounts previously recognized—refer tocomputation above	(9,000)	—
Tax benefit recognized in third quarter	$ (3,500)	$ (27,500)

The resulting revised quarterly tax provisions are summarized as follows:

	Pretax Income (Loss)			Tax (or Benefit) Applicable to		
Reporting Period	**Continuing Operations**	**Operations of Division X**	**Provisions for Loss on Disposal**	**Continuing operations**	**Operations of Division X**	**Provisions for Loss on Disposal**
First quarter	$25,000	$(5,000)		$ 11,250	$ (3,250)	
Second quarter	35,000	(10,000)		15,750	(5,750)	
Third quarter	50,000	(10,000)	$(55,000)	22,500	(3,500)	$(27,500)
Fourth quarter	50,000			22,500		
Fiscal year	$160,000	$(25,000)	$(55,000)	$72,000	$(12,500)	$(27,500)

Accounting for Income Taxes Applicable to the Cumulative Effect of a Change in Accounting Principle

63. The tax (or benefit) applicable to the cumulative effect of the change on retained earnings at the beginning of the fiscal year shall be computed the same as for the annual financial statements.

64. When an enterprise makes a cumulative effect type accounting change in other than the first interim period of the enterprise's fiscal year, paragraph 10 of *FASB Statement No. 3*, "Reporting Accounting Changes in Interim Financial Statements," requires that financial information for the pre-change interim periods of the fiscal year shall be restated by applying the newly adopted accounting principle to those pre-change interim periods. The tax (or benefit)

applicable to those pre-change interim periods shall be recomputed. The restated tax (or benefit) shall reflect the year-to-date amounts and annual estimates originally used for the pre-change interim periods, modified only for the effect of the change in accounting principle on those year-to-date and estimated annual amounts.

Accounting for Income Taxes Applicable to "Ordinary" Income If an Enterprise Is Subject to Tax in Multiple Jurisdictions

65. An enterprise operates through separate corporate entities in two countries. Applicable tax rates are 50 percent in the United States and 20 percent in Country A. The enterprise has no unusual or extraordinary items during the fiscal year and anticipates no tax credits or permanent differences. (The effect of foreign tax credits and the necessity of providing tax on undistributed earnings are ignored because of the wide range of tax planning alternatives available.) For the full fiscal year the enterprise anticipates "ordinary" income of $60,000 in the United States and $40,000 in Country A. The enterprise is able to make a reliable estimate of its Country A "ordinary" income and tax for the fiscal year in dollars. Computation of the overall estimated annual effective tax rate is as follows:

Anticipated "ordinary" income for the fiscal year:	
In the U.S.	$ 60,000
In Country A	40,000
Total	$100,000
Anticipated tax for the fiscal year:	
In the U.S. ($60,000 at 50% statutory rate)	$ 30,000
In Country A ($40,000 at 20% statutory rate)	8,000
Total	$ 38,000
Overall estimated annual effective tax rate ($38,000 ÷ $100,000)	38%

Quarterly tax computations are as follows:

Reporting Period	"Ordinary" Income U.S.	Country A	Total	Year to-Date	Overall Estimated Annual Effective Tax Rate	Tax Year-to-Date	Less Previously Reported	Reporting Period
First quarter	$ 5,000	$15,000	$ 20,000	$ 20,000	38%	$ 7,600	$ —	$ 7,600
Second quarter	10,000	10,000	20,000	40,000	38%	15,200	7,600	7,600
Third quarter	10,000	10,000	20,000	60,000	38%	22,800	15,200	7,600
Fourth quarter	35,000	5,000	40,000	100,000	38%	38,000	22,800	15,200
Fiscal year	$60,000	$40,000	$100,000					$38,000

66. Assume the facts stated in paragraph 65. In addition the enterprise operates through a separate corporate entity in Country B. Applicable tax rates in Country B are 40 percent. Operations in Country B have resulted in losses in recent years and an "ordinary" loss is anticipated for the current fiscal year in Country B. Realization of the tax benefit of those losses is not assured beyond any reasonable doubt; accordingly, no tax benefit is recognized for losses in Country B, and interim period tax (or benefit) is separately computed for the "ordinary" loss in Country B and for the overall "ordinary" income in the United States and Country A. The tax applicable to the overall "ordinary" income in the United States and Country A is computed as in paragraph 65. Quarterly tax provisions are as follows:

	"Ordinary" Income (or Loss)					Tax (or Benefit)		
Reporting Period	**U.S.**	**Country A**	**Combined Excluding Country B**	**Country B**	**Total**	**Overall Excluding Country B**	**Country B**	**Total**
First quarter	$ 5,000	$15,000	$ 20,000	$ (5,000)	$15,000	$ 7,600	$ —	$ 7,600
Second quarter	10,000	10,000	20,000	(25,000)	(5,000)	7,600	—	7,600
Third quarter	10,000	10,000	20,000	(5,000)	15,000	7,600	—	7,600
Fourth quarter	35,000	5,000	40,000	(5,000	35,000	15,200	—	15,200
Fiscal year	$60,000	$40,000	$100,000	$(40,000)	$60,000	$38,000	$ —	$38,000

67. Assume the facts stated in paragraph 65. In addition the enterprise operates through a separate corporate entity in Country C. Applicable tax rates in Country C are 40 percent in foreign currency. Depreciation in that country is large and exchange rates have changed in prior years. The enterprise is unable to make a reasonable estimate of its "ordinary" income for the year in Country C and thus is unable to reasonably estimate its annual effective tax rate in Country C in dollars. Accordingly, tax (or benefit) in Country C is separately computed as "ordinary" income (or loss) occurs in Country C. The tax applicable to the overall "ordinary" income in the United States and Country A is computed as in paragraph 65. Quarterly computations of tax applicable to Country C are as follows:

	Foreign Currency Amounts		Translated Amounts in Dollars	
Reporting Period	**"Ordinary" Income in Reporting Period**	**Tax (at 40% Rate)**	**"Ordinary" Income in Reporting Period**	**Tax**
First quarter	FC 10,000	FC 4,000	$12,500	$ 3,000
Second quarter	5,000	2,000	8,750	1,500
Third quarter	30,000	12,000	27,500	9,000
Fourth quarter	15,000	6,000	16,250	4,500
Fiscal year	FC 60,000	FC 24,000	$65,000	$18,000

Quarterly tax provisions are as follows:

	"Ordinary" Income					Tax		
Reporting Period	U.S.	Country A	Combined Excluding Country C	Country C	Total	Overall Excluding Country C	Country C	Total
First quarter	$ 5,000	$15,000	$ 20,000	$12,500	$ 32,500	$ 7,600	$ 3,000	$10,600
Second quarter	10,000	10,000	20,000	8,750	28,750	7,600	1,500	9,100
Third quarter	10,000	10,000	20,000	27,500	47,500	7,600	9,000	16,600
Fourth quarter	35,000	5,000	40,000	16,250	56,250	15,200	4,500	19,700
Fiscal year	$60,000	$40,000	$100,000	$65,000	$165,000	$38,000	$18,000	$56,000

Effect of New Tax Legislation

68. The following assumed facts are applicable to the examples of application of this Interpretation in paragraphs 69 and 70.

For the full fiscal year, an enterprise anticipates "ordinary" income of $100,000. All income is taxable in one jurisdiction at a 50 percent rate. Anticipated tax credits for the fiscal year total $10,000. No permanent differences are anticipated.

Computation of the estimated annual effective tax rate applicable to "ordinary" income is as follows:

Tax at statutory rate ($100,000 at 50%)	$ 50,000
Less anticipated tax credits	(10,000)
Net tax to be provided	$ 40,000
Estimated annual effective tax rate ($40,000 ÷ $100,000)	40%

69. Assume the facts stated in paragraph 68. In addition, assume that new legislation creating additional tax credits is enacted during the second quarter of the enterprise's fiscal year. The new legislation is effective on the first day of the third quarter. As a result of the estimated effect of the new legislation, the enterprise revises its estimate of its annual effective tax rate to the following:

Tax at statutory rate ($100,000 at 50%)	$ 50,000
Less anticipated tax credits	(12,000)
Net tax to be provided	$ 38,000
Estimated annual effective tax rate ($38,000 ÷ $100,000)	38%

The effect of the new legislation shall not be reflected until it is effective or administratively effective. Accordingly, quarterly tax computations are:

	"Ordinary" Income		Estimated	Tax		
			Annual		Less	
Reporting Period	**Reporting Period**	**Year-to-Date**	**Effective Tax Rate**	**Year-to-Date**	**Previously Provided**	**Reporting Period**
First quarter	$ 20,000	$20,000	40%	$ 8,000	$ —	$ 8,000
Second quarter	20,000	40,000	40%	16,000	8,000	8,000
Third quarter	20,000	60,000	38%	22,800	16,000	6,800
Fourth quarter	40,000	100,000	38%	38,000	22,800	15,200
Fiscal year	$100,000					$38,000

70. Assume the facts stated in paragraph 68. In addition, assume that new legislation creating additional tax credits is enacted after the end of the third quarter of the enterprise's fiscal year but before the enterprise has reported the results of its operations for the third quarter. The new legislation is effective retroactive to the first day of the third quarter. The new legislation results in the following revised estimated annual effective tax rate:

Tax at statutory rate ($100,000 at 50%)	$ 50,000
Less anticipated tax credits	(12,000)
Net tax to be provided	$ 38,000
Estimated annual effective tax rate ($38,000 ÷ $100,000)	38%

Quarterly tax computations are:

	"Ordinary" Income		Estimated	Tax		
			Annual		Less	
Reporting Period	**Reporting Period**	**Year-to-Date**	**Effective Tax Rate**	**Year-to-Date**	**Previously Provided**	**Reporting Period**
First quarter	$ 20,000	$ 20,000	40%	$ 8,000	$ —	$8,000
Second quarter	20,000	40,000	40%	16,000	8,000	8,000
Third quarter	20,000	60,000	38%	22,800	16,000	6,800
Fourth quarter	40,000	100,000	38%	38,000	22,800	15,200
Fiscal year	$100,000					$38,000

Appendix D: ILLUSTRATION OF INCOME TAXES IN INCOME STATEMENT DISPLAY

71. The following illustrates the location in an income statement display of the various tax amounts computed under this Interpretation:

*Net sales		$XXXX
*Other income		XXX
		XXXX
Costs and expenses:		
*Cost of sales	$XXXX	
*Selling, general, and administrative expenses	XXXX	
*Interest expense	XXX	
*Other deductions	XX	
Unusual items	XXX	
Infrequently occurring items	XXX	XXXX
Income (loss) from continuing operations before income taxes and other items listed below		XXXX
†Provision for income taxes (benefit)		XXXX
Income (loss) from continuing operations before other items listed below		XXXX
Discontinued operations:		
Income (loss) from operations of discontinued Division X (less applicable income taxes of $XXXX)	XXXX	
Income (loss) on disposal of Division X, including provision of $XXXX for operating losses during phase-out period (less applicable income taxes of $XXXX)	XXXX	XXXX
Income (loss) before extraordinary items and cumulative effect of a change in accounting principle		XXXX
Extraordinary items (less applicable income taxes of $XXXX)		XXXX
‡Cumulative effect on prior years of a change in accounting principle (less applicable income taxes of $XXXX)		XXXX
Net income (loss)		$XXXX

*Components of "ordinary" income (loss).

†Consists of the total of income taxes (or benefit) applicable to (a) "ordinary" income, (b) unusual items, and (c) infrequently occurring items.

‡This amount is net of applicable income taxes. The amount of the applicable income taxes is usually separately disclosed but that is not required.

Appendix E: SUMMARY OF CONSIDERATION OF COMMENTS ON EXPOSURE DRAFT

72. The "Notice of Exposure and Request for Comments" accompanying the Exposure Draft issued October 7, 1976 for this Interpretation stated:

> The Interpretation set forth in this EXPOSURE DRAFT explains, clarifies, and elaborates on the requirements of *APB Opinion No. 28*, "Interim Financial Reporting," which relies in part on *APB Opinion No. 11*, "Accounting for Income Taxes," and on other APB Opinions with respect to accounting for income taxes in interim periods.
>
> The FASB currently has on its technical agenda a project entitled Interim Financial Reporting. As part of that project, the Board will examine possible methods of accounting for income taxes in interim periods. At the completion of that project, the Board expects to issue a comprehensive Statement specifying the financial accounting and reporting standards to be applied in interim financial reporting. The Board recognizes that some might prefer methods of accounting for income taxes in interim periods other than those required by the concepts of *APB Opinion No. 28*. However, the Board is of the view that any other methods should be considered as part of the FASB's technical agenda project on Interim Financial Reporting.
>
> The FASB Rules of Procedure permit the issuance of a final Interpretation without exposure for public comment but allow public exposure prior to final issuance when the Board deems such procedure to be advisable. The Board has reached that conclusion here and has also concluded that a public comment period extending to November 15, 1976 is appropriate.

73. In response to the request for comments on the Exposure Draft, the FASB received and considered 99 letters of comment. Certain of the comments and the FASB's consideration of them are summarized in paragraphs 74–85.

Issuance of the Interpretation

74. Many respondents recommended that the FASB not issue a final Interpretation on "Accounting for Income Taxes in Interim Periods" at this time. Some of those respondents recommended that the project be deferred until the FASB issues its comprehensive Statement on Interim Financial Reporting. Others questioned if the number of existing differences in accounting for similar situations was great enough to require an Interpretation at this time.

75. It is not likely that a final Statement for the Board's current agenda project on Interim Financial Reporting will be issued and effective before 1979. Comments received in respect of the Exposure Draft indicate that there is, currently, diversity of practice. The Board concluded that the provisions of *APB Opinion No. 28* are sufficiently clear to provide a basis for an Interpretation and that a final Interpretation should be issued.

Applicability to Annual Financial Statements

76. Some respondents stated that the proposed Interpretation and the examples in Appendix B implicitly included a number of interpretations of the application of *APB Opinion No. 11* to annual financial statements. They recommended that, if the Board intends to interpret Opinion No. 11, the intent should be stated. The Board does not intend to modify annual accounting practices in this Interpretation. Accordingly, specific guidance on those matters that appeared to imply interpretations of the application of *APB Opinion No. 11* to annual financial statements was deleted.

77. Some respondents asked if the example in paragraph 49 of Appendix C of this Interpretation was intended to change the annual accounting for investment tax credits. Paragraph 49 includes "tax credits" in the computed tax benefit of an "ordinary" loss, but does not identify those "tax credits" as "investment tax credits." Various tax credits other than investment tax credits may be available to an enterprise. This Interpretation is not intended to change annual accounting for unrealized investment tax credits.

Applicability to Regulated Industries

78. A number of respondents stated that the proposed Interpretation should not apply to regulated industries. Some respondents noted that the Addendum to *APB Opinion No. 2* may provide an exemption from the Interpretation for certain enterprises in regulated industries. The Board is aware that differing applications of the Addendum exist in practice and has not addressed that issue.

Amortization of Deferred Investment Tax Credits

79. Several respondents recommended that the amortization of deferred investment tax credits be excluded from the estimated annual effective tax rate. Some stated that the rationale of *APB Opinion No. 2* requires those items to be allocated among interim periods on the same basis as depreciation expense for the property giving rise to the credit. Paragraph 13 of Opinion No. 2 states that "the...investment credit should be reflected in net income over the productive life of acquired property and not in the year in which it is placed in service." [27] Footnote 6 to paragraph 8 of this Interpretation was revised to indicate that amortization of deferred investment tax credits need not be taken into account in estimating the annual effective tax rate. However, if an enterprise elects to consider investment tax credits in estimating the annual effective tax rate, the

amount to be taken into account shall be the estimated amount of the current year's amortization and not the amount that reduces income tax payable on the enterprise's tax return.

Tax Exempt Interest

80. A number of respondents recommended that tax-exempt interest income be excluded from "ordinary" income in estimating the annual effective tax rate and in computing the year-to-date tax (or benefit). A number of them stated that the tax effect of tax-exempt interest income must be reported on a discrete period basis to reflect the economic effects of tax-exempt investments. A few respondents noted that the practice of excluding tax-exempt interest income from "ordinary" income in estimating the annual effective tax rate and in computing interim period tax (or benefit) is followed by virtually all financial institutions. The Board noted that the accounting practice described above for tax-exempt interest income in interim periods appears to be uniform and concluded that it should not address the issue in this Interpretation.

Exchange Gains and Losses

81. Several respondents requested that the Board provide guidance on accounting for the tax effects of exchange gains and losses in interim periods. Paragraphs 166 and 192 of *FASB Statement No. 8*, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements," indicate that it would be rare that the timing, direction, and magnitude of future exchange rate changes and the enterprise's financial position at the time of an expected future exchange rate change could each be reasonably estimated. Footnote 7 to paragraph 8 has been expanded to explain that the tax (or benefit) applicable to an item that cannot be estimated shall be reported in the interim period in which the item is reported.

Estimated Annual Effective Tax Rate

82. Several respondents recommended that an estimated annual effective tax rate not be applied in various specific circumstances. Circumstances mentioned included (a) if the rate is extremely high or low, (b) if an "ordinary" loss is expected for the year, and (c) if an enterprise has a year-to-date "ordinary" income and anticipates an "ordinary" loss for the year. An example cited was an enterprise that experienced "ordinary" income in an early part of the year and anticipated offsetting "ordinary" losses in the balance of the year, resulting in zero estimated "ordinary" income and no tax (or benefit). Such unusual circumstances may result in significant variations in the customary relationship between income tax expense and pretax accounting income in interim periods and footnote 2 to paragraph 19 of Opinion No. 28 requires disclosure of the reasons for those variations. Footnote 7 to paragraph 8 of this Interpretation states that if a reliable estimate cannot be made the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. What is and what is not a "reliable estimate" is a matter of judgment. In the break-even situation cited above, a small change in the enterprise's estimated "ordinary" income could produce a large change in the estimated annual effective tax rate. In those circumstances, a break-even estimate would not be reliable if a small change in the

estimated "ordinary" income were considered likely to occur.

Operations Taxable in Multiple Jurisdictions

83. Many respondents stated that the intent of Opinion No. 28 was to apply one overall estimated annual effective tax rate to "ordinary" income for the consolidated reporting entity. Several respondents stated that interrelationships between jurisdictions would make the use of separate rates impractical. Paragraph 22 was modified to indicate that one overall estimated annual effective tax rate shall be used with the two exceptions described in that paragraph and discussed further in paragraphs 84 and 85 below.

84. If an enterprise that operates in multiple jurisdictions has losses in one or more of the jurisdictions and realization of the tax benefit of the losses is not assured beyond any reasonable doubt, use of one overall estimated annual effective tax rate can result in the recognition of tax benefits for the year-to-date for those losses. Paragraph 20 of Opinion No. 28 states that "the tax effects of losses that arise in the early portion of a fiscal year (in the event carryback of such losses is not possible) should be recognized only when realization is assured beyond any reasonable doubt...." Accordingly, a separate computation is necessary for the tax (or benefit) applicable to "ordinary" income (or loss) in those jurisdictions.

85. The effect of translating foreign currency financial statements may make it difficult to estimate an annual effective foreign currency tax rate in dollars. For example, depreciation is translated at historical exchange rates, whereas many transactions included in income are translated at current period average exchange rates. If depreciation is large in relation to earnings, a change in the estimated "ordinary" income that does not change the effective foreign currency tax rate can change the effective tax rate in the dollar financial statements. This result can occur with no change in exchange rates during the current year if there have been exchange rate changes in past years. If the enterprise is unable to estimate its annual effective tax rate in dollars or is otherwise unable to make a reliable estimate of its "ordinary" income (or loss) or of the related tax (or benefit) for the fiscal year in a jurisdiction, the tax (or benefit) applicable to "ordinary" income (or loss) in that jurisdiction shall be recognized in the interim period in which the "ordinary" income (or loss) is reported, as described in footnote 7 to paragraph 8.

Footnotes

FIN18, Footnote 1--The terms used in this definition are described in *APB Opinion No. 20*, "Accounting Changes," and in *APB Opinion No. 30*, "Reporting the Results of Operations." See paragraph 8 of *APB Opinion No. 30* for *income (or loss) from continuing operations before income taxes (or benefits) and discontinued operations*, paragraph 10 for *extraordinary items*, and paragraph 26 for *unusual items* and *infrequently occurring items*. See paragraph 20 of *APB Opinion No. 20* for *cumulative effects of changes in accounting principles.*

FIN18, Footnote 2--*APB Opinions No. 23* and *24* are not specifically described herein because no questions were raised regarding application of those Opinions for interim periods.

FIN18, Footnote 3--See also paragraph 22 below when the enterprise has operations taxable in multiple jurisdictions.

FIN18, Footnote 4--See Appendix A, paragraph 28.

FIN18, Footnote 5--Enterprises in some industries report certain items of "ordinary" income net of their related tax effect. For example, the AICPA Industry Audit Guide, "Audits of Stock Life Insurance Companies," illustrates a caption "Realized investment gains and losses, net of related income taxes of $..." in its suggested format of a stock life insurance company's statement of income. If an enterprise follows such an accepted industry practice, the item that will be reported net of tax and its related tax (or benefit) shall be excluded from the computation of the estimated annual effective tax rate and interim period tax (or benefit). A separate estimated annual effective tax rate shall be computed for the item, and applied to that item in accordance with paragraphs 9-15 below.

FIN18, Footnote 6--Certain investment tax credits may be excluded from the estimated annual effective tax rate. If an enterprise includes allowable investment tax credits as part of its provision for income taxes over the productive life of acquired property and not entirely in the year the property is placed in service, amortization of deferred investment tax credits need not be taken into account in estimating the annual effective tax rate; however, if the investment tax credits are taken into account in the estimated annual effective tax rate, the amount taken into account shall be the amount of amortization that is anticipated to be included in income in the current year (see paragraphs 13 and 15 of *APB Opinion No. 2*). Further, paragraphs 43 and 44 of *FASB Statement No. 13*, "Accounting for Leases," specify that investment tax credits related to leases that are accounted for as leveraged leases shall be deferred and accounted for as return on the net investment in the leveraged leases in the years in which the net investment is positive. Footnote 25 of Statement No. 13 explains that the use of the term "years" is not intended to preclude application of the accounting described to shorter periods. If an enterprise accounts for investment tax credits related to leveraged leases in accordance with paragraphs 43 and 44 of Statement No. 13 for interim periods, those investment tax credits shall not be taken into account in estimating the annual effective tax rate.

FIN18, Footnote 7--Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on evaluations of possible future events and transactions and may be subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate. If an enterprise is unable to estimate a part of its "ordinary" income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.

FIN18, Footnote 8--One result of the year-to-date computation is that, if the tax benefit of an "ordinary" loss that occurs in the early portions of the fiscal year is not recognized because realization of the tax benefit is not assured, tax is not provided for subsequent "ordinary" income until the unrecognized tax benefit of the earlier "ordinary" loss is offset (see Appendix A, paragraph 32).

FIN18, Footnote 9--See Appendix A, paragraphs 29 and 30.

FIN18, Footnote 10--See Appendix A, paragraph 31.

FIN18, Footnote 11--See Appendix A, paragraph 32.

FIN18, Footnote 12--See Appendix A, paragraph 33.

FIN18, Footnote 13--See Appendix A, paragraph 34.

FIN18, Footnote 14--Paragraph 48 of APB Opinion No. 11 describes the reinstatement of previously eliminated deferred tax credits when the tax benefit of the loss is subsequently realized.

FIN18, Footnote 15--See Appendix A, paragraph 28.

FIN18, Footnote 16--In the context of paragraph 21 of *APB Opinion No. 28* (see Appendix A, paragraph 35), which is consistent with *APB Opinion No. 30*, this description includes unusual items, infrequently occurring items, discontinued operations, and extraordinary items.

FIN18, Footnote 17--See Appendix A, paragraph 35.

FIN18, Footnote 18--See Appendix A, paragraph 36.

FIN18, Footnote 19--See paragraph 47 of *APB Opinion No. 11* (see Appendix A, paragraph 31) and paragraph 20 of *APB Opinion No. 28* (see Appendix A, paragraph 32).

FIN18, Footnote 20--The term "discontinued segment" refers to a discontinued segment of the business as described in paragraph 13 of *APB Opinion No. 30*.

FIN18, Footnote 21--See Appendix A, paragraph 38.

FIN18, Footnote 22--See Appendix A, paragraph 28.

FIN18, Footnote 23--See Appendix A, paragraph 35.

FIN18, Footnote 24--The tax (or benefit) related to "ordinary" income (or loss) in a jurisdiction may not be limited to tax (or benefit) in that jurisdiction. It might also include tax (or benefit) in another jurisdiction that results from providing taxes on unremitted earnings, foreign tax credits, etc.

FIN18, Footnote 25--See Appendix A, paragraph 39.

FIN18, Footnote 26--See Appendix A, paragraph 37.

FIN18, Footnote 27--That conclusion was amended by *APB Opinion No. 4*, "Accounting for the 'Investment Credit'." Paragraph 10 of Opinion 4 permits "the alternative method of treating the credit as a reduction of Federal income taxes of the year in which the credit arises. . . ."