FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: August 22, 2022
Comments Due: October 6, 2022

Investments—Equity Method and Joint Ventures (Topic 323)

Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method

a consensus of the Emerging Issues Task Force

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 323 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2022-004, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until October 6, 2022. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2022-004
- Sending a letter to "Technical Director, File Reference No. 2022-004, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

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Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The FASB is issuing this proposed Accounting Standards Update to allow for reporting entities to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits consistently.

Accounting Standards Update No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,* introduced the option to apply the proportional amortization method to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits; however, the guidance in that Update limited the proportional amortization method to investments in low-income housing tax credit (LIHTC) structures. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received with the investment gains and losses and tax credits being presented net in the income statement as a component of income tax expense (benefit). Investments in other tax credit structures are typically accounted for using the equity or cost method, which results in investment gains and losses and tax credits being presented gross on the income statement in their respective line items.

Stakeholders have asserted that economically similar investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits should have the same election to apply the proportional amortization method as LIHTC structures, since the proportional amortization method provides users with a better understanding of the returns from such investments than the equity or cost method. Because of the current limitation on the use of the proportional amortization method, stakeholders have asked that the Board allow reporting entities to elect to apply the proportional amortization method to account for tax equity investments that generate income tax credits through other programs.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all reporting entities that meet the conditions for and that elect to use the proportional amortization method to account for tax equity investments.

What Are the Main Provisions?

The amendments in this proposed Update would permit reporting entities to elect to account for their tax equity investments, regardless of the program from which the income tax credits are received, using the proportional amortization method if certain conditions are met.

Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense (benefit). To qualify for the proportional amortization method, if elected in accordance with paragraph 323-740-25-4, all of the following conditions must be met:

1. It is probable that the income tax credits allocable to the investor will be available.
2. The investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying project.
3. Substantially all of the projected benefits are from income tax credits and other income tax benefits. Projected benefits include income tax credits, other income tax benefits, and other non-income-tax-related benefits. The projected benefits should be determined on a discounted basis, using a discount rate that is consistent with the cash flow assumptions used by the tax equity investor in making its decision to invest in the project.
4. The investor's projected yield based solely on the cash flows from the income tax credits and other tax benefits is positive.
5. 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.

A reporting entity would make an accounting policy election to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments. A reporting entity that applies the proportional amortization method to qualifying tax credit investments would account for the receipt of the investment tax credits using the flow-through method under Topic 740, Income Taxes, even if the entity applies the deferral method for other investment tax credits received.

A reporting entity would be required to disclose certain information in annual and interim reporting periods that enables investors and other users of its financial statements to understand the nature of the following:

1. Its tax equity investments in projects that generate income tax credits and other income tax benefits from a program for which the reporting entity has elected to apply the proportional amortization method

2. The impact of the tax equity investments and related income tax credits on its financial position and results of operations.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

Under current GAAP, an entity can only elect to apply the proportional amortization method to investments in LIHTC structures. The amendments in the proposed Update would allow entities to elect to account for equity investments made primarily for the purpose of receiving income tax credits using the proportional amortization method, regardless of the program through which the investment earns income tax credits, as long as certain conditions are met.

This proposed Update would amend paragraph 323-740-25-1, which contains the conditions needed to apply the proportional amortization method. The proposed amendments would make certain limited changes to those conditions to clarify their application to a broader group of tax credit investment programs. However, the conditions in substance remain consistent with current GAAP.

The amendments in this proposed Update would require specific disclosures for all tax equity investments in a program to which an entity has elected to apply the proportional amortization method. The amendments to paragraphs 323-740-50-1 through 50-2 would require that an entity disclose information to enable financial statement users to understand (1) the nature of the entity's investments that generate income tax credits and other income tax benefits through a program for which the entity has elected to apply the proportional amortization method and (2) the effect of the recognition and measurement of its tax equity investments and the related income tax credits on its financial position and results of operations. In addition, the proposed amendments also provide other examples of disclosures that an entity could provide in meeting those objectives in paragraph 323-740-50-1.

When Would the Amendments Be Effective?

The effective date will be determined after the Task Force considers stakeholder feedback on this proposed Update. The amendments in this proposed Update are proposed to be applied on either a modified prospective or a retrospective basis. Under a modified prospective transition, a reporting entity would evaluate all investments for which it still expects to receive income tax credits or other income tax benefits as of the beginning of the period of adoption. The assessment of whether the investment would qualify for the proportional amortization method would be performed as of the date the investment was entered into. A cumulative-effect adjustment reflecting the difference between the previous method used to account for the tax equity investment and the application of the proportional amortization method since the investment was entered into would be recognized in the opening balance of retained earnings as of the beginning of the period of adoption. Under a retrospective transition, a reporting entity would evaluate all investments for which it still expects to receive income tax credits or other income tax benefits as of the beginning of the earliest period presented. The assessment of whether the investment would qualify for the proportional amortization method would be performed as of the date the investment was entered into. A cumulative-effect adjustment reflecting the difference between the previous method used to account for the tax equity investment and the application of the proportional amortization method since the investment was entered into would be recognized in the opening balance of retained earnings as of the beginning of the earliest period presented.

Questions for Respondents

Question 1: Do you agree that a reporting entity's tax equity investment that meets the conditions in paragraph 323-740-25-1 as amended by this proposed Update should be able to elect to use the proportional amortization method? That is, do you agree that the conditions are appropriate? If not, please explain why.

Question 2: Should the condition in paragraph 323-740-25-1(aa) be retained? Should only an investor that does not have the ability to exercise significant influence over the operating and financial policies of the underlying project be able to elect to apply the proportional amortization method to its tax equity investment? Please explain why or why not. What would be the impact of removing that condition?

Question 3: Are the conditions in paragraph 323-740-25-1 as amended by this proposed Update operable and auditable? Please describe the nature and magnitude of costs and any operability or auditing concerns, differentiating between one-time costs and recurring costs.

Question 4: Does the proportional amortization method fairly represent the economics and provide financial statement users with an appropriate understanding of the returns from tax equity investments that meet the conditions in paragraph 323-740-25-1 as amended by this proposed Update to apply the proportional amortization method? If not, please explain why.

Question 5: Do you agree that applying the proportional amortization method to investments that meet the conditions in paragraph 323-740-25-1 as amended by this proposed Update should be an accounting policy election, or should those investments be required to be accounted for using the proportional amortization method? Please explain why or why not.

Question 6: Do you agree that the accounting policy election should be made on a tax-credit-program-by-tax-credit-program basis? That is, should an entity be able to elect to apply the proportional amortization method to investments in certain tax credit programs and not to apply it to investments in certain other tax credit programs? If not, at which level should the accounting policy election be applied (for example, for all investments in tax credit programs that meet the conditions in paragraph 323-740-25-1 as amended by this proposed Update or at the individual investment level)?

Question 7: Is a tax-credit-program-by-tax-credit-program accounting policy election understandable, operable, and auditable? Please explain why or why not.

Question 8: Under existing GAAP, LIHTC investments that do not qualify for the proportional amortization method or equity method are accounted for using the cost method. The proposed amendments would expand the use of the cost method in Subtopic 323-740 to other tax equity investment programs. Should tax equity investments that are not accounted for under the proportional amortization method or the equity method be permitted to apply the cost method, or should they be required to apply Topic 321?

Question 9: Do you agree that the proposed disclosures would provide decision-useful information for financial statement users? Are there any other disclosures about tax equity investments that should be required?

Question 10: Do you agree that the proposed disclosures should apply to tax equity investments that generate credits through a tax credit program for which the entity has elected to apply the proportional amortization method, including investments that do not meet the conditions in paragraph 323-740-25-1 as amended in this proposed Update? If not, please explain why.

Question 11: Are the proposed disclosures operable to produce and auditable? Please describe the nature and magnitude of costs and any operability or auditing concerns, differentiating between one-time costs and recurring costs.

Question 12: Do you agree with the proposed transition provisions? Please explain why or why not.

Question 13: What is the earliest period that an entity would be able to adopt the proposed amendments? Should early adoption be permitted? If not, please explain why.

Question 14: Are there any specific private company considerations that should be brought to the Board's attention?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–6. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 323-740

2. Amend paragraphs 323-740-05-1 through 05-2, 323-740-15-2 through 15-3, 323-740-25-1 through 25-2A, 323-740-25-4 through 25-6, 323-740-30-1 through 30-2, 323-740-35-1 through 35-6, 323-740-45-1, 323-740-45-3, 323-740-50-1, 323-740-50-2, and 323-740-55-2 and their related Subsection titles and heading, supersede paragraph 323-740-05-3, and add paragraphs 323-740-50-1A and 323-740-55-11 through 55-14 and the related heading, with a link to transition paragraph 323-740-65-2, as follows:

Investments—Equity Method and Joint Ventures—Income Taxes

Overview and Background

General

323-740-05-1 This Subtopic contains standalone ~~Qualified Affordable Housing Project~~ Tax Equity Investments Subsections, which provide income tax accounting guidance on ~~a~~ specific ~~type~~ types of ~~investment~~ investments ~~in real estate~~ made primarily for the purpose of receiving income tax credits and other income tax benefits. Income tax accounting guidance on other types of equity method investments and joint ventures is contained in Subtopics 740-10 and 740-30.

~~Qualified Affordable Housing Project~~ Tax Equity Investments

323-740-05-2 The ~~Qualified Affordable Housing Project~~ Tax Equity Investments Subsections provide ~~income tax~~ accounting guidance on ~~a~~ specific ~~type~~ types of ~~investment in real estate~~ investments made primarily for the purpose of receiving income tax credits and other income tax benefits. This guidance applies to investments in limited liability entities that manage or invest in ~~qualified affordable housing~~ projects that generate income tax credits and other income tax benefits and are flow-through entities for tax purposes.

323-740-05-3 Paragraph superseded by Accounting Standards Update No. 2022-XX. ~~The following discussion refers to and describes a provision within the Revenue Reconciliation Act of 1993; however, it shall not be considered a definitive interpretation of any provision of the Act for any purpose. The Revenue Reconciliation Act of 1993, enacted in August 1993, retroactively extended and made permanent the affordable housing credit. Investors in entities that manage or invest in qualified affordable housing projects receive tax benefits in the form of tax deductions from operating losses and tax credits. The tax credits are allowable on the tax return each year over a 10-year period as a result of renting a sufficient number of units to qualifying tenants and are subject to restrictions on gross rentals paid by those tenants. These credits are subject to recapture over a 15-year period starting with the first year tax credits are earned. Corporate investors generally purchase an interest in a limited liability entity that manages or invests in the qualified affordable housing projects.~~

Scope and Scope Exceptions

General

> Overall Guidance

323-740-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 323-10-15, with specific transaction qualifications noted in the other Subsections of this Section.

~~Qualified Affordable Housing Project~~ Tax Equity Investments

> Overall Guidance

323-740-15-2 The ~~Qualified Affordable Housing Project~~ Tax Equity Investments Subsections follow the same Scope and Scope Exceptions as outlined in the General Subsection of this Subtopic, see Section 323-10-15, with specific transaction qualifications noted below.

> Transactions

323-740-15-3 The guidance in this Subsection ~~the Qualified Affordable Housing Project Investments Subsections~~ applies to reporting entities that are equity investors in ~~qualified affordable housing~~ projects that generate income tax credits and other income tax benefits through limited liability entities that are flow-through entities for tax purposes.

Recognition

~~Qualified Affordable Housing Project~~ Tax Equity Investments

323-740-25-1 A reporting entity that invests in ~~qualified affordable housing~~ projects that generate income tax credits and other income tax benefits through limited liability entities (that is, the investor) may elect to account for those investments using the proportional amortization method (described in paragraphs 323-740-35-2 and 323-740-45-2) if elected in accordance with paragraph 323-740-25-4, provided all of the following conditions are met:

- a. It is **probable** that the income tax credits allocable to the investor will be available.
- aa. The investor does not have the ability to exercise **significant influence** over the operating and financial policies of the ~~limited liability entity~~ underlying project.
- aaa. Substantially all of the projected benefits are from income tax credits and other income tax benefits (for example, tax benefits generated from the operating losses of the investment). Projected benefits include, but are not limited to, income tax credits, other income tax benefits, and other non-income-tax-related benefits, including refundable tax credits (that is, those tax credits not dependent upon an investor's income tax liability). Tax credits that would be accounted for outside of the scope of Topic 740 (for example, refundable tax credits) shall be included in total projected benefits, but not in income tax credits and other income tax benefits when evaluating this condition. This condition shall be determined on a discounted basis using a discount rate that is consistent with the cash flow assumptions utilized by the tax equity investor for the purpose of making a decision to invest in the project.
- b. The investor's projected yield based solely on the cash flows from the income tax credits and other income tax benefits is positive.
- c. 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.

323-740-25-1A In determining whether an investor has the ability to exercise significant influence over the operating and financial policies of the ~~limited liability entity~~ underlying project, a reporting entity shall consider the indicators of significant influence in paragraphs 323-10-15-6 through 15-7. In considering the operating and financial policies of the underlying project, the investor shall consider the operations, financial decisions, and related objectives of the project as a whole.

323-740-25-1B Other transactions between the investor and the limited liability entity (for example, bank loans) shall not be considered when determining whether the conditions in paragraph 323-740-25-1 are met, provided that all three of the following conditions are met:

a. The reporting entity is in the business of entering into those other transactions (for example, a financial institution that regularly extends loans to other projects).
b. The terms of those other transactions are consistent with the terms of arm's-length transactions.
c. The reporting entity does not acquire the ability to exercise significant influence over the operating and financial policies of the ~~limited liability entity~~ underlying project as a result of those other transactions.

323-740-25-1C At the time of the initial investment, a reporting entity shall evaluate whether the conditions in paragraphs 323-740-25-1 through 25-1B have been met to elect to apply the proportional amortization method on the basis of facts and circumstances that exist at that time. A reporting entity shall subsequently reevaluate the conditions upon the occurrence of either of the following:

a. A change in the nature of the investment (for example, if the investment is no longer in a flow-through entity for tax purposes)
b. A change in the relationship with the ~~limited liability entity~~ underlying project that could result in the reporting entity no longer meeting the conditions in paragraphs 323-740-25-1 through 25-1B.

323-740-25-2 For an investment in a ~~qualified affordable housing~~ project that generates income tax credits and other income tax benefits through a limited liability entity not accounted for using the proportional amortization method, the investment shall be accounted for in accordance with ~~Subtopic 970-323~~ Subtopic 323-30. In accounting for such an investment under that Subtopic, the requirements in paragraphs 323-740-25-3 through 25-5 ~~and paragraphs 323-740-50-1 through 50-2 of this Subsection~~ that are not related to the proportional amortization method shall be applied. Additionally, the requirements in paragraphs 323-740-50-1 through 50-2 shall be applied to investments that do not qualify for the proportional amortization method but that receive income tax credits through a program for which the entity has elected to apply the proportional amortization method.

323-740-25-2A Accounting for an investment in a ~~qualified affordable housing~~ project that generates income tax credits and other income tax benefits using the cost method may be appropriate. In accounting for such an investment using the cost method, the requirements in paragraphs 323-740-25-3 through 25-5 ~~and paragraphs 323-740-50-1 through 50-2 of this Subsection~~ that are not related to the proportional amortization method shall be applied. Additionally, the requirements in paragraphs 323-740-50-1 through 50-2 shall be applied to investments that do not qualify for the proportional amortization method but that receive income tax credits through a program for which the entity has elected to apply the proportional amortization method.

323-740-25-3 A liability shall be recognized for delayed equity contributions that are unconditional and legally binding. A liability also shall be recognized for equity contributions that are contingent upon a future **event** when that contingent event becomes probable. Topic 450 and paragraph 842-50-55-2 provide additional guidance on the accounting for delayed equity contributions.

323-740-25-4 The decision to apply the proportional amortization method of accounting is an accounting policy decision to be elected on a tax-credit-program-by-tax-credit-program basis and applied consistently to all tax equity investments in an elected tax credit program ~~qualified affordable housing projects~~ that meet the conditions in paragraph 323-740-25-1 rather than a decision to be applied to individual investments that qualify for use of the proportional amortization method.

323-740-25-5 ~~At the time of initial investment,~~ An entity electing to apply the proportional amortization method shall recognize income tax credits in the period they are allocated to the investor for tax purposes. Unless all income tax credits are allocated to the investor at the date of initial investment, immediate recognition of the entire benefit of the income tax credits to be received during the term of an investment in a ~~qualified affordable housing~~ project that generates income tax credits and other income tax benefits is not ~~appropriate~~ permitted (that is, ~~affordable housing~~ income tax credits shall not be recognized in the financial statements before ~~their inclusion in the investor's tax return~~ the year in which the credit arises).

323-740-25-6 Example 1 (see paragraph 323-740-55-2) illustrates the application of accounting guidance to a limited partnership investment in a ~~qualified affordable housing~~ project that generates income tax credits and other income tax benefits using the cost, equity, and proportional amortization methods. Example 2 (see paragraph 323-740-55-11) illustrates the application of accounting guidance to a limited partnership investment in a project that generates income tax credits, other tax benefits, and non-income-tax-related benefits using the proportional amortization method.

Initial Measurement

~~Qualified Affordable Housing Project~~ Tax Equity Investments

323-740-30-1 Paragraph 323-740-25-5 prohibits immediate recognition of income tax credits, at the time of initial investment, for the entire benefit of tax credits to be received over a period of time during the term of an investment in a ~~qualified affordable housing~~ project that generates income tax credits and other income tax benefits (that is, income tax credits shall not be recognized in the financial statements before the year in which the credit arises). See paragraph 323-740-35-2 for the required subsequent measurement calculation methodology when an entity uses the proportional amortization method of accounting for an investment in a ~~qualified affordable housing~~ project that generates income tax credits and other income tax benefits through a limited liability entity.

323-740-30-2 Example 1 (see paragraph 323-740-55-2) illustrates the application of accounting guidance to a limited partnership investment in a ~~qualified affordable~~

~~housing~~ project <u>that generates income tax credits and other income tax benefits</u> using the cost, equity, and proportional amortization methods.<u> Example 2 (see paragraph 323-740-55-11) illustrates the application of accounting guidance to a limited partnership investment in a project that generates income tax credits, other income tax benefits, and non-income-tax-related benefits using the proportional amortization method.</u>

Subsequent Measurement

~~Qualified Affordable Housing Project~~ <u>Tax Equity</u> Investments

323-740-35-1 This guidance addresses the methodology for measuring an investment in a ~~qualified affordable housing~~ project <u>that generates income tax credits and other income tax benefits</u> through a limited liability entity that is accounted for using the proportional amortization method.

323-740-35-2 Under the proportional amortization method, the investor amortizes the initial cost of the investment in proportion to the <u>income</u> tax credits and other <u>income</u> tax benefits allocated to the investor. The amortization amount shall be calculated as follows:

a. The initial investment balance less any expected residual value of the investment, multiplied by
b. The percentage of actual <u>income</u> tax credits and other <u>income</u> tax benefits allocated to the investor in the current period divided by the total estimated <u>income</u> tax credits and other <u>income</u> tax benefits expected to be received by the investor over the life of the investment.

323-740-35-3 Example 1 (see paragraph 323-740-55-2) illustrates the application of accounting guidance to a limited liability investment in a ~~qualified affordable housing~~ project <u>that generates income tax credits and other income tax benefits</u> using the cost, equity, and proportional amortization methods.<u> Example 2 (see paragraph 323-740-55-11) illustrates the application of accounting guidance to a limited partnership investment in a project that generates income tax credits, other income tax benefits, and non-income-tax-related benefits using the proportional amortization method.</u>

323-740-35-4 As a practical expedient, an investor is permitted to amortize the initial cost of the investment in proportion to only the <u>income</u> tax credits allocated to the investor if the investor reasonably expects that doing so would produce a measurement that is substantially similar to the measurement that would result from applying the requirement in paragraph 323-740-35-2.

323-740-35-5 Any expected residual value of the investment shall be excluded from the proportional amortization calculation. ~~Cash~~ <u>Non-income-tax-related benefits</u> received from operations of the limited liability entity shall be included in earnings when realized or realizable. Gains or losses on the sale of the investment, if any, shall be included in earnings at the time of sale.

323-740-35-6 An investment in a ~~qualified affordable housing~~ project that generates income tax credits and other income tax benefits through a limited liability entity and applies the proportional amortization or cost method shall be tested for impairment when events or changes in circumstances indicate that it is more likely than not that the carrying amount of the investment will not be realized. An impairment loss shall be measured as the amount by which the carrying amount of an investment exceeds its fair value. A previously recognized impairment loss shall not be reversed.

Other Presentation Matters

~~Qualified Affordable Housing Project~~ Tax Equity Investments

323-740-45-1 This guidance addresses the income statement presentation of ~~the affordable housing tax credit when an~~ a tax equity investment ~~in a qualified affordable housing project~~ through a limited liability entity that is accounted for using the proportional amortization method.

323-740-45-2 Under the proportional amortization method, the amortization of the investment in the limited liability entity is recognized in the income statement as a component of **income tax expense (or benefit)**. The **current tax expense (or benefit)** shall be accounted for pursuant to the general requirements of Topic 740.

323-740-45-3 Example 1 (see paragraph 323-740-55-2) illustrates the application of accounting guidance to a limited partnership investment in a ~~qualified affordable housing~~ project that generates income tax credits and other income tax benefits using the cost, equity, and proportional amortization methods. Example 2 (see paragraph 323-740-55-11) illustrates the application of accounting guidance to a limited partnership investment in a project that generates income tax credits, other income tax benefits, and non-income-tax-related benefits using the proportional amortization method.

Disclosure

~~Qualified Affordable Housing Project~~ Tax Equity Investments

323-740-50-1 A reporting entity ~~that invests in a qualified affordable housing project~~ shall disclose information in annual and interim periods that enables users of its financial statements to understand the following information about its tax equity investments in projects that generate income tax credits and other income tax benefits from a tax credit program for which it has elected to apply the proportional amortization method (including investments in tax credit projects within that tax credit program that do not meet the conditions in paragraph 323-740-25-1):

a. The nature of its investments in ~~qualified affordable housing~~ projects that generate income tax credits and other income tax benefits
b. The effect of the measurement and recognition of its investments in ~~qualified affordable housing~~ projects that generate income tax credits and other income tax benefits and the related income tax credits on its financial position and results of operations.

323-740-50-1A To meet the objectives in paragraph 323-740-50-1, a reporting entity shall disclose the following information about its tax equity investments in projects that generate income tax credits and other income tax benefits from a tax credit program for which it has elected to apply the proportional amortization method:

a. The amount of income tax credits and other income tax benefits recognized during the period, including the line item in the statement of operations and statement of cash flows in which they have been recognized
b. The balance of the investments and the line item in which the investments are recognized in the statement of financial position
c. For tax equity investments accounted for using the proportional amortization method, the amount of investment amortization recognized as a component of income tax expense (benefit)
d. The amount of non-income-tax-related activity and other returns received that are recognized outside of income tax expense (benefit) and the line item in the statement of operations and statement of cash flows in which they have been recognized
e. Significant modifications or events that resulted in a change in the nature of the investment or a change in the relationship with the underlying project for investments that apply the proportional amortization method.

323-740-50-2 To meet the objectives in ~~the preceding~~ paragraph 323-740-50-1, a reporting entity also may consider disclosing the following:

a. Subparagraph superseded by Accounting Standards Update No. 2022-XX.~~The amount of affordable housing tax credits and other tax benefits recognized during the year~~
b. Subparagraph superseded by Accounting Standards Update No. 2022-XX.~~The balance of the investment recognized in the statement of financial position~~
c. Subparagraph superseded by Accounting Standards Update No. 2022-XX.~~For qualified affordable housing project investments accounted for using the proportional amortization method, the amount recognized as a component of income tax expense (benefit~~)

d. For ~~qualified affordable housing project~~ tax equity investments accounted for using the equity method, the amount of investment income or loss included in pretax income
e. Any commitments or contingent commitments (for example, guarantees or commitments to provide additional capital contributions), including the amount of equity contributions that are contingent commitments related to ~~qualified affordable housing project~~ tax equity investments and the year or years in which contingent commitments are expected to be paid
f. The amount and nature of impairment losses during the year resulting from the forfeiture or ineligibility of income tax credits or other circumstances. For example, in a low-income housing tax credit investment, those impairment losses may be based on actual property-level foreclosures, loss of qualification due to occupancy levels, compliance issues with tax code provisions, or other issues.

Implementation Guidance and Illustrations

~~Qualified Affordable Housing Project~~ Tax Equity Investments

> Illustrations

. > Example 1: Application of Accounting Guidance to a Limited Partnership Investment in a Tax Equity Investment ~~Qualified Affordable Housing Project~~

323-740-55-2 This Example illustrates the application of the cost, equity, and proportional amortization methods of accounting for a limited liability investment in a ~~qualified affordable housing project~~ low-income housing tax credit structure, which is a type of tax equity investment that may be eligible to apply the proportional amortization method.

. > Example 2: Application of Accounting Guidance to a Limited Partnership Investment in a Tax Equity Investment That Generates Non-Income-Tax-Related Benefits

323-740-55-11 This Example illustrates the application of the proportional amortization method of accounting for a tax equity investment that generates non-income-tax-related benefits in addition to income tax credits and other income tax benefits.

323-740-55-12 The following are the terms for this investment:

Date of investment:	January 1, 20X1
Purchase price of investment:	$100,000

323-740-55-13 The Example has the following assumptions:

a. All cash flows (except the initial investment) occur at the end of each year.

b. Depreciation expense is computed, for book and tax purposes, using the straight-line method with a 27.5-year life (the same method is used for simplicity).
c. The tax equity investor made a $100,000 investment for a 5 percent limited partnership interest in the project at the beginning of the first year of eligibility for the income tax credit.
d. The partnership will receive production tax credits based on the energy the project produces. The credits will be received over a four-year period.
e. The tax equity investor will receive cash proceeds based on 2 percent of the project's cash generated during the life of the project.
f. The investor's tax rate is 40 percent.
g. All requirements are met to retain allocable income tax credits such that there will be no recapture of income tax credits.
h. The tax equity investor expects that the estimated residual investment will be zero.
i. All of the conditions described in paragraph 323-740-25-1 are met to qualify the investment for the use of the proportional amortization method, and the entity has elected to use the proportional amortization method to account for its tax equity investments in this program.
j. After 10 years, the tax equity investor has a right to require that the project sponsor purchase the tax equity investor's equity interest for a nominal amount. It is assumed that the option will be exercised.

323-740-55-14 An analysis of the proportional amortization method follows.

[For ease of readability, the new illustration is not underlined.]

Year	Net Investment (a)	Amortization of Net Investment (b)	Tax Credits (c)	Net Losses/Tax Depreciation (d)	Other Tax Benefits from Depreciation (e)	Tax Credits and Other Tax Benefits (f)	Tax Credits and Other Tax Benefits, Net of Amortization (g)	Non-Tax-Related Cash Returns (h)
1	$ 79,399	$ 20,601	$20,000	$ 8,300	$ 3,320	$ 23,320	$ 2,719	$ 58
2	58,799	20,601	20,000	8,300	3,320	23,320	2,719	58
3	38,198	20,601	20,000	8,300	3,320	23,320	2,719	58
4	17,597	20,601	20,000	8,300	3,320	23,320	2,719	58
5	14,664	2,933	-	8,300	3,320	3,320	387	58
6	11,731	2,933	-	8,300	3,320	3,320	387	58
7	8,799	2,933	-	8,300	3,320	3,320	387	58
8	5,866	2,933	-	8,300	3,320	3,320	387	58
9	2,933	2,933	-	8,300	3,320	3,320	387	58
10	0	2,933	-	8,300	3,320	3,320	387	58
Total		$ 100,000	$80,000	$ 83,000	$ 33,200	$ 113,200	$ 13,200	$ 580

(a) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (b).

(b) Initial investment of $100,000 × (total income tax credits and other tax benefits received during the year in Column (f))/total anticipated income tax credits and other tax benefits over the life of the investment of $113,200).

(c) These tax credits have been generated through the production of electricity, which generates production tax credits. The tax equity investor is not receiving renewable energy credits or carbon offsets.

(d) Depreciation/other tax losses passed on to the investor.

(e) Column (d) × 40% tax rate.

(f) Column (c) + Column (e).

(g) Column (f) – Column (b).

(h) Non-income-tax-related benefits recognized in current-period pre-tax earnings when received. This represents the cash proceeds received by the tax equity investor based on the cash generated from the project.

3. Add paragraph 323-740-65-2 and its related heading as follows:

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 2022-XX, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*

323-740-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2022-XX, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method:*

a. An entity shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 20XX, including interim periods within those fiscal years. Early adoption, including adoption in any interim period as of the beginning of the fiscal year that includes that interim period, is permitted.
b. An entity shall apply the pending content that links to this paragraph using either a modified prospective approach or a retrospective approach. Under both a modified prospective approach and a retrospective approach, an entity that elects to apply the proportional amortization method shall determine as of the date that a tax equity investment was entered into, and considering the effect of any modifications, including those that may require reassessment as discussed in paragraph 323-740-25-1C, whether the investment qualifies for the proportional amortization method.
    1. Under a modified prospective approach, that evaluation shall be performed for all tax equity investments that are still expected to generate either income tax credits or other income tax benefits as of the date of adoption. To make that determination, the entity shall use actual income tax credits and other income tax benefits received and remaining benefits expected as of the date of adoption. A cumulative-effect adjustment shall be recognized in the opening balance of retained earnings in the fiscal year of adoption for the difference between the previous accounting and the new method of accounting since the tax equity investment was entered into.
    2. Under a retrospective approach, that evaluation shall be performed for all tax equity investments that are still expected to generate either income tax credits or other income tax benefits as of the beginning of the earliest period presented. To make that determination, the entity shall use actual income tax credits and other income tax benefits received and remaining benefits expected as of the

beginning of the earliest period presented. A cumulative-effect adjustment shall be recognized in the opening balance of retained earnings in the earliest period presented for the difference between the previous accounting and the new method of accounting since the tax equity investment was entered into.

c. Investments for which the proportional amortization method is applied shall follow the flow-through method described in paragraph 740-10-25-46. An entity may have previously elected to apply the deferral method. That election is not applicable to tax equity investments that are accounted for under the proportional amortization method.
d. An entity shall provide the following transition disclosures consistent with Topic 250 on accounting changes and error corrections:
   1. The nature of and reason for the change in accounting principle
   2. The transition method and a description of prior-period information that has been retrospectively adjusted, if any
   3. The effect of the change on income from continuing operations, net income, and any affected per-share amounts for the prior periods retrospectively adjusted
   4. The cumulative effect of the change on retained earnings
   5. A qualitative description of the financial statement line items affected by the change.
e. An entity that issues interim financial statements shall provide the disclosures in (d) in the financial statements of both the interim period of the change and the fiscal year of the change.

Amendments to Subtopic 270-10

4. Amend paragraph 270-10-50-7 by adding item o, with a link to transition paragraph 323-740-65-2, as follows:

Interim Reporting—Overall

Disclosure

> Guidance Related to Disclosure of Other Topics at Interim Dates

270-10-50-7 The following may not represent all references to interim disclosure:

o. For disclosure requirements on tax equity investments, see paragraphs 323-740-50-1 through 50-2.

Amendments to Subtopic 740-10

5. Amend paragraph 740-10-25-46, with a link to transition paragraph 323-740-65-2, as follows:

Income Taxes—Overall

Recognition

> Investment Tax Credits

740-10-25-46 While it shall be considered preferable for the allowable investment credit to be reflected in net income over the productive life of acquired property (the deferral method), treating the credit as a reduction of federal income taxes of the year in which the credit arises (the flow-through method) is also acceptable. For investments that meet the conditions in paragraph 323-740-25-1 for which an entity has elected to apply the proportional amortization method, the flow-through method shall be used.

Amendments to Subtopic 810-10

6. Amend paragraph 810-10-25-44B, with a link to transition paragraph 323-740-65-2, as follows:

Consolidation—Overall

Recognition

Variable Interest Entities

> Consolidation Based on Variable Interests

. > The Effect of Related Parties

810-10-25-44B This paragraph applies to a related party group that has the characteristics in paragraph 810-10-25-38A only when both ~~of the following criteria~~ criteria (a) and (b) below are met. This paragraph is not applicable for legal entities that meet the conditions in paragraphs 323-740-15-3 and 323-740-25-1.

a. The conditions in paragraph 810-10-25-44A are not met by a single decision maker and its related parties.
b. Substantially all of the activities of the VIE either involve or are conducted on behalf of a single variable interest holder (excluding the single decision maker) in the single decision maker's related party group.

The single variable interest holder for which substantially all of the activities either involve or are conducted on its behalf would be the primary beneficiary. The evaluation in (b) above should be based on a qualitative assessment of all relevant facts and circumstances. In some cases, when performing that qualitative assessment, quantitative information may be considered. This assessment is consistent with the assessments in paragraphs 810-10-15-14(c)(2) and 810-10-15-17(d)(2).

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. The LIHTC program is designed to encourage investment of private capital for use in the construction and rehabilitation of low-income housing projects. The program is a tax subsidy that allows investors in a flow-through limited liability entity, such as a limited partnership or limited liability company that manages or invests in a qualified affordable housing project, to receive the benefits of the income tax credits allocated to the entity that owns the qualified affordable housing project. The Revenue Reconciliation Act of 1993 retroactively extended and made permanent the low-income housing tax credit. Investors in entities operating qualified affordable housing projects receive tax benefits in the form of income tax credits and tax deductions from operating losses. The income tax credits are allowable on the tax return each year over a 10-year period as a result of renting a sufficient number of units to qualifying tenants and are subject to restrictions on gross rentals paid by those tenants. These credits are subject to recapture by the Internal Revenue Service over a 15-year period starting with the first year the income tax credits are earned.

BC3. Update 2014-01, which was a consensus of the FASB Emerging Issues Task Force, amended the accounting for LIHTC investments. Currently under GAAP, an entity that invests in a qualified affordable housing project through a limited partnership investment may elect to account for the investment using the proportional amortization method (described in paragraphs 323-740-35-2 and 323-740-45-2) provided all of the following conditions are met:

a. It is probable that the tax credits allocable to the investor will be available.
b. The investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity.
c. Substantially all of the projected benefits are from tax credits and other tax benefits.

d. The investor's projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.
e. 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.

BC4. The proportional amortization method can be applied only to eligible qualified investments in affordable housing projects that earn low-income housing tax credits. Investments that earn income tax credits and other income tax benefits through other tax credit programs are not eligible to apply the proportional amortization method. Instead, these investments are accounted for by tax equity investors in accordance with Subtopic 323-30, which results in most of those investments being accounted for using the equity method. LIHTC investments not accounted for using the proportional amortization or equity method apply the cost method of accounting; however, other equity investments, including some tax equity investments in other tax credit programs, not accounted for using the equity method apply guidance in Topic 321.

BC5. In addition to LIHTC investments, three other main federal tax credit programs attract tax equity investments:

a. New Markets Tax Credit (NMTC) program, which is meant to attract financing for the development of projects that will bring economic expansion to specifically designated areas
b. Historic Rehabilitation Tax Credit (HTC) program, which is meant to encourage the restoration of designated historic sites
c. Renewable Energy Tax Credit (RETC) program, which awards either production-based or investment-based tax credits from the creation of energy through renewable projects. Examples of RETC programs include federal solar investment tax credits, on-shore wind production tax credits, and off-shore wind investment tax credits.

The types of tax equity projects and investments in those projects have continued to increase in recent years, including more entities that are starting to make tax equity investments in an effort to meet environmental, social, and governance (ESG)-related objectives and for certain regulated entities to meet their Community Reinvestment Act goals. In addition, a number of state-specific tax credit programs attract investors, and federal and state governments continue to discuss the creation of additional programs to incentivize certain activities.

BC6. Stakeholders provided feedback that equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits should be accounted for consistently with LIHTC projects. Stakeholders further asserted that many investments in projects that generate income tax credits through other tax credit programs, such as federal NMTC, HTC, RETC, and other programs are made for the same purpose as LIHTC investments (primarily to receive income tax credits and other tax benefits). Preparers and practitioners cited complexity in applying the equity method of accounting to those investments and indicated that the equity method may not fairly represent the economic characteristics or profitability of such investments.

BC7. On September 22, 2021, the Board added a narrow-scope project to the EITF agenda to determine whether the proportional amortization method should be expanded to include investments that generate income tax credits from programs beyond LIHTC structures and to determine whether certain clarifications need to be made to the conditions in paragraph 323-740-25-1 to accommodate such an expansion.

Basis for Conclusions

Scope and Other Considerations

BC8. The Task Force reached a consensus-for-exposure that tax equity investments that meet all five conditions in paragraph 323-740-25-1 would be able to apply the proportional amortization method, regardless of the tax credit program or programs from which the investment generates income tax credits. In reaching that consensus-for-exposure, the Task Force believes that the conditions in paragraph 323-740-25-1 are sufficiently constrained to ensure that investments are made for the primary purpose of receiving income tax credits and other income tax benefits. When considering whether to expand the proportional amortization method to all investments that meet the conditions in paragraph 323-740-25-1, Task Force members considered that often new tax credit programs are introduced by federal and state governments and that if the Task Force limited the ability to apply the proportional amortization method to certain named tax credit programs, future standard setting may be necessary. Task Force members also considered that investments in tax credit structures in which the tax credit investor is required to consolidate would apply the guidance in Topic 810, Consolidation, and would not be able to apply the proportional amortization method. Additionally, if the tax credit investment is classified as a debt investment, it would not be eligible to apply the proportional amortization method.

BC9. The Task Force also considered, but ultimately dismissed, an alternative to limit the expansion of the proportional amortization method only to NMTC investments. The Task Force considered this alternative because of the many similarities between NMTC and LIHTC investments, especially in that the amount of income tax credits and other income tax benefits is known with near certainty when the investment is made and those tax equity investors do not receive more-than-nominal non-income-tax-related benefits from the investment during the tax credit period. While additional application questions arise if the proportional amortization method is expanded to include tax equity investments that provide uncertain income tax credits and other income tax benefits or that provide non-income-tax-related benefits, the Task Force believed that it was preferable to pursue a broader solution in developing an improvement to the Codification.

BC10. The Task Force reached a consensus-for-exposure that entities may elect to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis. That is, the Task Force decided that an entity may elect to apply the proportional amortization method to all investments that qualify to use the proportional amortization method within one or more tax credit programs but could elect not to apply the proportional amortization method to investments that generate income tax credits through another program. The Task Force considered, but ultimately dismissed, an alternative under which an entity's accounting policy election to apply the proportional amortization method would be required to apply to all tax equity investments. That alternative was dismissed because the Task Force did not believe that the benefits of requiring the evaluation of whether an investment qualifies for the proportional amortization method for all tax equity investments would justify the cost for certain investments because investments in certain tax credit programs are unlikely to meet the conditions to apply the proportional amortization method.

BC11. The Task Force determined that in expanding the proportional amortization method to investments in tax credit structures beyond LIHTC structures, certain clarifications would be necessary to facilitate consistent application. The Task Force decided that no clarifications would be needed to the conditions in paragraph 323-740-25-1(a), (b), and (c).

BC12. Regarding the condition in paragraph 323-740-25-1(aa), that the investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity, the Task Force considered (a) whether the condition should be retained, (b) whether the current wording is operable and well understood in practice, and (c) how the condition should be considered in a multitiered investment structure, such as an NMTC structure. The Task Force decided that it would retain the condition because it would help ensure that only those investments made for the primary purpose of receiving income tax credits and other income tax benefits (and not those investments in which tax equity investors participate in management of the project) are able to elect to apply the proportional amortization method. The Task Force did decide, however, to ask in its Questions for Respondents whether it is necessary to retain this condition. The Task Force also decided to retain the condition as it is written with a clarification as described in paragraph BC13, noting that it is unaware of any practice issues that have arisen from applying this condition and that practitioners and preparers who apply the condition regularly understand its intent and are able to apply it consistently.

BC13. The Task Force decided that it would provide clarification on how to apply the significant influence condition in paragraph 323-740-25-1(aa) when the structure is multitiered, such as an NMTC investment structure. In multitiered structures, there are several flow-through entities between the investor and the project itself, and therefore some stakeholders indicated that it was unclear at which entity in the structure the evaluation of significant influence should occur. The Task Force determined that the project investment structure itself would be looked at holistically to avoid structuring opportunities. The Task Force does not intend that this clarification would change the application of this condition in current practice for LIHTC structures or the evaluation of significant influence by other investors that are not the tax equity investor.

BC14. The Task Force reached a consensus-for-exposure to provide clarification on the substantially all condition in paragraph 323-740-25-1(aaa) to clarify what is meant by the concept of a "projected benefit" and to indicate whether the test should be calculated using discounted or undiscounted amounts. Although the Task Force is unaware of current practice issues from applying this condition, the Task Force understands that tax credit structures beyond investments in LIHTC structures often provide non-income-tax-related benefits and, therefore, believed that a clarification to the meaning of "projected benefit" would help facilitate consistent application. The Task Force reached a consensus-for-exposure that the existence of refundable tax credits (that is, tax credits that are not within the scope of Topic 740) should not preclude an entity from applying the proportional amortization method to that investment. However, the Task Force decided that when evaluating this condition, refundable tax credits should be considered part of total projected benefits but not included as an income tax credit or "other income tax benefit." The Task Force also determined that the substantially all test should be calculated using discounted amounts because generally when making an investment, the tax equity investor is not considering the cash to be received upon exiting the structure as a significant factor for entering the investment and the approach is also consistent with other areas of GAAP in which future cash flows are considered. Therefore, Task Force members viewed cash flows that occur later in the project's life as not weighing as heavily on the investment decision and, therefore, determined that discounting the amounts was appropriate. The Task Force considered whether to specify a discount rate, but it decided instead to require that the discount rate used in evaluating the condition be one that is consistent with the cash flow assumptions used by the tax equity investor in deciding whether to invest in the project. The Task Force considered, but rejected, an alternative to specify the internal rate of return, risk free rate, or other specified rate as the rate to be used in evaluating the condition.

BC15. The Task Force considered the interaction between the use of the proportional amortization method and the election provided in Topic 740 to account for the receipt of investment tax credits by applying the deferral method or the flow-through method. The Task Force considered that if an investment is accounted for using the proportional amortization method, it would not be appropriate for an entity to use the deferral method to account for the receipt of the investment tax credits because the objective of the deferral method is inconsistent with the use of the proportional amortization method and could result in significant additional complexity. Therefore, the Task Force reached a consensus-for-exposure that entities are required to apply the flow-through method to tax equity investments that qualify for and are accounted for using the proportional amortization method.

BC16. The Task Force noted that paragraph 810-10-25-44B includes an exception to certain aspects of the variable interest entity consolidation model for tax equity investments that meet the conditions in paragraph 323-740-25-1. Because more investments will meet the conditions in paragraph 323-740-25-1, this exception will be consequentially expanded.

Disclosure

BC17. The Task Force reached a consensus-for-exposure that would maintain the disclosure objective in paragraph 323-740-50-1, which applies to all tax equity investments in projects that generate income tax credits and other income tax benefits from a tax credit program for which it has elected to use the proportional amortization method, and would require specific disclosures for those investments, even if those individual investments do not qualify for use of the proportional amortization method. The Task Force reached a consensus-for-exposure to require the following disclosures for those investments because this information has been consistently requested by financial statement users in order to provide clarity about investment amortization and tax benefits netted within the income tax expense (benefit) line item:

a. The amount of income tax credits and other income tax benefits recognized during the period, including the line item in the statement of operations and statement of cash flows in which they have been recognized
b. The balance of the investments and the line item in which the investments are recognized in the statement of financial position
c. For tax equity investments accounted for using the proportional amortization method, the amount of investment amortization recognized as a component of income tax expense (benefit)
d. The amount of non-income-tax-related benefits and other returns received and recognized outside of income tax expense (benefit) and the line item in the statement of operations and statement of cash flows in which they have been recognized
e. Significant modifications or events that resulted in a change in the nature of the investment or a change in the relationship with the underlying project for investments accounted for using the proportional amortization method.

BC18. In reaching a consensus-for-exposure, the Task Force noted that although items (a) through (c) are included in the existing guidance as examples of ways in which the objective in paragraph 323-740-50-1 can be met, the Task Force believes that they should be required because of the importance of this information to financial statement users. The Task Force decided that it would retain the disclosure examples in paragraph 323-740-50-2 that are not required but should be considered to meet the disclosure objective.

Transition and Transition Disclosures

BC19. The Task Force reached a consensus-for-exposure that the proposed amendments could be applied using either a modified prospective or a retrospective approach because either approach would provide financial statement users with meaningful information and because one approach or the other may be preferred on the basis of an entity's tax equity investment portfolio. The Task Force discussed but dismissed transitioning based on a prospective approach because many tax equity investments have long lives, and therefore a prospective approach would cause financially similar investments to be accounted for inconsistently over a potentially long period of time.

BC20. The guidance on other presentation matters in Topic 250, Accounting Changes and Error Corrections, applies to any voluntary change in accounting principle, including a change in the method of applying an accounting principle. The Task Force reached a consensus-for-exposure to apply the disclosure requirements in Section 250-10-50 for an accounting change required by the proposed guidance, with the exception of disclosing the reason why the change in accounting principle is preferable. No additional transition disclosures beyond the requirements in paragraphs 250-10-50-1 through 50-2 are required.

Benefits and Costs

BC21. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC22. The Task Force does not anticipate that most entities will incur significant costs as a result of the amendments in this proposed Update. The proposed amendments would provide the benefit of allowing economically similar transactions to be accounted for consistently. The Task Force believes that reporting entities will likely elect to use the proportional amortization method for investments in projects that generate income tax credits from programs for which most investments are expected to meet the conditions to apply the proportional amortization method. The Task Force also believes that presenting the returns from investments primarily entered into for purposes of obtaining income tax credits and other benefits using the proportional amortization method would better reflect the economics of the investment and that the disclosures required by the proposed amendments would provide users with a better understanding of the entity's investment returns. The Task Force further notes that applying the proportional amortization method is optional and may be less costly than applying the equity method to such investments.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.