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Coming soon: New accounting rule on government assistance disclosures

On November 17, the Financial Accounting Standards Board (FASB) issued a new accounting standard on disclosing certain types of government incentives that businesses receive to set up shop in a locality. The standard comes at a time when investors have been clamoring for more detailed information around incentives businesses get — some to the tune of billions of dollars in tax breaks. Plus, given the increase in government assistance related to the COVID-19 pandemic, the number of companies that have adopted accounting policies on government assistance has increased.

Long-awaited standard

Government incentives are offered by policymakers to lure big companies - like Amazon, Tesla and Walmart - to establish a business in their state. The goals are to drive economic growth and create jobs for residents. It's typically a win-win for both parties.

The FASB first proposed issuing a rule on disclosures in 2015. But the topic proved to be somewhat controversial, generating some pushback from companies over concerns that too much competitive information would be divulged. Ultimately the FASB decided on a slimmed down version of the proposal after considering operational matters and comparing the costs and benefits.

A more consistent approach

Accounting Standards Update (ASU) No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance*, is the FASB's first step to provide rules on the topic as there are no explicit rules in U.S. Generally Accepted Accounting Principles (GAAP). Without prescriptive guidance, accounting differences have bubbled up among companies, hampering the ability of investors to make informed decisions.

The disclosure requirements are designed to help investors understand:

- The terms and conditions of the agreements,
- Contingencies and longevity of the assistance,
- The risks associated with the agreements, and
- How the agreements would affect financial results.

For example, companies would disclose forgivable loans from the government or a receipt of cash or other assets but base them on the accounting method they used to record the transaction.

Required disclosures

The standard requires companies to disclose:

- Information about the nature of the transactions and the related accounting policy used to account for the transactions,
- Line items on the balance sheet and income statement that are affected by the transactions,
- The amounts applicable to each financial statement line item, and
- Significant terms and conditions of the transactions, including commitments and contingencies.

Businesses will be required to provide annual disclosures about transactions for the government that are accounted for by applying a grant or a contribution accounting model by analogy to guidance such as Topic 958, *Not-for-Profit Entities*, or International Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

Already, some market watchers have said they want more to be included in the standard. For instance, it doesn't require disclosure of the biggest tax breaks companies get, such as property tax. Especially important to analysts is how much of a company's profits stem from its own business acumen versus a reliance on incentives baked into their business models.

Ready, set, disclose

ASU 2021-10 is effective for fiscal periods after December 15, 2021, for both public and private companies. Early application is permitted. If your business receives government assistance, we can help you disclose the details of the transaction in a transparent, reliable manner.