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## Reporting UTPs on your financial statements

It can be difficult for business owners to navigate the tax code and monitor tax law developments. One area of special concern is financial reporting for uncertain tax positions (UTPs). Here's some insight to help clarify matters.

### Recognition standard

Companies that follow U.S. Generally Accepted Accounting Principles (GAAP) must identify, measure and disclose UTPs using a "more-likely-than-not" threshold. In short, tax accruals are booked only for uncertain positions that meet this standard.



This means that a tax benefit is allowed only if there's a more than 50% likelihood that the position would be sustained if challenged and considered by the highest court in the relevant jurisdiction. Unrecognizable benefits with less than a 50% cumulative chance of sustaining an IRS challenge should be reported on the balance sheet as a separate UTP liability.

Foreign UTPs are accounted for in the same manner as U.S. positions. However, foreign positions can create additional complications.

### Audit presumption

When reporting UTPs, companies should presume that returns will be audited and tax authorities will have access to all information. Then, management must identify all material tax positions, including those that:

- Exclude specific income streams from taxable income,
- Assert an equity restructuring is tax-free,
- Refrain from filing a tax return in a particular jurisdiction, or
- Accelerate expense or delay income recognition, such as depreciation or amortization expenses.

When reporting UTPs, management should create detailed tabular disclosures and factor into its estimates such costs as accrued interest and penalties. Moreover, unresolved UTPs must be reassessed as of each balance sheet date. Recent developments — such as emerging case law, tax law changes or interactions with taxing authorities — could affect tax benefits formerly recognized.

### We can help

Estimating probabilities and future settlement amounts is subjective and requires the expertise of an experienced CPA. Among the factors an expert will consider are the company's expected settlement strategy, the nature of the tax liability and applicable tax law precedents. [Contact us](#) for more information on how to measure and disclose UTPs in today's uncertain business environment.