

**1990 VALUATION ACTUARY
SYMPOSIUM PROCEEDINGS**

FAS 96
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The Financial Accounting Standards Board, in its statement of Financial Accounting Standards No. 96, *Accounting for Income Taxes*, (FAS 96) has decided the accounting for income taxes for most companies will significantly change. The effective date for the statement has been deferred to fiscal years beginning on or after December 15, 1991.

FAS 96 requires enterprises to change from the deferred method to the liability method of accounting for income taxes. The liability method accounts for deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to differences between the book carrying value and the tax basis of assets and liabilities. These deferred tax liabilities, and in some cases assets, are adjusted immediately in full to reflect any changes in tax laws or rates.

FAS 96 shifts the focus from the income statement, as in the present practice, to the balance sheet. One of the main challenges facing companies is to prepare and maintain records of their temporary differences, not only at the balance sheet date, but also on a year-by-year scheduled basis for the reversal of temporary differences in order to apply the liability method in situations where, for example, an entity is in a net operating loss or tax credit carryforward position. One of the key decisions that must be made upon

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implementing FAS 96 is whether or not to restate prior years. If no prior year is restated, the effect of applying the statement on the amount of a company's deferred tax liability (asset) at the beginning of the year is reported in the income statement in a manner similar to the cumulative effect of a change in accounting principle.