Accounting for Income Taxes - SFAS 109: Certified Public Accountant
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*A solution that makes more sense—
let the celebration begin*

Accounting for Income Taxes—SFAS 109

By Darlene A. Smith and Gary R. Freeman

In a bold and imaginative change, the FASB has taken a new position on deferred taxes. The recognition of a deferred tax asset is to be permitted when "more likely than not" the tax benefit will be realized at a future date. The troops can now celebrate; we have a standard that most can live with.

Earlier this year, the FASB issued SFAS 109, "Accounting for Income Taxes," effective for fiscal years beginning after December 15, 1992, with earlier adoption encouraged. This statement supersedes SFAS 96 (and several other pronouncements) issued in 1987, whose effective date was three times deferred, and which in turn replaced APBO 11 and several other pronouncements. SFAS 96 had generated extensive criticism, and the deferral of its effective date was designed to allow for due process in preparing its replacement. SFAS 109 is the Board's response.

PROBLEMS WITH APBO 11 AND SFAS 96

APBO 11, issued in 1967, required the deferral method of accounting for income taxes. The recognition and measurement of deferred income tax liabilities and assets were based on an income statement approach. Income tax expense was computed by applying the current tax rate to financial statement income before taxes but after adjustment for permanent differences in taxable and financial statement income. The current tax liability was the amount of taxes to be included on that year's tax return. Income tax expense in excess of the current tax liability created a deferred tax credit. A current tax liability in excess of tax expense reduced the deferred tax credit or created a deferred tax charge. This process was often referred to as the with-and-without method. Due to changes in tax rates in subsequent periods, the effect of timing differences often entered the deferred tax credit account at one tax rate and was removed later at a different tax rate. A principal criticism was that the resultant deferred tax credit eventually became meaningless—just the result of a mechanical process.

The major purpose of SFAS 96 was to make the balance sheet accounts for deferred taxes more meaningful in keeping with the FASB's conceptual framework. Accordingly, it required the recognition and measurement of deferred tax liabilities and assets under the liability method. This approach is also used in SFAS 109. Income tax expense now is to be the result of several computations. First, the current tax expense or benefit is the amount expected to be reported on the current year's tax return as the tax payable or refundable. Then, the deferred tax liability or asset at the end of the period is computed by applying the enacted tax rate expected to apply to the temporary differences when they reverse and become elements of income or expense on the tax return. The change in the liability or asset from the beginning of the year is the deferred component to be added to or subtracted from the current tax payable or refundable to arrive at financial statement tax expense or benefit.

There were numerous criticisms of SFAS 96, with two major matters creating the most controversy. SFAS 96's recognition and measurement methods resulted in much complexity and confusion in the recognition and measurement of deferred tax assets. The application of federal tax law coupled with the prohibition to consider any future taxable income created this problem. In addition, extensive scheduling was required to determine the future reversal of temporary differences. It was argued that this scheduling was an overwhelming burden.

RECOGNITION OF TAX ASSETS AND SCHEDULING REQUIREMENTS

To allow for recognition of deferred tax assets in situations where benefits from temporary deductible differences are expected to be realized but were not allowed under SFAS 96, the basic objectives adopted in SFAS 96 had to be modified. Under SFAS 96, the basic objective of accounting for income taxes was to recognize the amount of current and deferred income taxes payable or refundable at the date of the financial statements 1) as a result of all events that had been recognized in the financial statements and 2) as measured by the provisions of enacted tax laws. Under SFAS 109, the objectives of accounting for income taxes are 1) to recognize the amount of taxes payable or refundable for the current year and 2) to recognize deferred tax liabilities or assets for the future tax consequences of events that have been recognized in the financial

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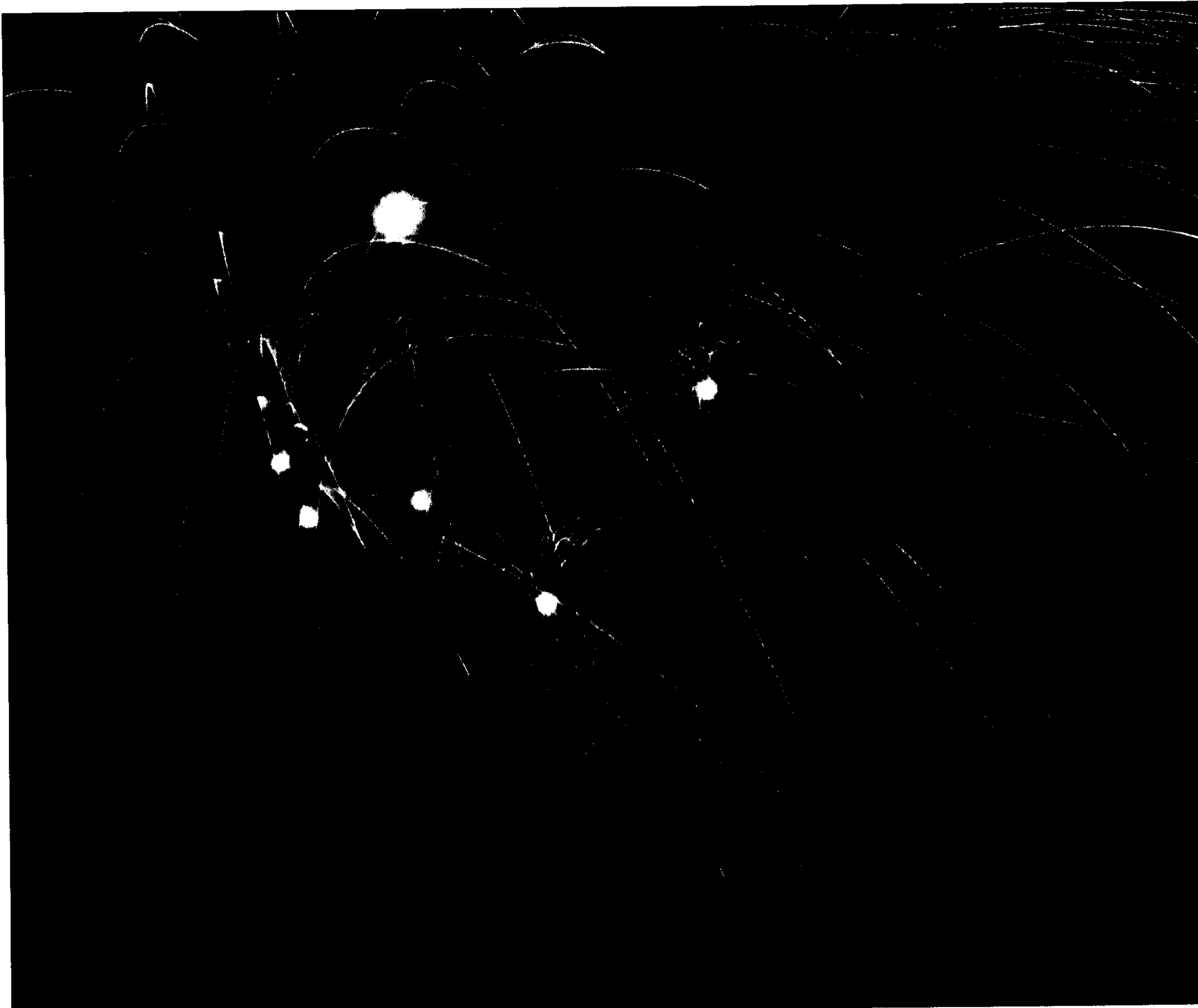

statements or tax returns. The primary difference in SFAS 109 is that the future tax consequences of currently recognized events are allowed to be considered. SFAS 96 specifically disallowed any consideration of the tax consequences of earning income in future years.

The Board believes that a reduction in the scheduling burden has been achieved through the procedures now required to recognize deferred tax assets and liabilities. For many companies, this objective appears to have been achieved. For others, the burden may still be substantial.

Recognition of Deferred Tax Liabilities and Assets

The new statement specifies the procedure to be used to determine an enterprise's deferred tax expense (or benefit), liabilities, and assets. The change in the deferred tax assets and liabilities is the deferred tax expense or benefit of the period. The financial statement preparer is required to:

- Identify 1) the types and amounts of existing temporary differences and 2) the nature and amount of each type of operating loss and tax credit carryforward and the remaining length of the carryforward period;
- Measure the total deferred tax liability for taxable temporary differences using the enacted tax rate expected to apply in years the temporary differences will reverse;
- Measure the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the enacted tax rate expected to apply at the time of reversal or realization;
- Measure deferred tax assets for each type of tax credit carryforward; and
- Reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is *more likely than not* that some or all of the deferred tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized.

Deferred tax assets are initially recognized and then all available evidence must be considered to determine whether a valuation allowance must also be recognized for some or all of these assets. This is a major departure from SFAS 96, which would not allow recog-

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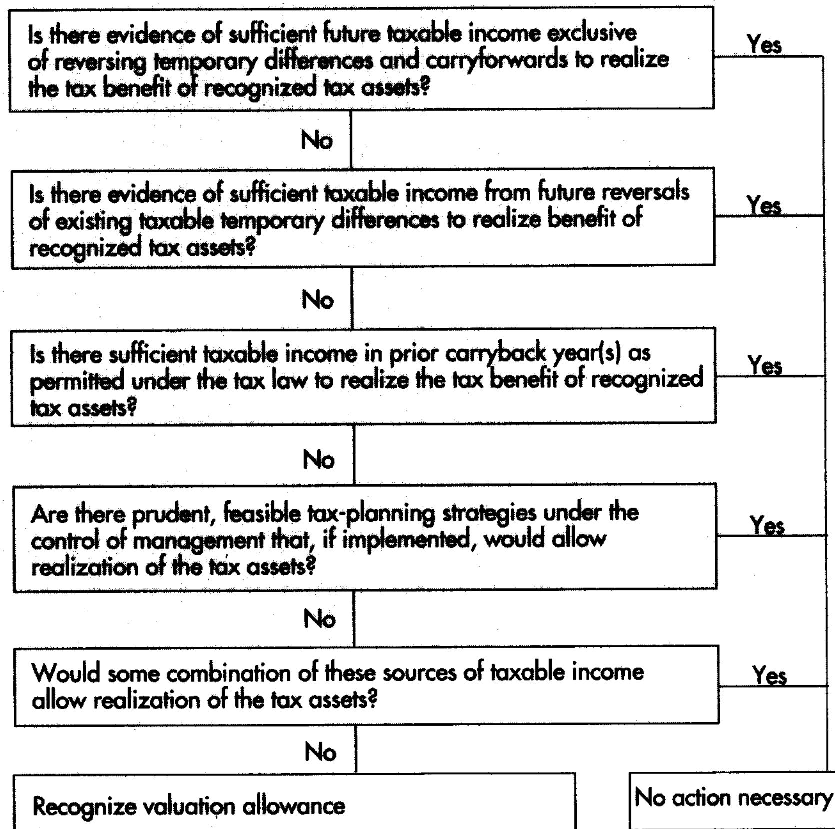
FIGURE 1
RECOGNITION OF DEFERRED TAX ASSETS AND LIABILITIES



nition of deferred tax assets on a presumption of future income basis.

The *more likely than not* criterion is a new concept to financial accounting standards. But it is an approach that the Board introduced because of conceptual problems that arise if measurement of the tax asset is made dependent upon predicting future taxable income. The term embodies the concept of likelihood of recovery that is at least slightly more than 50%. In other words, if the tax asset is likely to be realized, do not provide a valuation allowance. If the tax asset is not likely to be realized, provide a valuation allowance sufficient to reduce the net asset to the amount likely to be realized. Although this seems rather straightforward in the saying, there will no doubt be many problems and uneasiness in the doing. It is an entirely new approach to asset valuation and may very well test preparers' and their independent auditor's skills in its application.

Valuation Allowances for Deferred Tax Assets

Since future realization of a deferred tax asset is an unknown that cannot be accurately predicted, judgment must be used to determine whether a valuation allowance is necessary. Realization of this asset ultimately rests on the realization of sufficient taxable income of the right kind at the right time.

SFAS 109 lists four possible sources of taxable income:

- Future reversals of existing temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback year(s) if carryback is permitted under the tax law; and
- Tax-planning strategies that would, if necessary, be implemented to, for example:

1. Accelerate taxable amounts to utilize expiring carryforwards.
2. Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss.
3. Switch from tax-exempt to taxable investments.

SFAS 109 goes on to indicate that to the extent evidence about a single source of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered. Consideration of each source is required, however, to determine the amount of any valuation allowance that is recognized.

In deciding whether a valuation allowance is necessary, all evidence, positive and negative, must be considered. Examples of negative evidence include:

- Cumulative losses in recent years;
- History of operating losses or tax credit carryforwards expiring unused; and
- Losses expected in early future years by a presently profitable entity.

Examples of positive evidence that might be necessary to support a conclusion that a valuation allowance is not needed when there is negative evidence include:

- An excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset; and
- A strong earnings history exclusive of

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FIGURE 2
COMPUTATION OF INCOME TAX EXPENSE FOR YEAR 1

Under APBO 11
Current taxes payable:

Income before taxes	$1,000,000
Unpaid warranty expense	70,000
Taxable income	$1,070,000
	X .34
Current taxes payable	$ 363,800

Income tax expense:

Income before taxes	$1,000,000
	X .34
Income tax expense	$ 340,000

Tentative deferred tax charge:

Income tax expense	$ 340,000
Current tax liability	363,800
Deferred tax credit (charge)	$ (23,800)

Unless realization of the benefit is reasonably assured, no tax asset can be recognized and income tax expense is $363,800.

Under SFAS 96
Current taxes payable:

Income before taxes	$1,000,000
Unpaid warranty expense	70,000
Taxable income	$1,070,000
	X .34
Current taxes payable	$ 363,800

Deferred taxes receivable:

	Year 1	Year 2	Year 3	Year 4	Year 5
Deductibles		(30,000)	(20,000)	(10,000)	(10,000)
Carrybacks	(30,000)	30,000			
	(20,000)		20,000		
	(10,000)			10,000	
	(60,000)	-0-	-0-	-0-	(10,000)
	.34				
	(20,400)	-0-	-0-	-0-	-0-

Income tax expense:

Current taxes payable	$363,800
Deferred taxes receivable	(20,400)
Tax expense	$343,400

(continued)

the loss that created the future deductible amount.

The process of recognizing tax liabilities, assets and valuation allowance accounts is illustrated in *Figure 1*.

Example. The following example illustrates the computation of income tax expense, liabilities and assets under APBO 11, SFAS 96 and SFAS 109.

Assume that Newco, a manufacturing company, has financial statement income before taxes of $1,000,000. This amount includes warranty expense of $100,000. Of the warranty costs for Year 1 sales, $30,000 was paid in Year 1, $30,000 is expected to be paid in Year 2, $20,000 in Year 3, $10,000 in Year 4, and $10,000 in Year 5. Since warranty costs are deductible for tax purposes only when paid, this situation creates a deductible temporary difference of $70,000. Assume that the income expected over the next four years will be such that the enacted applicable tax rate will be 34%, that this is Newco's first year, and that there are no other temporary differences. The computation of income tax expense for Newco under the three pronouncements is shown in *Figure 2*.

Alternative Minimum Tax

Alternative minimum tax (AMT), while the bane of most tax preparers and taxpayers, is dealt with quite simply under the new statement. SFAS 109 simply states that a deferred tax asset is recognized for alternative minimum tax credit carryovers. Since the alternative minimum tax credit does not expire, this would seem logical for companies that expect to be in a regular tax position in the foreseeable future. At that time the alternative minimum tax credit would operate to reduce regular tax liability and the deferred tax asset will be realized. However, if circumstances were such that it is more likely than not that all or a portion of the AMT carryforward would not be realized, a valuation allowance should be appropriately provided.

Have Scheduling Needs Been Reduced?

A major criticism of SFAS 96 has been the overwhelming burden of scheduling the reversal of temporary differences to determine net taxable and net deductible amounts for future years. One of the

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Board's stated objectives in issuing the new statement is to reduce the complexity of scheduling.

For companies with a strong earnings history and the expectation of strong earnings in the future, it would appear that the Board has achieved that objective. For purposes of filing tax returns, extensive scheduling is almost always required by an enterprise that utilizes different methods for financial statement purposes and for tax purposes. However, that scheduling should provide enough information for these enterprises to evaluate the eventual reversal of temporary differences and the likelihood of realization of deferred tax assets.

However, in less straightforward situations, it would appear that additional extensive scheduling might still be required. When there is not sufficient evidence that there will be future taxable income exclusive of reversing temporary differences to allow realization of the deferred tax assets, the other sources must be evaluated.

The first source of sufficient taxable income is future reversals of existing temporary differences. Scheduling similar to that required by SFAS 96 would be required in most cases to determine if this single source of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary. If no single source of taxable income is sufficient, consideration of all sources may be required to determine the amount of the valuation allowance that is recognized. Again, how would one consider all the sources that conceivably may be available without extensive scheduling?

The third source of sufficient taxable income to allow realization of tax assets is taxable income in prior carryback years. Again, since net deductible amounts can be carried back only three years under federal tax law, scheduling would be required to determine how much of the deductible temporary differences reverse during the next three years. This scheduling might often be substantially less than that required under SFAS 96.

The fourth source of sufficient taxable income to allow realization of the tax assets is the use of tax-planning strategies. SFAS 96 required consideration of tax-planning strategies that maximized the amount of tax benefits recognizable in the current year. Under SFAS 109, however, tax-planning strategies come into play as a possible source of positive evidence that a valuation allowance is not needed. To be considered positive evidence, the tax-planning strategy must be prudent, feasible, and primarily within control of management. The tax benefit of implementation of a tax-planning strategy should be recognized net of the costs to implement it; the use of tax-planning strategies might require substantial scheduling.

Another situation is not relevant at the present time, but, with a Congress that often tinkers with the tax law, could present problems in the future. The tax rate used to measure a deferred liability or asset may vary, depending upon when the difference is expected to reverse. If tax rates were enacted for future years that change from year to year, it would appear that substantial scheduling would be required to determine when the differences would reverse and which tax rate should be applied.

Another situation requiring substantial scheduling would be for a company that has a history of paying the alternative minimum tax and does not expect to pay regular taxes in the foreseeable future. Some feel intuitively that such AMT will ultimately be usable as a reduction of regular income tax. Others feel that companies in this position may want to present evidence of sufficient future taxable income by scheduling future rever-

FIGURE 2
COMPUTATION OF INCOME TAX EXPENSE FOR YEAR 1

(continued)

Under SFAS 109
Current taxes payable:

Income before taxes	$1,000,000
Unpaid warranty expense	70,000
Taxable income	$1,070,000
	X .34
Current taxes payable	$ 363,800

Deferred tax asset:

Temporary deductible amount	$ 70,000
Enacted marginal tax rate	X .34
Deferred tax asset	$ 23,800

Valuation allowance:

- There are no reversing taxable temporary differences to provide sufficient taxable income for realization of the tax asset.
- Since this is the company's first year, there is not sufficient earnings history to provide evidence that there will be sufficient taxable income exclusive of reversing temporary differences for realization of the tax asset.
- There is sufficient taxable income in the current year to allow carryback of the entire temporary difference. However, current tax law would allow carryback only for the differences reversing in Years 2, 3, and 4.
- There is no evidence of tax-planning strategies that could be implemented to provide sufficient taxable income for realization of the tax asset.
- Unless other positive evidence could be provided, a valuation allowance must be provided for the $10,000 of temporary deductible amount that cannot be carried back to the current year from Year 5.

Temporary deductible amount	$ 10,000
Enacted tax rate	X .34
Valuation allowance	$ 3,400

Income tax expense:

Current taxes payable	$363,800
Deferred taxes asset	(23,800)
Valuation allowance	3,400
Tax expense	$343,400

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FIGURE 3

ACCOUNTING FOR INCOME TAXES—APBO 11 VS. SFAS 96 VS. SFAS 109

APBO 11	SFAS 96	SFAS 109
Base tax expense on pretax accounting income using a with-and-without calculation to arrive at the amount deferred. Considered an income statement approach.	Estimate taxes expected to be paid or refunded in the future based on differences between the book and tax bases of balance sheet items and adjust deferred tax expense for any change in the liability from the prior year. Considered a balance sheet approach.	Same as SFAS 96
Use current tax rates to determine deferred tax expense. Tax rate changes do not affect existing deferred tax balances until the underlying timing differences reverse.	Use the graduated tax rates enacted for each year in which differences between the book and tax values of balance sheet items are expected to become taxable. Tax rate changes will immediately affect previously recorded amounts.	Use the enacted tax rate expected to apply to the taxable income for each year in which the deferred tax liability or asset is expected to be settled or realized. Tax rate changes would immediately affect previously recorded amounts.
Use potential future tax benefits (deferred tax charges NOL carryforwards, and tax credit carryforwards) to reduce deferred tax credits.	Use potential future tax benefits to reduce deferred tax liabilities, which does not substantially change current practice.	Same as SFAS 96
Record or increase net deferred tax charges (assets) each year when they originate to the extent taxes currently payable exceed taxes on financial statement income. There is no limitation on amount; however, it is subject to a recoverability test.	Limit net deferred tax assets to the extent of taxes previously paid that could be recovered through carryback of future losses when the underlying book/tax differences reverse.	Recognize a deferred tax asset using the enacted tax rate expected to apply. Recognize a valuation account if it is more likely than not that some portion of the asset will not be realized.
Recognize an asset for net operating loss carryforwards when realization is assured beyond a reasonable doubt (very limited application for public companies because the SEC has a very stringent view of this criterion).	Recognize the benefit of an NOL carryforward only when it may be applied to reduce deferred tax liabilities or when it reduces taxes currently payable.	Recognize a deferred tax asset using the enacted tax rate expected to apply. Recognize a valuation account if it is more likely than not that some portion of the asset will not be realized.
Do not record deferred tax credits for APBO 23 book/tax differences if they meet the indefinite reversal criteria.	Record a deferred tax liability for the tax effects of all items that may result in future taxable income.	On a prospective basis, recognize deferred tax liabilities and some deferred tax assets. Recognize existing temporary differences when it becomes obvious that they will reverse in the foreseeable future, or when they reverse in some cases.
Disclose amounts and expiration dates of unrecognized net operating losses and any other significant unused deductions or credits.	Disclose amounts and expiration dates of unrecognized operating losses and tax credit carryforwards for financial reporting and for tax purposes.	Disclose components of net deferred tax liability or asset including total deferred tax liabilities, total deferred tax assets, and the total valuation allowance. Also disclose net change in the valuation allowance and the types of temporary differences, carryforwards or carrybacks that give rise to significant portions of deferred tax liabilities and assets.
Use tax-planning strategies to postpone taxable income, which allows taxes currently payable to be deferred but generally affects total income tax expense only when applying APBO 23.	Use of tax-planning strategies is required to optimize timing and nature of future taxable income and deduction, which could reduce deferred and total income tax expense.	Prudent, feasible tax-planning strategies that are within the control of management and would be implemented to avoid loss of a tax benefit are treated as positive evidence that tax assets will be realized.

(continued)

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FIGURE 3
ACCOUNTING FOR INCOME TAXES—APBO 11 VS. SFAS 96 VS. SFAS 109

(continued)

APBO 11	SFAS 96	SFAS 109
No specific method of allocating tax expense among the members of a group filing a consolidated tax return. No specific disclosure requirements for separately issued financial statements.	No specific method for allocating tax expense among the members of group filing a consolidated tax return. Separately issued financial statements must disclose each member's current and deferred tax expense, intercompany payables and receivables related to tax expense, the principal provisions of the allocation method and the effect of any changes in that method.	The consolidated amount of current and deferred tax expense is allocated among the members of the group using a systematic, rational method. Separately issued financial statements must disclose the allocated amounts, the principal provisions of the allocation method and intercompany payables and receivables related to tax expense.
Alternative minimum tax is computed to measure current tax expense. The greater of the regular tax or the alternative minimum tax is the current tax expense.	The reversal pattern of temporary differences is scheduled under both the regular tax system and the alternative minimum tax system. Both are used to measure potential liabilities and assets for each future year. Giving consideration to any interaction between the two systems, a deferred tax liability or asset is recognized.	The deferred tax liability is measured by applying the enacted tax rate to temporary differences. A deferred tax asset is recognized for an alternative minimum tax credit carryforward. A valuation account is recognized if it is more likely than not that some portion of the tax asset will not be realized.
Adjust acquired assets and liabilities for the future tax effects of differences between appraised values and tax bases.	Record a deferred tax liability or asset.	Record acquired assets and liabilities at their appraised values. Recognize deferred tax liabilities and assets under the provisions of the statement.
Recognize previously recorded tax effect adjustments as elements of pretax income when realized. This practice can result in unusual relationships between income and income taxes in years after a business combination.	Record changes in deferred tax liabilities or asset in the deferred tax provision. This would be consistent with their treatment in other situations.	When unrecognized tax assets are realized, reduce non-deductible goodwill related to the acquisition, then reduce other noncurrent intangible assets related to the acquisition, then reduce income tax expense.

Adapted from "Accounting for Income Taxes: Proposed Rules" by Edward W. Kabialis and John W. Benzon, *The CPA Journal*, January 1987.

sal of existing temporary differences or by presenting appropriate tax-planning strategies to allow use of the alternative minimum tax credit.

Applying the Tax Rate

The statement requires that deferred tax liabilities and assets be computed using the enacted tax rate that is expected to apply in the year the temporary differences reverse. Graduated rates must be considered only if they constitute a significant factor. For companies with taxable income in excess of $335,000, the U.S. income tax rate becomes a flat rate of thirty-four percent of all income. That rate should be used for companies whose taxable income is expected to be in that range or greater. This would appear to apply to most large companies, making the selection of the applicable tax rate a straightforward process.

However, if a company has lower levels of taxable income and graduated rates are a significant factor, an average graduated tax rate for that level of income would be applied to differences reversing in that year. This concept suggests that scheduling would be needed for those business enterprises subject to graduated rates thus creating a burden for smaller companies. To alleviate this burden, guidance provided in an appendix to the statement states that a detailed analysis to determine the net reversals of temporary differences in each future year usually is not warranted because the other variable—taxable income or loss—for determination of the average graduated tax rate for each year is no more than an estimate. Therefore "an aggregate calculation using a single estimated average graduated tax rate based on estimated average annual taxable income in future years is sufficient."

OTHER PROVISIONS

Figure 3 illustrates the major provisions contained in SFAS 109 and con-

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trasts these provisions to the treatment required under APBO 11 and SFAS 96.

Classification and Financial Statement Disclosure

Under SFAS 96, classification of a deferred tax liability or asset as current or noncurrent depended on the timing of the reversal of the temporary differences. SFAS 109 requires that a deferred tax balance have the same classification as the related asset or liability for financial statement purposes. Deferred tax amounts that are not related to a financial statement asset or liability are classified according to the reversal date of the temporary differences. This treatment is consistent with APBO 11 and SFAS 37, "Balance Sheet Classification of Deferred Income Taxes."

For each taxing jurisdiction, all current deferred tax assets and liabilities are netted and presented as a single amount and all noncurrent tax assets and liabilities are netted and presented as a single amount. Total deferred tax liabilities, total deferred tax assets, the total valuation allowance, and the net change in the valuation allowance must be disclosed in the financial statements. For public enterprises, the tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and assets must be disclosed. For nonpublic entities, the types of temporary differences and carryforward must be disclosed, but the effects may be omitted. Significant components of tax expense (current tax expense, deferred tax expense, etc.) must be disclosed. SFAS 109 provides guidance for allocation of tax expense or benefit to continuing operations and other items in the financial statements.

Alternative minimum tax is dealt with quite simply under the new statement.

The tax effect of the income/loss from continuing operations is allocated to continuing operations, along with the tax effect of changes in tax laws or rates, changes in tax status, tax-deductible dividends paid to shareholders, and revised expectations as to the realizability of tax assets. The remainder is allocated to other items in proportion to their individual effects on tax expense for the year. SFAS 109 contains a list of specific items that are allocated directly to stockholders' equity. Public enterprises must present a reconciliation between the actual and expected tax rates.

APBO 23 and U.S. Steamship Enterprise Temporary Differences

SFAS 109 proposes new treatment for certain items covered under APBO 23 and for U.S. Steamship Enterprise temporary differences. On a prospective basis only, the following types of temporary differences will result in a deferred tax liability in all situations and a deferred tax asset in limited situations:

- Undistributed earnings of subsidiaries (foreign or domestic) except for undistributed earnings of a foreign subsidiary that are essentially permanent in nature;
- Investments in corporate joint ventures that are essentially permanent in duration (foreign or domestic) except for undistributed earnings of a foreign corporate joint venture that are essentially permanent in nature;
- "Bad debt" reserves of savings and

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loan associations that arose in tax years beginning before December 31, 1987 (the point at which the tax laws changed);

- "Policyholder's surplus" of stock life insurance companies; and
- Deposits in statutory reserve funds by U.S. Steamship Enterprises.

These types of temporary differences that arose prior to the effective date of SFAS 109 will result in a tax liability or asset only when it becomes apparent that these differences will reverse in the foreseeable future.

Business Combinations

When a business combination is accounted for as a purchase, the statement requires that the asset and liabilities acquired be recorded at their fair value, not net of taxes. The differences in their assigned values and their tax bases are treated as temporary differences and result in deferred tax liabilities and assets as generally required under the statement. Deferred taxes are not recognized at the time of acquisition for temporary differences related to non-deductible goodwill, leveraged leases, and acquired APBO 23 items. Tax assets related to the acquisition for which a valuation allowance is recognized, when realized, will reduce goodwill related to the acquisition, then other noncurrent intangible assets related to the acquisition, and then income tax expense.

Miscellaneous

The meaning of temporary differences in SFAS 109 is the same as in SFAS 96. As with SFAS 96, the list of temporary differences includes some items that are not treated as timing differences under APBO 11.

The Board prohibits discounting deferred tax liabilities and assets.

The Statement requires that the effect of initially applying the new statement be treated as a cumulative effect change in accounting principle with exceptions for some items. Restatement of prior years' financial statements is allowed, but not required.

OBJECTIVES HAVE BEEN ACHIEVED

It would appear that SFAS 109 will achieve the Board's primary objectives to a great extent. Tax assets that are expected to be realized can be recognized. The major stumbling block of non-recognition of an entity's likelihood of earning future revenue in SFAS 96 has been removed.

The scheduling problem also appears to be significantly lessened. Enterprises will have a great deal of flexibility in presenting positive proof to avoid recognizing valuation allowances. For most companies, this should substantially reduce the extensive scheduling required by SFAS 96. **Ω**

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