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No. 2023-02
March 2023

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

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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.

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Summary

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

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

Accounting Standards Update No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects,* which amended Subtopic 323-740, Investments—Equity Method and Joint Ventures—Income Taxes, 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 when certain requirements are met; however, the amendments 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 amortization of the investment and the income tax credits being presented net in the income statement as a component of income tax expense (benefit). Equity investments in other tax credit structures are typically accounted for using the equity method or Topic 321, Investments—Equity Securities, which results in investment income, gains and losses, and tax credits being presented gross on the income statement in their respective line items.

Stakeholders asserted that tax equity investors in 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 as LIHTC investors to account for those investments using the proportional amortization method. In their view, the proportional amortization method provides investors, lenders, creditors, and other allocators of capital (collectively, "investors") with a better understanding of the returns from such investments than the equity method or Topic 321. Because of the current limitation on the application of the proportional amortization method to account only for eligible LIHTC investments, stakeholders 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 tax credit programs.

Currently, Subtopic 323-740 applies to all LIHTC investments regardless of whether they are accounted for using the proportional amortization method. Stakeholders questioned whether the specialized guidance for LIHTC investments not accounted for using the proportional amortization method should be retained in this Subtopic. The amendments in this Update remove the specialized guidance

for LIHTC investments that are not accounted for using the proportional amortization method and instead require that those LIHTC investments be accounted for using the guidance in other generally accepted accounting principles (GAAP).

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all reporting entities that hold (1) tax equity investments that meet the conditions for and elect to account for them using the proportional amortization method or (2) an investment in a LIHTC structure through a limited liability entity that is not accounted for using the proportional amortization method and to which certain LIHTC-specific guidance removed from Subtopic 323-740 has been applied. Additionally, the disclosure requirements apply to investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method (including investments within that elected program that do not meet the conditions to apply the proportional amortization method).

What Are the Main Provisions?

The amendments in this Update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit 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 tax equity investor will be available.
2. The tax equity 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 are 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 tax equity investor's projected yield based solely on the cash flows from the income tax credits and other income tax benefits is positive.
5. The tax equity investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the tax equity investor's liability is limited to its capital investment.

A reporting entity makes 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 equity investments must 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.

The amendments in this Update require that all tax equity investments accounted for using the proportional amortization method use the delayed equity contribution guidance in paragraph 323-740-25-3 (which requires that a liability be recognized for delayed equity contributions that are unconditional and legally binding or for equity contributions that are contingent upon a future event when that contingent event becomes probable). LIHTC investments not accounted for using the proportional amortization method will no longer be permitted to use the delayed equity contribution guidance in paragraph 323-740-25-3. In addition, the amendments in this Update remove the equity method impairment example for LIHTC investments in Example 1 in Subtopic 323-740. As a result of this change, LIHTC investments accounted for using the equity method must apply the impairment guidance in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall. Furthermore, the amendments in this Update require that LIHTC investments that are not accounted for using the proportional amortization method or the equity method apply the guidance in Topic 321 on the accounting for equity investments. As a result of these changes, the guidance in Subtopic 323-740 is applicable only to tax equity investments accounted for using the proportional amortization method.

The amendments in this Update require specific disclosures that must be applied to all investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method in accordance with Subtopic 323-740 (including investments within that elected program that do not meet the conditions to apply the proportional amortization method). The amendments require that a reporting entity disclose certain information in annual and interim reporting periods that enable investors to understand the following information about its investments that generate income tax credits and other income tax benefits from a tax credit program:

1. The nature of its tax equity investments

2. The effect of its tax equity investments and related income tax credits and other income tax benefits on its financial position and results of operations.

In addition, the amendments also provide examples of disclosures that an entity could provide in meeting the disclosure objectives.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They 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 Update 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 tax credit program through which the investment earns income tax credits, if certain conditions are met.

This Update provides amendments to paragraph 323-740-25-1, which sets forth the conditions needed to apply the proportional amortization method. The amendments 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 Update also eliminate certain LIHTC-specific guidance to align the accounting more closely for LIHTCs with the accounting for other equity investments in tax credit structures and require that the delayed equity contribution guidance in paragraph 323-740-25-3 apply only to tax equity investments accounted for using the proportional amortization method.

When Will the Amendments Be Effective and What Are the Transition Requirements?

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities in any interim period. If an entity adopts the amendments in an interim period, it shall adopt them as of the beginning of the fiscal year that includes that interim period.

The amendments in this Update must be applied on either a modified retrospective or a retrospective basis (except as discussed below for LIHTC investments not accounted for using the proportional amortization method). Under a modified retrospective transition, a reporting entity evaluates 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 qualifies for the proportional amortization method is 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 is recognized in the opening balance of retained earnings as of the beginning of the period of adoption.

Under a retrospective transition, a reporting entity evaluates 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 qualifies for the proportional amortization method is 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 is recognized in the opening balance of retained earnings as of the beginning of the earliest period presented.

A reporting entity that has LIHTC investments that are no longer permitted to use (1) the cost method guidance in paragraph 323-740-25-2A, (2) the equity method example in paragraphs 323-740-55-8 through 55-9, or (3) the delayed equity contribution guidance in paragraph 323-740-25-3 must either use its general transition method (that is, modified retrospective or retrospective) or apply a prospective approach. This election may be made separately for each of the three transition adjustment types described above. However, a reporting entity shall apply a consistent transition method for each transition adjustment type. Under the prospective transition approach, an adjustment for affected LIHTC investments currently recorded on the date of adoption, is recognized in current-period earnings, or the balance sheet, or both, on the date of adoption.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–10. 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, 323-740-15-1, 323-740-25-1 through 25-1C, 323-740-25-3 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 through 50-2, 323-740-55-2, and 323-740-55-4 through 55-5, and the Subtopic and Subsection titles and related headings, supersede paragraphs 323-740-05-2 through 05-3, 323-740-15-2 through 15-3, 323-740-25-2 through 25-2A, and 323-740-55-7 through 55-9 and the related headings, and add paragraphs 323-740-15-1A, 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—Proportional Amortization Method

Overview and Background

General

323-740-05-1 This Subtopic contains standalone ~~Qualified Affordable Housing Project Investments Subsections, which provide income tax accounting~~ guidance on the use of the proportional amortization method to ~~a specific type of investment in real estate~~ investments 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 Investments~~

323-740-05-2 Paragraph superseded by Accounting Standards Update No. 2023-02. ~~The Qualified Affordable Housing Project Investments Subsections provide income tax accounting guidance on a specific type of investment in real estate This guidance applies to investments in limited liability entities that manage or invest in qualified affordable housing projects and are flow-through entities for tax purposes.~~

323-740-05-3 Paragraph superseded by Accounting Standards Update No. 2023-02. ~~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 and disclosure requirements noted in paragraph 323-740-15-1A ~~the other Subsections of this Section~~.

323-740-15-1A The guidance in the Proportional Amortization Method Subtopic applies to equity investments that generate income tax credits and other income tax benefits from a tax credit program through limited liability entities that are flow-through entities for tax purposes, meet the criteria to be accounted for using the proportional amortization method in this Subtopic, and for which that method is elected on a tax-credit-program-by-tax-credit-program basis in accordance with paragraph 323-740-25-4. Additionally, the disclosure requirements in paragraphs 323-740-50-1 through 50-2 shall be applied to all investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method, including investments within that elected program that do not meet the conditions to apply the proportional amortization method.

~~**Qualified Affordable Housing Project Investments**~~

> ~~Overall Guidance~~

323-740-15-2 Paragraph superseded by Accounting Standards Update No. 2023-02. The Qualified Affordable Housing Project 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 Paragraph superseded by Accounting Standards Update No. 2023-02. The guidance in the Qualified Affordable Housing Project Investments Subsections applies to reporting entities that are investors in qualified affordable housing projects through limited liability entities that are flow-through entities for tax purposes.

Recognition

Qualified Affordable Housing Project Investments Proportional Amortization Method

323-740-25-1 A reporting entity that invests in qualified affordable housing projects that generate income tax credits and other income tax benefits from a tax credit program 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 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 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 Paragraph superseded by Accounting Standards Update No. 2023-02. ~~For an investment in a qualified affordable housing project 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. 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.~~

323-740-25-2A Paragraph superseded by Accounting Standards Update No. 2023-02. ~~Accounting for an investment in a qualified affordable housing project~~

~~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.~~

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 **{add glossary link}**probable**{add glossary link}**. 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 that shall be applied consistently to all investments within an elected tax credit program ~~in 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 meet the conditions in paragraph 323-740-25-1~~qualify for use of the proportional amortization method~~.

323-740-25-5 ~~At the time of initial investment,~~ An entity shall recognize income tax credits in the period that 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 from a tax credit program 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 the proportional amortization method ~~accounting guidance~~ to a limited partnership investment ~~in a qualified affordable housing project~~ that generates income tax credits and other income tax benefits from a tax credit program~~using the cost, equity, and proportional amortization methods~~. Example 2 (see paragraph 323-740-55-11) illustrates the application of the proportional amortization method to a limited partnership investment that generates income tax credits, other income tax benefits, and non-income-tax-related benefits from a tax credit program.

Initial Measurement

~~Qualified Affordable Housing Project Investments~~ Proportional Amortization Method

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 from a tax credit program (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 through a limited liability entity.~~

323-740-30-2 Example 1 (see paragraph 323-740-55-2) illustrates the application of the proportional amortization method ~~accounting guidance~~ to a limited partnership investment that generates income tax credits and other income tax benefits from a tax credit program ~~in a qualified affordable housing project using the cost, equity, and proportional amortization methods~~. Example 2 (see paragraph 323-740-55-11) illustrates the application of the proportional amortization method to a limited partnership investment that generates income tax credits, other income tax benefits, and non-income-tax-related benefits from a tax credit program.

Subsequent Measurement

~~Qualified Affordable Housing Project Investments~~ Proportional Amortization Method

323-740-35-1 This guidance addresses the methodology for measuring an investment ~~in a qualified affordable housing project 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 income tax credits and other income 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 income tax credits and other income tax benefits allocated to the investor in the current period divided by the total estimated income tax credits and other income 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 the proportional amortization method ~~accounting guidance~~ to a limited liability investment that generates income tax credits and other income tax benefits from a tax credit program ~~in a qualified affordable housing project using the cost, equity, and proportional amortization methods~~. Example 2 (see paragraph 323-740-55-11) illustrates the application of the proportional amortization method to a limited partnership investment that generates income tax credits, other income tax benefits, and non-income-tax-related benefits from a tax credit program.

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 income 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~~ Non-income-tax-related benefits received from operations of the limited liability entity shall be included in pre-tax earnings when realized or realizable. Gains or losses on the sale of the investment, if any, shall be included in pre-tax earnings at the time of sale.

323-740-35-6 An investment ~~in a qualified affordable housing project through a limited liability entity~~ 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 Investments~~ Proportional Amortization Method

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

Disclosure

~~Qualified Affordable Housing Project Investments~~ Proportional Amortization Method

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 investments that generate income tax credits and other income tax benefits from a tax credit program for which it has elected on a tax-credit-program-by-tax-credit-program basis to apply the proportional amortization method, including investments within that elected 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~~
b. The effect of the recognition and measurement of its investments ~~in qualified affordable housing projects~~ and the related income tax credits and other income tax benefits 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 investments that generate income tax credits and other income tax benefits from a tax credit program for which it has elected on a tax-credit-program-by-tax-credit-program basis to apply the proportional amortization method, including investments within that elected tax credit program that do not meet the conditions in paragraph 323-740-25-1:

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 it has been recognized
b. The amount of investments and the line item in which the investments are recognized in the statement of financial position
c. For investments accounted for using the proportional amortization method, the amount of investment amortization recognized as a component of income tax expense (benefit)
d. For investments accounted for using the proportional amortization method, the amount of non-income-tax-related activity and other returns received that is recognized outside of income tax expense (benefit) and the line item in the statement of operations and statement of cash flows in which it has been recognized
e. For investments accounted for using the proportional amortization method, 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.

323-740-50-2 To meet the objectives in ~~the preceding~~ paragraph 323-740-50-1, a reporting entity may consider disclosing the following about its investments that generate income tax credits and other income tax benefits from a tax credit program for which it has elected on a tax-credit-program-by-tax-credit-program basis to apply the proportional amortization method, including investments within that elected tax credit program that do not meet the conditions in paragraph 323-740-25-1:

a. Subparagraph superseded by Accounting Standards Update No. 2023-02.~~The amount of affordable housing tax credits and other tax benefits recognized during the year~~
b. Subparagraph superseded by Accounting Standards Update No. 2023-02.~~The balance of the investment recognized in the statement of financial position~~
c. Subparagraph superseded by Accounting Standards Update No. 2023-02.~~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~~ 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 delayed equity contributions ~~that are contingent commitments related to qualified affordable housing project 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 qualified affordable housing project 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 Investments~~ Proportional Amortization Method

> Illustrations

. > Example 1: Application of the Proportional Amortization Method ~~Accounting Guidance~~ to a Limited Partnership Investment ~~in a Qualified Affordable Housing Project~~

323-740-55-2 This Example illustrates the application of the ~~cost, equity, and~~ proportional amortization method ~~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 investment that may be eligible to be accounted for using the proportional amortization method.

323-740-55-3 The following are the terms for this Example.

Date of investment	January 1, 20X1
Purchase Price of Investment	$ 100,000

323-740-55-4 This Example has the following assumptions:

a. All cash flows (except 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 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 tax credit.
d. The partnership finances the project cost of $4,000,000 with 50 percent equity and 50 percent debt.
e. The annual tax credit allocation (equal to 4 percent of the project's original cost) will be received for a period of 10 years.
f. The investor's tax rate is 40 percent.
g. The project will operate with break-even pretax cash flows including debt service during the first 15 years of operations.
h. The project's taxable loss will be equal to depreciation expense. The cumulative book loss (and thus the cumulative depreciation expense) recognized by the investor is limited to the $100,000 investment.
i. Subparagraph superseded by Accounting Standards Update No. 2014-01.
j. It is assumed that all requirements are met to retain allocable tax credits so there will be no recapture of tax credits.
k. The investor expects that the estimated residual value of the investment will be zero.
l. All of the conditions described in paragraph 323-740-25-1 are met to ~~qualify the investment for the use of~~ apply the proportional amortization method, and the entity has elected to use the proportional amortization method to account for its tax equity investments in this tax credit program in accordance with paragraph 323-740-25-4.

323-740-55-5 An analysis of the proportional amortization method follows.

Year	Net Investment (1)	Amortization of Investment (2)	Income Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Income Tax Benefits from Tax Depreciation (5)	Income Tax Credits and Other Income Tax Benefits (6)	Income Tax Credits and Other Income Tax Benefits, Net of Amortization (7)
1	$ 90,909	$ 9,091	$ 8,000	$ 7,273	$ 2,909	$ 10,909	$ 1,818
2	81,818	9,091	8,000	7,273	2,909	10,909	1,818
3	72,727	9,091	8,000	7,273	2,909	10,909	1,818
4	63,636	9,091	8,000	7,273	2,909	10,909	1,818
5	54,545	9,091	8,000	7,273	2,909	10,909	1,818
6	45,454	9,091	8,000	7,273	2,909	10,909	1,818
7	36,363	9,091	8,000	7,273	2,909	10,909	1,818
8	27,272	9,091	8,000	7,273	2,909	10,909	1,818
9	18,181	9,091	8,000	7,273	2,909	10,909	1,818
10	9,090	9,091	8,000	7,273	2,909	10,909	1,818
11	6,666	2,424	-	7,273	2,909	2,909	485
12	4,242	2,424	-	7,273	2,909	2,909	485
13	1,818	2,424	-	7,273	2,909	2,909	485
14	-	1,818	-	5,451	2,183	2,183	365
15	-	-	-	-	-	-	-
Total		$ 100,000	$ 80,000	$ 100,000	$ 40,000	$ 120,000	$ 20,000

(1) End-of-year investment for a 5% limited liability interest in the project net of amortization in Column (2).

(2) Initial investment of $100,000 x (total **income** tax benefits received during the year in Column (6) / total anticipated **income** tax benefits over the life of the investment of $120,000).

(3) 4 percent **income** tax credit on $200,000 tax basis of underlying assets.

(4) Depreciation (on $200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years up to the amount of the initial investment of $100,000.

(5) Column (4) x 40% tax rate.

(6) Column (3) + Column (5).

(7) Column (6) – Column (2).

323-740-55-6 Paragraph superseded by Accounting Standards Update No. 2014-01.

323-740-55-7 Paragraph superseded by Accounting Standards Update No. 2023-02. ~~A detailed analysis of the cost method with amortization follows.~~

Year	Net Investment (1)	Amortization of Investment (2)	Tax Depreciation (3)	Tax Credits (4)	Current Tax Benefit (5)	Deferred Tax Benefit (Expense) (6)	Impact on Net Income (7)
1	$ 90,000	$ 10,000	$ 7,273	$ 8,000	$ 10,909	$ 1,091	$ 2,000
2	80,000	10,000	7,273	8,000	10,909	1,091	2,000
3	70,000	10,000	7,273	8,000	10,909	1,091	2,000
4	60,000	10,000	7,273	8,000	10,909	1,091	2,000
5	50,000	10,000	7,273	8,000	10,909	1,091	2,000
6	40,000	10,000	7,273	8,000	10,909	1,091	2,000
7	30,000	10,000	7,273	8,000	10,909	1,091	2,000
8	20,000	10,000	7,273	8,000	10,909	1,091	2,000
9	10,000	10,000	7,273	8,000	10,909	1,091	2,000
10		10,000	7,273	8,000	10,909	1,091	2,000
11			7,273		2,909	(2,909)	
12			7,273		2,909	(2,909)	
13			7,273		2,909	(2,909)	
14			5,451		2,183	(2,183)	
15							
Total		$ 100,000	$ 100,000	$ 80,000	$ 120,000	$ -	$ 20,000

~~(1) End-of-year investment for a 5 percent limited liability interest in the project net of amortization in column (2).~~

~~(2) Investment in excess of estimated residual value (zero in this case) amortized in proportion to tax credits received in the current year to total estimated tax credits.~~

~~(3) Depreciation (on $200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years up to the amount of the initial investment of $100,000.~~

~~(4) 4 percent tax credit on $200,000 tax basis of the underlying assets.~~

~~(5) (Column [3] x 40% tax rate) + column (4).~~

~~(6) The change in deferred taxes resulting from the difference between the book and tax bases of the investment. In this Example, that amount can be determined as follows: (column [2] - column [3]) x 40% tax rate.~~

~~(7) Column (5) + column (6) - column (2).~~

323-740-55-8 Paragraph superseded by Accounting Standards Update No. 2023-02. ~~A detailed analysis of the equity method follows.~~

Year	Net Investment (1)	Book Loss (2)	Tax Loss (Depreciation) (3)	Tax Credits (4)	Current Tax Benefit (5)	Deferred Tax Benefit (Expense) (6)	Impact on Net Income (7)
1	$ 92,727	$ 7,273	$ 7,273	$ 8,000	$ 10,909		$ 3,636
2	85,454	7,273	7,273	8,000	10,909		3,636
3	78,181	7,273	7,273	8,000	10,909		3,636
4	70,908	7,273	7,273	8,000	10,909		3,636
5	63,635	7,273	7,273	8,000	10,909		3,636
6	56,362	7,273	7,273	8,000	10,909		3,636
7	49,089	7,273	7,273	8,000	10,909		3,636
8	41,816	7,273	7,273	8,000	10,909		3,636
9 [(a)]	16,000	25,816	7,273	8,000	10,909	$ 7,418	(7,489)
10		16,000	7,273	8,000	10,909	3,492	(1,599)
11			7,273		2,909	(2,909)	
12			7,273		2,909	(2,909)	
13			7,273		2,909	(2,909)	
14			5,451		2,183	(2,183)	
15			-		-	-	
Total		$ 100,000	$ 100,000	$ 80,000	$ 120,000	$ 0	$ 20,000

~~(1) End-of-year investment for a 5 percent limited liability interest in the project less the investor's share of losses.~~

~~(2) The investor's share of book losses recognized under the equity method. The cumulative losses recognized are limited to the investment of $100,000. (See also (a) below)~~

~~(3) Depreciation (on $200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years up to the amount of the initial investment of $100,000.~~

~~(4) 4 percent tax credit on $200,000 tax basis of the underlying assets.~~ -

~~(5) (Column [3] x 40% tax rate) + column (4).~~

~~(6) The change in deferred taxes resulting from differences between the book and tax bases of the investment and tax losses in excess of the at-risk investment. In this Example, that amount can be determined as follows: (column [2] - column [3]) x 40% tax rate.~~

~~(7) Column (5) + column (6) - column (2).~~

~~(a) Projections of future operating results at the end of Year 9 indicate that a net loss will be recognized over the remaining term of the investment indicating a need to assess the investment for impairment. For purposes of this Example, impairment is measured based on the remaining tax credits allocable to the investor, although an alternative measure could include other tax benefits to be generated by the investment. The impairment loss recognized in this Example ($18,543) is derived as follows: Investment at the end of Year 8 ($41,816) less the loss recognized in Year 9 ($7,273), the remaining tax credits allocable to the investor ($16,000), and the estimated residual value ($0).~~

In addition, supersede the following pending content for paragraph 323-740-55-8, with a link to transition paragraph 740-10-65-8:

~~PENDING CONTENT~~

~~**Transition Date:** (P) December 16, 2020; (N) December 16, 2021 | **Transition Guidance:** 740-10-65-8~~

Paragraph superseded by Accounting Standards Update No. 2023-02. ~~A detailed analysis of the equity method follows.~~

Year	Net Investment (1)	Book Loss (2)	Tax Loss (Depreciation) (3)	Tax Credits (4)	Current Tax Benefit (5)	Deferred Tax Benefit (Expense) (6)	Impact on Net Income (7)
1	$ 92,727	$ 7,273	$ 7,273	$ 8,000	$ 10,909		$ 3,636
2	85,454	7,273	7,273	8,000	10,909		3,636
3	78,181	7,273	7,273	8,000	10,909		3,636
4	70,908	7,273	7,273	8,000	10,909		3,636
5	63,635	7,273	7,273	8,000	10,909		3,636
6 [(a)]	32,000	31,635	7,273	8,000	10,909	$ 9,746	(10,980)
7	24,000	8,000	7,273	8,000	10,909	291	3,200
8	16,000	8,000	7,273	8,000	10,909	291	3,200
9	8,000	8,000	7,273	8,000	10,909	291	3,200
10		8,000	7,273	8,000	10,909	291	3,200
11			7,273		2,909	(2,909)	
12			7,273		2,909	(2,909)	
13			7,273		2,909	(2,909)	
14			5,451		2,183	(2,183)	
15			-		-	-	
Total		$ 100,000	$ 100,000	$ 80,000	$ 120,000	$ 0	$ 20,000

~~(1) End-of-year investment for a 5 percent limited liability interest in the project less the investor's share of losses.~~

~~(2) The investor's share of book losses recognized under the equity method. The cumulative losses recognized are limited to the investment of $100,000. (See also (a) below)~~

~~(3) Depreciation (on $200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years up to the amount of the initial investment of $100,000.~~

~~(4) 4 percent tax credit on $200,000 tax basis of the underlying assets.~~

~~(5) (Column [3] x 40% tax rate) + column (4).~~

~~(6) The change in deferred taxes resulting from differences between the book and tax bases of the investment and tax losses in excess of the at-risk investment. In this Example, that amount can be determined as follows: (column [2] - column [3]) x 40% tax rate.~~

~~(7) Column (5) + column (6) - column (2).~~

~~(a) Projections of the total future tax benefits at the end of Year 6 indicate that a net loss will be recognized over the remaining term of the investment indicating an other-than-temporary impairment. For purposes of this Example, in Year 6, impairment is measured as the excess of the carrying amount of the net investment over the remaining tax credits allocable to the investor, although an alternative measure could include other tax benefits to be generated by the investment. The impairment loss recognized in this Example in Year 6 ($24,362) is derived as follows: Investment at the end of Year 5 ($63,635) less the loss recognized in Year 6 ($7,273) before recognizing the impairment, the remaining tax credits allocable to the investor ($32,000), and the estimated residual value ($0).~~

323-740-55-9 Paragraph superseded by Accounting Standards Update No. 2023-02. ~~This Example is but one method for recognition and measurement of impairment of an investment accounted for by the equity method. Inclusion of this method in this Example does not indicate that it is a preferred method.~~

. > Example 2: Application of the Proportional Amortization Method to a Limited Partnership Investment That Generates Non-Income-Tax-Related Benefits

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

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

Date of investment:	January 1, 20X1
Purchase price of investment:	$102,000

323-740-55-13 This 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 10-year life (the same method is used for simplicity).
c. The investor contributed $102,000, or 5 percent of the equity capital, for an interest in the limited partnership at the beginning of the first year of eligibility for the income tax credit.
d. The partnership will receive income tax credits from an income tax credit program. The income tax credits will be received over a four-year period.
e. There is no reduction of tax basis as a result of the income tax credits.
f. The investor will receive cash proceeds based on a fixed percentage of the project's cash generated during the life of the project.
g. The investor's tax rate is 40 percent.
h. The income tax credits are not subject to recapture.
i. The investor expects that the estimated residual investment will be nominal (zero is assumed for simplicity).
j. All of the conditions described in paragraph 323-740-25-1 are met to apply the proportional amortization method, and the entity has elected to use the proportional amortization method to account for its tax equity investments in this tax credit program in accordance with paragraph 323-740-25-4.
k. After 10 years, the investor has a right to require that the project sponsor purchase the investor's equity interest for a nominal amount (zero is assumed for simplicity). 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 Investment (b)	Income Tax Credits (c)	Net Losses / Tax Depreciation (d)	Other Income Tax Benefits from Tax Depreciation (e)	Income Tax Credits and Other Income Tax Benefits (f)	Income Tax Credits and Other Income Tax Benefits, Net of Amortization (g)	Non-Income-Tax-Related Cash Returns (h)
1	$ 81,600	$ 20,400	$ 20,000	$ 10,000	$ 4,000	$ 24,000	$ 3,600	$ 200
2	61,200	20,400	20,000	10,000	4,000	24,000	3,600	200
3	40,800	20,400	20,000	10,000	4,000	24,000	3,600	200
4	20,400	20,400	20,000	10,000	4,000	24,000	3,600	200
5	17,000	3,400	-	10,000	4,000	4,000	600	200
6	13,600	3,400	-	10,000	4,000	4,000	600	200
7	10,200	3,400	-	10,000	4,000	4,000	600	200
8	6,800	3,400	-	10,000	4,000	4,000	600	200
9	3,400	3,400	-	10,000	4,000	4,000	600	200
10	-	3,400	-	10,000	4,000	4,000	600	200
Total		$ 102,000	$ 80,000	$ 100,000	$ 40,000	$ 120,000	$ 18,000	$ 2,000

(a) End-of-year carrying amount of the investment net of amortization in Column (b).

(b) Initial investment of $102,000 x (total income tax credits and other income tax benefits received during the year in Column (f))/total anticipated income tax credits and other income tax benefits over the life of the investment of $120,000).

(c) Represents the income tax credits allocated to the investor.

(d) Income tax losses, principally from depreciation, passed on to the investor.

(e) Column (d) x 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 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

> Transition Related to Accounting Standards Update No. 2023-02, *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. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method:*

a. A **public business entity** shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.
b. All other entities shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years.
c. For all entities, early adoption, including adoption in an interim period, is permitted. If an entity adopts in an interim period, it shall adopt as of the beginning of the fiscal year that includes that interim period.
d. Except for the transition adjustment types described in (e), an entity shall apply the pending content that links to this paragraph using either a modified retrospective approach or a retrospective approach. Under both a modified retrospective approach and a retrospective approach, an entity that elects to apply the proportional amortization method shall

determine as of the date that an 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 on the basis of the following:

1. Under a modified retrospective approach, that evaluation shall be performed for all investments that are still expected to generate either income tax credits or other income tax benefits from a tax credit program 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 to the opening balance of retained earnings at the beginning of the fiscal year of adoption for the difference between the previous accounting and the new method of accounting since the investment was entered into.
2. Under a retrospective approach, that evaluation shall be performed for all investments that are still expected to generate either income tax credits or other income tax benefits from a tax credit program 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 to the opening balance of retained earnings at the beginning of the earliest period presented for the difference between the previous accounting and the new method of accounting since the investment was entered into.
3. Under both a modified retrospective approach and a retrospective approach, an entity shall use actual equity contributions made and remaining equity contributions expected to be made as of the date at which an entity first applies the pending content that links to this paragraph in applying the guidance in paragraph 323-740-25-3.

e. An entity that holds investments in limited liability entities that manage or invest in qualified affordable housing projects and are flow-through entities for tax purposes that no longer are permitted to apply the cost method guidance, the impairment guidance in the equity method Example, or the delayed equity contribution guidance shall apply the pending content that links to this paragraph using the transition method elected in (d) or a prospective approach. Under a prospective approach, an adjustment as a result of applying the pending content that links to this paragraph to investments in qualified affordable housing projects held at the date of adoption shall be recognized in current-period earnings, the balance sheet, or both on the date of adoption. An entity may elect to apply its transition method in (d) or a prospective approach separately for each of the three transition adjustment types in this subparagraph. An

entity shall apply a consistent transition method for each transition adjustment type.

f. Investments for which the proportional amortization method is used 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 investments that are accounted for using the proportional amortization method.

g. 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.

h. An entity that issues interim financial statements shall provide the disclosures in (g) 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 investments that generate income tax credits and other income tax benefits from a tax credit program, 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~~ paragraph 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).

Amendments to Status Sections

7. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

270-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
270-10-50-7	Amended	2023-02	03/29/2023

8. Amend paragraph 323-740-00-1, by adding the following items to the table, as follows:

323-740-00-1 The following table identifies the changes made to this Subtopic.

Note: Subtopic title changed by Accounting Standards Update No. 2023-02 on 03/29/2023 from *Investments—Equity Method and Joint Ventures—Income Taxes* to *Investments—Equity Method and Joint Ventures—Income Taxes—Proportional Amortization Method*.

Paragraph	Action	Accounting Standards Update	Date
323-740-05-1	Amended	2023-02	03/29/2023
323-740-05-2	Superseded	2023-02	03/29/2023
323-740-05-3	Superseded	2023-02	03/29/2023
323-740-15-1	Amended	2023-02	03/29/2023
323-740-15-1A	Added	2023-02	03/29/2023
323-740-15-2	Superseded	2023-02	03/29/2023
323-740-15-3	Superseded	2023-02	03/29/2023
323-740-25-1 through 25-1C	Amended	2023-02	03/29/2023
323-740-25-2	Superseded	2023-02	03/29/2023
323-740-25-2A	Superseded	2023-02	03/29/2023
323-740-25-3 through 25-6	Amended	2023-02	03/29/2023
323-740-30-1	Amended	2023-02	03/29/2023
323-740-30-2	Amended	2023-02	03/29/2023

Paragraph	Action	Accounting Standards Update	Date
323-740-35-1 through 35-6	Amended	2023-02	03/29/2023
323-740-45-1	Amended	2023-02	03/29/2023
323-740-45-3	Amended	2023-02	03/29/2023
323-740-50-1	Amended	2023-02	03/29/2023
323-740-50-1A	Added	2023-02	03/29/2023
323-740-50-2	Amended	2023-02	03/29/2023
323-740-55-2	Amended	2023-02	03/29/2023
323-740-55-4	Amended	2023-02	03/29/2023
323-740-55-5	Amended	2023-02	03/29/2023
323-740-55-7 through 55-9	Superseded	2023-02	03/29/2023
323-740-55-11 through 55-14	Added	2023-02	03/29/2023
323-740-65-2	Added	2023-02	03/29/2023

9. Amend paragraph 740-10-00-1, by adding the following item to the table, as follows:

740-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
740-10-25-46	Amended	2023-02	03/29/2023

10. Amend paragraph 810-10-00-1, by adding the following item to the table, as follows:

810-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
810-10-25-44B	Amended	2023-02	03/29/2023

The amendments in this Update were adopted 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 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 tax equity 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. Tax equity 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. Those 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) if 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. Currently under GAAP, 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 be accounted for using the proportional amortization method. Instead, these investments are typically 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 may use the cost method in Subtopic 323-740; however, other equity investments, including some tax equity investments that receive income tax credits from other tax credit programs, not accounted for using the equity method apply guidance in Topic 321.

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

a. New Markets Tax Credit (NMTC) program, which is intended 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 intended to encourage the restoration of designated historic sites
c. Renewable Energy Tax Credit (RETC) programs, which award either production-based or investment-based tax credits from the creation of energy through renewable projects. The RETC caption includes multiple tax credit programs. Examples include federal solar investment tax credits, on-shore wind production tax credits, and off-shore wind investment tax credits.

BC6. The types of tax equity projects and investments in those structures 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 tax equity investors, and the Inflation Reduction Act, which was signed into law in August 2022, provides additional federal tax incentives for entities to invest in clean-energy technologies.

BC7. 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 structures 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 income tax benefits). Preparers and practitioners cited complexity in applying the equity method to those investments and indicated that the equity method may not fairly represent the economic characteristics or profitability of such investments.

BC8. On September 22, 2021, the Board added a narrow-scope project to the EITF agenda to determine whether the election to apply the proportional amortization method should be expanded to investments that generate income tax credits from tax credit programs beyond LIHTC structures and to determine whether certain clarifications are needed to the conditions in paragraph 323-740-25-1 to accommodate such an expansion.

BC9. The Board issued proposed Accounting Standards Update, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, on August 22, 2022, with a 45-day comment period. The Board received 25 comment letters and during the exposure period and redeliberations completed additional outreach with various stakeholders on certain issues. Overall, stakeholders supported the Task Force's effort to allow reporting entities to elect to account for economically similar transactions consistently by having the same election to apply the proportional amortization method to all investments made primarily for the purpose of receiving income tax credits and other income tax benefits. Stakeholders maintained that this would provide investors with more decision-useful information. Although the feedback was mixed on whether stakeholders agreed with certain Task Force decisions, such as not further expanding the population of investments that would be eligible to be accounted for using the proportional amortization method by modifying the "substantially all" criterion in paragraph 323-740-25-1(aaa) and the "positive yield" criterion in paragraph 323-740-25-1(b), stakeholders supported finalizing a consensus based on the amendments in the proposed Update. Additionally, some stakeholders questioned whether there should continue to be specialized guidance in Subtopic 323-740 for LIHTC investments not accounted for using the proportional amortization method.

BC10. The Task Force considered stakeholder feedback on various areas for further improvement or clarification of the proposed Update at its December 1, 2022 meeting and reached a final consensus. The Board ratified the consensus on January 18, 2023, resulting in the issuance of this Update.

Basis for Conclusions

Scope and Other Considerations

BC11. The Task Force reached a consensus that tax equity investments that meet all five conditions in paragraph 323-740-25-1 are permitted to be accounted for using the proportional amortization method, regardless of the tax credit program or programs from which the investment generates income tax credits. In reaching that consensus, the Task Force concluded 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. Although comment letter feedback was generally supportive that only investments made for the primary purpose of receiving income tax credits and other income tax benefits should be accounted for using the proportional amortization method, some respondents acknowledged that they would have preferred an expanded scope that would permit more tax equity investments to qualify for the proportional amortization method.

BC12. Task Force members observed that the scope of Subtopic 323-740 is subject to the same scope and scope exceptions as Subtopic 323-10. Paragraph 323-10-15-3 states that the guidance in Subtopic 323-10 applies to investments in common stock or in-substance common stock (or both). Paragraph 323-10-15-4 states that investments in common stock that are within the scope of Topic 810, Consolidation, are not within the scope of Subtopic 323-10. Therefore, investments in tax credit structures that the tax equity investor is required to consolidate would use the guidance in Topic 810 and are not permitted to be accounted for using the proportional amortization method. Additionally, if the tax credit investment is classified as a debt investment, it is not eligible to be accounted for using the proportional amortization method.

BC13. 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. Additionally, this alternative was considered because it would have been responsive to the original agenda request, which requested that the proportional amortization method be expanded only to NMTC investments. 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 concluded that it was preferable to pursue a broader solution in developing an improvement to the Codification.

BC14. The Task Force reached a consensus 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 be accounted for using 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. For example, an entity could elect to apply the proportional amortization method to investments that meet the conditions in paragraph 323-740-25-1 that generate income tax credits and other income tax benefits from qualified affordable housing projects and not apply the proportional amortization method to investments that meet the conditions in paragraph 323-740-25-1 that generate income tax credits and other income tax benefits from an NMTC program. The Task Force considered, but ultimately dismissed, an alternative under which an entity would have been required to apply the proportional amortization method to all eligible 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 justify the cost for certain investments because investments in certain tax credit structures are unlikely to meet the conditions to be accounted for using the proportional amortization method. An overwhelming majority of comment letter respondents agreed that the accounting policy election to apply the proportional amortization method should be made on a tax-credit-program-by-tax-credit-program basis.

BC15. The Task Force determined that in expanding the proportional amortization method to investments in tax credit structures beyond LIHTC structures, certain clarifications were necessary to facilitate consistent application. The Task Force decided that no clarifications are needed to the conditions in paragraph 323-740-25-1(a), (b), and (c). No comment letter feedback was received on paragraph 323-740-25-1(a) or 25-1(c). However, some respondents expressed concern about retaining the criterion in paragraph 323-740-25-1(b) that the tax equity investor's projected yield based solely on cash flows from the income tax credits and other income tax benefits should be positive. Respondents maintained that the tax equity investor is investing primarily to receive income tax credits and other income tax benefits even if the arrangement allows for or requires the distribution of cash that would cause the tax equity investment to fail this criterion. This feedback is consistent with feedback previously received and considered by the Task Force during deliberations. Therefore, the Task Force affirmed its decision not to provide clarifications to the criterion in paragraph 323-740-25-1(b).

BC16. Regarding the condition in paragraph 323-740-25-1(aa), that the tax equity 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 in an NMTC structure. The Task Force decided to retain the condition because it provides 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 eligible to be accounted for using the proportional amortization method. The Task Force solicited feedback in the proposed Update on whether it was necessary to retain this condition. Most comment letter respondents agreed that the condition was necessary because a tax equity investor that can exert significant influence may have made the investment for reasons other than primarily for the receipt of income tax credits and other income tax benefits. Therefore, the Task Force decided to retain the condition as it is written with a clarification as described in paragraph BC17, also noting that it is unaware of any practice issues that have arisen from entities currently applying this condition because those entities understand its intent and can apply it consistently.

BC17. The Task Force decided to clarify how to apply the significant influence condition in paragraph 323-740-25-1(aa) when a structure is multitiered, such as in an NMTC investment structure. In multitiered structures, there are several flow-through entities between the tax equity 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 must be looked at holistically to avoid structuring opportunities. The Task Force does not intend for this clarification to change the application of this condition in current practice for LIHTC structures or the evaluation of significant influence by other entities with investments in tax credit structures that are not the tax equity investor. No comment letter feedback was received on this clarification.

BC18. The Task Force reached a consensus 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 in 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, concluded that a clarification to the meaning of *projected benefit* should help facilitate consistent application. The Task Force reached a consensus that the existence of refundable tax credits (that is, tax credits that are not within the scope of Topic 740) does 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

are considered to be part of total projected benefits but not included as an income tax credit or "other income tax benefit." Several comment letter respondents stated that refundable tax credits should be considered an income tax benefit and included in the numerator in determining whether "substantially all" of the projected benefits are from tax credits or other tax benefits. This feedback is consistent with feedback previously received and considered by the Task Force during deliberations; therefore, the Task Force affirmed its decision to clarify that refundable tax credits are included in the denominator but not in the numerator.

BC19. The Task Force also determined that the substantially all test must 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 into the investment and because 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 an entity's 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. Limited comment letter feedback was received on this issue, and nearly all who responded supported using discounted amounts. Furthermore, the Task Force considered whether additional guidance should be provided to clarify when the "substantially all" threshold test has been met. The Task Force observed that *substantially all* is not a defined term in GAAP and that it did not intend to change existing practice about the application of paragraph 323-740-25-1(aaa).

BC20. 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 is not 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 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. Limited comment letter feedback was received on this decision, and nearly all who responded supported using the flow-through method.

BC21. 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.

BC22. Currently, Subtopic 323-740 contains guidance for LIHTC investments that are accounted for using the proportional amortization method as well as specific guidance for LIHTC investments that are accounted for using the equity method (paragraph 323-740-25-2) or the cost method (paragraph 323-740-25-2A). With the expansion of the guidance in Subtopic 323-740 to investments other than LIHTC investments, some stakeholders questioned whether there should continue to be specialized guidance in Subtopic 323-740 for LIHTC investments not accounted for using the proportional amortization method.

BC23. Under current GAAP, LIHTC investments not accounted for using the proportional amortization method or the equity method may be accounted for using the cost method guidance in paragraph 323-740-25-2A. However, non-LIHTC tax equity investments not accounted for using the equity method are required to be accounted for at fair value or using the measurement alternative under Topic 321. The Task Force solicited feedback in the proposed Update to determine whether tax equity investments not accounted for using the proportional amortization method or equity method should be permitted to use the cost method or whether they should be required to apply Topic 321. Comment letter feedback received on this question was mixed—some respondents supported removing the cost method guidance in Subtopic 323-740, while other respondents supported expansion of the cost method guidance in Subtopic 323-740 to all tax equity investments. Respondents also noted that the use of the cost method for LIHTC investments is not pervasive and if entities were required to apply the guidance in Topic 321, the resulting accounting may not be significantly different from how LIHTC investments are accounted for under current GAAP. Additionally, the Task Force observed that requiring all equity investments (tax equity and non-tax equity) to be accounted for under Topic 321 (unless the investment is within the scope of other guidance) would provide comparable information for investors. Based on the feedback received, the Task Force reached a consensus to remove the cost method guidance in Subtopic 323-740, which results in requiring LIHTC investments that are not accounted for using the proportional amortization method or the equity method to use the guidance in Topic 321.

BC24. Currently, Example 1 in Subtopic 323-740 illustrates the application of the equity method for a LIHTC investment. Some stakeholders observed that there are differences between how the equity method is applied in Example 1 and how it is applied in Subtopic 323-10 (for example, Example 1 in Subtopic 323-740 uses undiscounted cash flows in calculating an other-than-temporary impairment). The Task Force observed that removing that guidance for LIHTC investments would provide comparable information for investors because entities would be required to calculate impairment for all equity method investments (tax equity and non-tax equity) using Subtopic 323-10. Therefore, the Task Force reached a consensus to remove the equity method impairment example for LIHTC investments in Example 1 in Subtopic 323-740, which results in requiring the use of the impairment

guidance in Subtopic 323-10 for LIHTC investments accounted for using the equity method.

BC25. Under current GAAP, entities generally do not recognize delayed equity contributions on a gross basis for non-LIHTC investments. However, paragraph 323-740-25-3 requires that when accounting for LIHTC investments, a liability be recognized for delayed equity contributions that are unconditional and legally binding or for equity contributions that are contingent upon a future event when that event becomes probable. Some stakeholders questioned whether the guidance in paragraph 323-740-25-3 on delayed equity contributions continues to be appropriate given the expansion of investments eligible to be accounted for using the proportional amortization method. The Task Force received feedback that including delayed equity contributions in the initial amortization schedule for tax equity investments that are accounted for using the proportional amortization method is consistent with how tax law characterizes these investments and allows entities to create a single amortization schedule (rather than multiple schedules for each investment made, which is more costly to prepare and audit). Additionally, the Task Force observed that including delayed equity contributions in the initial amortization schedule avoids the back-loading of investment amortization. However, other methods of accounting for tax equity investments (for example, the equity method or fair value [measurement alternative] under Topic 321) do not necessarily depend on an amortization schedule. Therefore, the benefit of allowing a single (rather than multiple) amortization schedule to be created is specific to tax equity investments accounted for using the proportional amortization method. In addition, the Task Force received feedback that removing the delayed equity contribution guidance for LIHTC investments that are not accounted for using the proportional amortization method would provide comparable information to investors because all LIHTC and non-LIHTC tax equity investments not accounted for using the proportional amortization method will be accounted for in a similar manner. Therefore, the Task Force reached a consensus that:

a. The delayed equity contribution guidance in paragraph 323-740-25-3 be required for all tax equity investments that are accounted for using the proportional amortization method
b. The delayed equity contribution guidance in paragraph 323-740-25-3 be removed for LIHTC investments not accounted for using the proportional amortization method.

Disclosure

BC26. The Task Force reached a consensus that the disclosure objective in paragraph 323-740-50-1 applies to all tax equity investments that generate income tax credits and other income tax benefits from a tax credit program for which an entity has elected to apply the proportional amortization method, including investments within those elected tax credit programs that do not qualify for the proportional amortization method. The Task Force reached a consensus to require the following disclosures for those investments because this information has been consistently requested by financial statement users 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 it has been recognized
b. The amount of 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. For tax equity investments accounted for using the proportional amortization method, 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 it has been recognized
e. For tax equity investments accounted for using the proportional amortization method, 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.

BC27. In reaching this consensus, the Task Force noted that although items (a) through (c) in paragraph BC26 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 concluded that those items be required because of the importance of this information to financial statement users. The Task Force decided to retain the disclosure examples in paragraph 323-740-50-2 that are not required but should be considered to meet the disclosure objective. Most comment letter respondents who provided feedback on the proposed disclosures supported both the scope and the proposed disclosures. Respondents generally agreed that those disclosures would provide investors with decision-useful information.

Transition and Transition Disclosures

BC28. The Task Force reached a consensus that the amendments must be applied using either a modified retrospective approach or a retrospective approach because either approach provides 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. Almost all comment letter respondents who commented on transition and transition disclosures supported the proposed transition methods and disclosures.

BC29. The Task Force reached a consensus that for LIHTC investments that no longer may use the cost method guidance in paragraph 323-740-25-2A, the equity method example in paragraphs 323-740-55-8 through 55-9, or the delayed equity contribution guidance in paragraph 323-740-25-3, an entity must either follow its general transition method discussed in paragraph BC28 or elect a prospective transition method. The Task Force observed that the prospective transition method is not a grandfathering approach. Rather, it is a change to the accounting for all affected LIHTC investments currently recorded on the date of adoption. Under the prospective transition approach, an adjustment is recognized in current-period earnings, the balance sheet, or both on the date of adoption. The Task Force concluded that an entity may separately select a transition method for each of the three transition adjustment types discussed in this paragraph but must apply a consistent transition method for each transition adjustment type (for example, an entity may elect a prospective method for its LIHTC investments transitioning from the cost method to the guidance in Topic 321 and its general transition method for its LIHTC equity method investments transitioning from the impairment methodology in paragraphs 323-740-55-8 through 55-9 to the impairment methodology in Subtopic 323-10). The Task Force determined that an election would be less costly for entities while still providing decision-useful information for financial statement users.

BC30. 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 to apply the disclosure requirements in Section 250-10-50 for an accounting change required by the guidance, with the exception of disclosing the reason why the change in accounting principle is preferable. No additional transition disclosures from Topic 250 beyond those included in paragraph 323-740-65-2(g) are required.

Benefits and Costs

BC31. 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.

BC32. The Task Force does not anticipate that most entities will incur significant costs as a result of the amendments in this Update. The amendments provide the benefit of allowing economically similar transactions to be accounted for consistently. The Task Force believes that reporting entities will likely elect to apply the proportional amortization method for investments that generate income tax credits from tax credit programs for which most investments are expected to meet the conditions to be accounted for using 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 better reflects the economics of the investment and that the disclosures required by the amendments 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 amendments to the *FASB Accounting Standards Codification®* in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). Those improvements, which will be incorporated into the proposed 2024 GAAP Taxonomy, are available through GAAP Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.