FIN 48

(FASB Interpretation No. 48- Accounting for Uncertainty in Income Taxes)

FIN 48 represents the most significant change in accounting for income taxes in many years.

The Financial Accounting Standards Board (FASB) issued FIN 48 to eliminate diverse accounting practices and to clarify the accounting for uncertainty in income taxes recognized on financial statements. To make financial reporting more comparable, FIN 48 rules address the identification, recognition and measurement of a tax position taken or expected to be taken, and expand the related disclosures for inclusion in an enterprises' financial statements.

Accounting for contingent income tax liabilities is not just a public company issue; it is an accounting principle applicable to any company issuing GAAP financial statements. The implementation of FIN 48 should result in significant changes to an enterprise's accounting and tax policies, procedures and internal controls. Publicly traded companies have to take into consideration its impact on the internal control requirements of Section 404 and 302 of the Sarbanes-Oxley Act.

The accounting and reporting requirements of FIN 48 may result in a larger income tax liability or a smaller current or deferred tax asset. The requirements are difficult to understand and carry the potential to materially impact the financial statement presentation of organizations both large and small.

FIN 48 has significantly increased the calculation and documentation requirements for individually identified income tax exposures. Funaro & Co. provides assistance to entities in complying with the extensive requirements of FIN 48.

The FASB issued FIN 48 as an interpretation of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, in July 2006, effective for fiscal years beginning after December 15, 2006. FIN 48 is now part of the FASB Accounting Standards Codification Topic 740. Calendar year public companies adopted the standard with their first quarter 2007 quarterly reports. A FASB staff position, FSB FIN 48-2, deferred the effective date for private companies to fiscal years beginning after December 15, 2007. The effective date was deferred again by FSP FIN 48-3 to fiscal years beginning after December 15, 2008. Finally, FSP FIN 48-d, finalized in September 2009 as Accounting Standards Update No. 2009-06, confirms the effective date for fiscal years beginning after December 15, 2008.

Although not widely implemented, disclosure was required in the 2008 financial statements of a company's deferred application of FIN 48 and of its current method for evaluating uncertain tax positions under Financial Accounting Standards No. 5 (FAS 5), Accounting for Contingencies.

Under FAS 5, a company recorded a liability when it was likely to occur ("probable") and it could be reasonably estimated. Also, a company reported a tax benefit unless it could establish there was a chance of losing if the benefit was challenged by a tax authority. FIN 48 requires entities to determine whether or not a tax position will be sustained upon examination by a tax authority. A company reports no tax benefit unless it can establish it has a greater than 50% chance of winning upon challenge.

For determining the technical merits of a tax position, sources of authority relating to the tax law (i.e., legislation, statutes, legislative intent, regulations, rulings, and case law) are to be analyzed. Widely understood administrative practices and procedures of a particular taxing authority in its dealings with entities are to be taken into account.

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IMPLICATIONS OF FIN 48:

Because FIN 48 applies to all material tax positions, the impact on enterprises is significant and requires comprehensive tracking and documentation. In addition, FIN 48 requires extensive disclosures about uncertain income tax positions, including a detailed roll-forward of "tax benefits" taken that do not qualify for financial statement recognition.

FIN 48 analyses are complicated. FIN 48 is not a "once and done" proposition, as enterprises must continue to analyze tax positions in an ongoing fashion. Tax law or policy changes may result in subsequent recognition, "de-recognition," or a change in the measurement of a tax position taken in a prior period.

FIN 48 ANALYSIS SERVICES:

Funaro & Co. has significant experience with guiding entities through the FIN 48 process. Our team will assist and advise by:

- Developing the inventory of local, state, federal, and international tax positions
- Determining levels of materiality
- Identifying open tax years
- Defining and establishing a "unit of account"
- Determining the criteria for the recognition of a tax position
- Interpreting and applying the "more likely than not" standard
- Identifying the circumstances that give rise to the conditions of subsequent recognition, de-recognition, and measurement (including changes in judgment)
- Calculating any applicable interest and penalties
- Researching relevant legislation, statutes, legislative intent, regulations, rulings, and case law
- Drafting requisite footnote disclosures

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ABOUT FUNARO & CO.

Funaro & Co. is a leading medium-sized audit and tax advisory firm. Founded in 1947 to service the unique needs of Italian companies with operations in the U.S, our firm has grown steadily over the years and the scope of our services has grown with us.

For over 60 years, Funaro & Co.'s unmatched U.S./E.U. cross-border experience has kept us solidly in a position of leadership in our profession. With more than 80 employees and offices in New York and Milan, the size of our firm is small enough to provide an unusual degree of personal service, yet large enough to provide every type of professional support required by its clientele.

For additional information about our firm, please visit our website at **www.funaro.com**.