FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2014-01
January 2014

Investments—Equity Method and Joint Ventures (Topic 323)

Accounting for Investments in Qualified Affordable Housing Projects

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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FASB

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CONTENTS

	Page Numbers
Summary	1–5
Amendments to the *FASB Accounting Standards Codification*®	7–21
Background Information and Basis for Conclusions	22–29
Amendments to the XBRL Taxonomy	30

Summary

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

The objective of this Update is to provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit.

The low-income housing tax credit program is designed to encourage private capital investment in the construction and rehabilitation of low-income housing. This program is an indirect tax subsidy that allows investors in a flow-through limited liability entity, such as limited partnerships or limited liability companies that manage or invest in qualified affordable housing projects, to receive the benefits of the tax credits allocated to the entity that owns the qualified affordable housing project. The Revenue Reconciliation Act of 1993 retroactively extended the low-income housing tax credit. Investors in entities operating qualified affordable housing projects receive tax benefits in the form of tax credits and tax deductions from operating losses. The tax credits are allowable on the tax return each year over a 10-year period as a result of a sufficient number of units being rented to qualifying tenants and are subject to restrictions on gross rentals paid by those tenants. Those credits are subject to recapture over a 15-year period starting with the first year tax credits are earned.

Investments in qualified affordable housing projects through flow-through limited liability entities have different risks and rewards than do traditional equity investments. Generally, investors in qualified affordable housing project investments expect to receive substantially all of their return through the receipt of tax credits and other tax benefits (such as deductions from taxable income for operating losses). Accordingly, the principal risk associated with qualified affordable housing investments is potential noncompliance with the tax code requirements (for example, failure to rent property to qualified tenants may result in loss of low-income housing tax credits) resulting in unavailability or recapture of the tax credits and other tax benefits.

Currently, under U.S. generally accepted accounting principles (GAAP), a reporting entity that invests in a qualified affordable housing project may elect to account for that investment using the effective yield method if all of the conditions in paragraph 323-740-25-1 are met. For those investments that are not accounted for using the effective yield method, paragraph 323-740-25-2 requires that they be accounted for in accordance with Subtopic 970-323, Real Estate—General—Investments—Equity Method and Joint Ventures, which results in the investments being accounted for under either the equity method or the cost method. The Task Force received stakeholder feedback indicating that certain of the conditions in paragraph 323-740-25-1 are overly restrictive and thus prevent many investments in qualified affordable housing projects from qualifying for the use of the effective yield method. Those stakeholders stated that presenting the investment performance net of taxes as a component of income tax expense (benefit) as prescribed by the effective yield method more fairly represents the economics and provides users with a better understanding of the returns from such investments than the equity or cost methods.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all reporting entities that invest in qualified affordable housing projects through limited liability entities that are flow-through entities for tax purposes as follows:

1. For reporting entities that meet the conditions for and that elect to use the proportional amortization method to account for investments in qualified affordable housing projects, all amendments in this Update apply.
2. For reporting entities that do not meet the conditions for or that do not elect the proportional amortization method, only the amendments in this Update that are related to disclosures apply.

What Are the Main Provisions?

The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects 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 tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). To qualify for the proportional amortization method, all of the following conditions must be met:

1. It is probable that the tax credits allocable to the investor will be available.
2. The investor does not have the ability to exercise significant influence over the operating and financial policies of the limited liability entity.
3. Substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment).
4. The investor’s projected yield based solely on the cash flows from the tax credits and other tax benefits is positive.
5. 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.

Transactions between the investor and the limited liability entity other than the investment in the limited liability entity should not be considered when determining whether the above conditions are met provided that:

1. The reporting entity is in the business of entering into those other transactions (for example, a financial institution that regularly extends loans to other housing projects).
2. The terms of those other transactions are consistent with the terms of arm's-length transactions.
3. The reporting entity does not acquire the ability to exercise significant influence over the operating and financial policies of the limited liability entity as a result of those other transactions.

A reporting entity should evaluate whether the conditions have been met to apply the proportional amortization method to an investment in a qualified affordable housing project through a limited liability entity at the time of initial investment on the basis of facts and circumstances that exist at that time. A reporting entity should reevaluate the conditions upon the occurrence of either of the following:

1. A change in the nature of the investment (for example, if the investment is no longer a flow-through entity for tax purposes)
2. A change in the relationship with the limited liability entity that could result in the reporting entity no longer meeting the conditions.

An investment in a qualified affordable housing project through a limited liability entity should be tested for impairment when there are events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. An impairment loss should be measured as the amount by which the carrying amount of an investment exceeds its fair value. A previously recognized impairment loss should not be reversed.

For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment in accordance with Subtopic 970-323.

The decision to apply the proportional amortization method of accounting is an accounting policy decision that should be applied consistently to all qualifying affordable housing project investments rather than a decision to be applied to individual investments.

A reporting entity should disclose information that enables users of its financial statements to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Under current U.S. GAAP, a reporting entity that invests in a qualified affordable housing project through a limited partnership investment may elect to account for the investment using the effective yield method (described in paragraphs 323-740-35-2 and 323-740-45-2) provided all of the following conditions are met:

1. The availability (but not necessarily the realization) of the tax credits allocable to the investor is guaranteed by a creditworthy entity through a letter of credit, a tax indemnity agreement, or another similar arrangement.
2. The investor's projected yield based solely on the cash flows from the guaranteed tax credits is positive.
3. The investor is a limited partner in the affordable housing project for both legal and tax purposes, and the investor's liability is limited to its capital investment.

For those qualified affordable housing project investments that are not accounted for using the effective yield method, paragraph 323-740-25-2 requires that the investments be accounted for in accordance with Subtopic 970-323, which results in qualified affordable housing project investments being accounted for under either the equity method or the cost method.

The amendments in this Update modify the conditions that a reporting entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. If the modified conditions are met, the amendments permit an entity to amortize the initial cost of the investment in proportion to the amount of tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense (benefit). Additionally, the amendments introduce new recurring disclosures about all investments in qualified affordable housing projects irrespective of the method used to account for the investments.

The amendments are expected to enable more entities to qualify for the proportional amortization method to account for affordable housing project investments than the number of entities that currently qualify for the effective yield method. The Task Force concluded that the income statement presentation of the investment's performance net of taxes along with the other amendments in this Update will help enhance financial statement users' understanding of the nature of qualified affordable housing project investments and their effect on the financial position and results of operations of a reporting entity.

When Will the Amendments Be Effective?

The amendments in this Update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2014, and interim periods within annual reporting periods beginning after December 15, 2015. Early adoption is permitted.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS does not contain any guidance specific to accounting for investments in qualified affordable housing projects.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–6. 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 323-740-05-2 through 05-3, 323-740-15-3, 323-740-25-1 through 25-2, 323-740-25-4 through 25-5, 323-740-30-1, 323-740-35-1 through 35-3, and 323-740-45-1 through 45-2 and add paragraphs 323-740-25-1A through 25-1C and 323-740-35-4 through 35-6, with a link to transition paragraph 323-740-65-1, as follows:

Investments—Equity Method and Joint Ventures—Income Taxes

Overview and Background

Qualified Affordable Housing Project Investments

323-740-05-2 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 ~~partnerships~~ liability entities that ~~operate~~ manage or invest in qualified affordable housing projects and are flow-through entities for tax purposes.

323-740-05-3 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 ~~operating~~ 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 ~~partnership~~ <u>liability entity</u> that ~~operates~~ <u>manages or invests in</u> the qualified affordable housing projects.

Scope and Scope Exceptions

Qualified Affordable Housing Project Investments

> Transactions

323-740-15-3 The guidance in the Qualified Affordable Housing Project Investments Subsections applies to <u>reporting entities that are investors</u> ~~investments~~ in ~~limited partnerships that operate~~ qualified affordable housing projects<u> through limited liability entities that are flow-through entities for tax purposes</u>.

Recognition

Qualified Affordable Housing Project Investments

323-740-25-1 ~~An~~ <u>A reporting</u> entity that invests in ~~a~~ qualified affordable housing ~~project~~<u>projects</u> through ~~a~~ limited ~~partnership investment~~ <u>liability entities (that is, the investor)</u> may elect to account for ~~the investment~~ <u>those investments</u> using the ~~effective yield~~ <u>proportional amortization</u> method (described in paragraphs 323-740-35-2 and 323-740-45-2) provided all of the following conditions are met:

a. ~~The availability (but not necessarily the realization) of the tax credits allocable to the **investor** is guaranteed by a creditworthy entity through a letter of credit, a tax indemnity agreement, or another similar arrangement.~~ <u>It is **probable** that the tax credits allocable to the investor will be available.</u>

<u>aa. The investor does not have the ability to exercise **significant influence** over the operating and financial policies of the limited liability entity.</u>

<u>aaa. Substantially all of the projected benefits are from tax credits and other tax benefits (for example, tax benefits generated from the operating losses of the investment).</u>

b. The investor's projected yield based solely on the cash flows from the ~~guaranteed~~ tax credits <u>and other tax benefits</u> is positive.

c. The investor is a limited <u>liability investor</u> ~~partner~~ in the ~~affordable housing project~~ <u>limited liability entity</u> for both legal and tax ~~purposes~~<u>purposes,</u> and the investor's liability is limited to its capital investment.

<u>**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</u>

entity, a reporting entity shall consider the indicators of significant influence in paragraphs 323-10-15-6 through 15-7.

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 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 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 For ~~a limited partnership~~ an investment in a qualified affordable housing project through a limited liability entity not accounted for using the ~~effective yield~~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 ~~effective yield~~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 probable. Topic 450 and paragraph 840-30-55-15 provide additional guidance on the accounting for delayed equity contributions.

323-740-25-4 The decision to apply the ~~effective yield~~proportional amortization method of accounting is an accounting policy decision to be applied consistently to all investments 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 qualify for use of the ~~effective yield~~proportional amortization method.

323-740-25-5 At the time of initial investment, immediate ~~Immediate~~ recognition ~~at the time the investment is purchased~~ of the entire benefit of the tax credits to be received during the term of ~~a limited partnership~~ an investment in a qualified affordable housing project is not appropriate (that is, affordable housing credits shall not be recognized in the financial statements before their inclusion in the investor's tax return).

Initial Measurement

Qualified Affordable Housing Project Investments

323-740-30-1 Paragraph 323-740-25-5 prohibits immediate recognition of tax credits, at the time of initial investment, for the entire benefit of tax credits to be received during the term of ~~a limited partnership~~ an investment in a qualified affordable housing project. See paragraph 323-740-35-2 for the required subsequent measurement calculation methodology when an entity uses the ~~effective yield~~proportional amortization method of accounting for ~~a limited partnership~~ an investment in a qualified affordable housing project through a limited liability entity.

Subsequent Measurement

Qualified Affordable Housing Project Investments

323-740-35-1 This guidance addresses the methodology for measuring ~~the periodic net benefit of an affordable housing tax credit when a limited partnership~~ an investment in a qualified affordable housing project through a limited liability entity that is accounted for using the ~~effective yield~~proportional amortization method.

323-740-35-2 Under the ~~effective yield~~proportional amortization method, the investor ~~recognizes tax credits as they are allocated and~~ amortizes the initial cost of the investment ~~to provide a constant effective yield over the period that~~ in proportion to the tax credits and other tax benefits ~~are~~ 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 tax credits and other tax benefits allocated to the investor in the current period divided by the total estimated tax credits and other tax benefits expected to be received by the investor over the life of the investment.

~~The effective yield is the internal rate of return on the investment, based on the cost of the investment and the guaranteed tax credits allocated to the investor. Any expected residual value of the investment shall be excluded from the effective yield calculation. Cash received from operations of the limited partnership or sale of the property, if any, shall be included in earnings when realized or realizable.~~

323-740-35-3 Example 1 (see paragraph 323-740-55-2) illustrates the application of accounting guidance to a limited liability ~~partnership~~ investment in a qualified affordable housing project using the cost, equity, and ~~effective yield~~ proportional amortization methods.

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 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 received from operations of the limited liability entity shall be included in earnings when realized or realizable. Gains or losses on the sale of the investment, if any, shall be included in 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

323-740-45-1 This guidance addresses the income statement presentation of the affordable housing tax credit when ~~a limited partnership~~ an investment in a qualified affordable housing project through a limited liability entity is accounted for using the ~~effective yield~~proportional amortization method.

323-740-45-2 Under the ~~effective yield~~proportional amortization method, ~~the tax credit allocated, net of~~ the amortization of the investment in the limited ~~partnership,~~ liability entity is recognized in the income statement as a component of ~~**income taxes**~~**income tax expense (or benefit).**~~attributable to continuing operations.~~ ~~Any~~ The ~~other~~ **current tax expense (or benefit)** ~~tax benefits received~~ shall be accounted for pursuant to the general requirements of Topic 740.

3. Add paragraphs 323-740-50-1 through 50-2 and their Subsection title, with a link to transition paragraph 323-740-65-1, as follows:

Disclosure

Qualified Affordable Housing Project Investments

323-740-50-1 A reporting entity that invests in a qualified affordable housing project shall disclose information that enables users of its financial statements to understand the following:

a. The nature of its investments in qualified affordable housing projects
b. The effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations.

323-740-50-2 To meet the objectives in the preceding paragraph, a reporting entity may consider disclosing the following:

a. The amount of affordable housing tax credits and other tax benefits recognized during the year
b. The balance of the investment recognized in the statement of financial position
c. 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 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 tax credits or other circumstances. For example, 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.

4. Amend paragraphs 323-740-55-2 through 55-5 and paragraphs 323-740-55-7 through 55-8 and supersede paragraphs 323-740-55-6 and 323-740-55-10, with a link to transition paragraph 323-740-65-1, as follows:

Implementation Guidance and Illustrations

Qualified Affordable Housing Project Investments

323-740-55-1 This Section is an integral part of the requirements of this Subtopic.

> Illustrations

> > Example 1: Application of Accounting Guidance to a Limited Liability ~~Partnership~~ Investment in a Qualified Affordable Housing Project

323-740-55-2 This Example ~~demonstrates~~ illustrates the application of the cost, equity, and ~~effective yield~~proportional amortization methods of accounting for a limited ~~partnership~~ liability investment in a qualified affordable housing project.

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

Date of investment	January 1, ~~19X1~~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 **{remove glossary link}investor{remove glossary link}** 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 ~~8~~ 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 ~~and book~~ loss will be equal to depreciation expense. The cumulative book loss (and thus the cumulative depreciation expense) recognized by the investor ~~under the equity method of accounting~~ is limited to the $100,000 investment.
i. Subparagraph superseded by Accounting Standards Update 2014-01.~~Deferred taxes are provided for the difference between the book and~~

~~tax bases of the investment. Deferred taxes are provided for losses in excess of the at-risk investment.~~

j. ~~The investor will maintain the investment for 15 years (so there will be no recapture of tax credits).~~ 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. ~~Under the effective yield method, a letter of credit or similar guarantee exists~~ All of the conditions described in paragraph 323-740-25-1 are met to qualify the investment for the use of the ~~effective yield~~proportional amortization method.

323-740-55-5 ~~The investor's cash flow analysis follows~~An analysis of the proportional amortization method follows. **[For ease of readability, the table is not underlined as new text.]**

Year	Net Investment (1)	Amortization of Investment (2)	Tax Credits (3)	Net Losses/Tax Depreciation (4)	Other Tax Benefits from Tax Depreciation (5)	Tax Credits and Other Tax Benefits (6)	Tax Credits and Other 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 tax benefits received during the year in Column (6) / total anticipated tax benefits over the life of the investment of $120,000).

(3) 4 percent 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).

~~Year~~	~~Purchase of Investment (1)~~	~~Tax Depreciation (2)~~	~~Tax Credit (3)~~	~~Taxes Saved (4)~~	~~Cash Saved (Spent)~~
~~1~~	~~$ 100,000~~				~~$ (100,000)~~
~~1~~		~~$ 7,273~~	~~$ 16,000~~	~~$ 18,909~~	~~18,909~~
~~2~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~3~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~4~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~5~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~6~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~7~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~8~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~9~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~10~~		~~7,273~~	~~16,000~~	~~18,909~~	~~18,909~~
~~11~~		~~7,273~~		~~2,909~~	~~2,909~~
~~12~~		~~7,273~~		~~2,909~~	~~2,909~~
~~13~~		~~7,273~~		~~2,909~~	~~2,909~~
~~14~~		~~7,273~~		~~2,909~~	~~2,909~~
~~15~~		~~7,273~~		~~2,909~~	~~2,909~~
~~Total~~		~~$ 109,095~~	~~$ 160,000~~	~~$ 203,635~~	~~$ 103,635~~

~~(1) Assumed investment for a 5 percent limited partnership interest in the project.~~

~~(2) Depreciation (on $200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years.~~

~~(3) 8 percent tax credit on $200,000 tax basis of the underlying assets.~~

~~(4) (Column [2] x 40% tax rate) + Column (3).~~

323-740-55-6 Paragraph superseded by Accounting Standards Update 2014-01.~~A summary of the net income effect of the cost, equity, and effective yield methods follows. This summary is based on the detailed analyses of the cost method with amortization, the equity method, and the effective yield method, which appear after the following summary.~~

~~**Summary of Net Income Impact**~~

	~~Cost Method~~			~~Equity Method~~			~~Effective Yield Method~~		
~~Year~~	~~Income (Loss) Continuing Operations~~	~~Income Tax Expense (Benefit)~~	~~Net Income~~	~~Income (Loss) Continuing Operations~~	~~Income Tax Expense (Benefit)~~	~~Net Income~~	~~Income (Loss) Continuing Operations~~	~~Income Tax Expense (Benefit)~~	~~Net Income~~
~~1~~	~~$ (10,000)~~	~~$ (20,000)~~	~~$ 10,000~~	~~$ (7,273)~~	~~$ (18,909)~~	~~$ 11,636~~		~~$ (12,164)~~	~~$ 12,164~~
~~2~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(7,273)~~	~~(18,909)~~	~~11,636~~		~~(11,795)~~	~~11,795~~
~~3~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(7,273)~~	~~(18,909)~~	~~11,636~~		~~(11,392)~~	~~11,392~~
~~4~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(7,273)~~	~~(18,909)~~	~~11,636~~		~~(10,949)~~	~~10,949~~
~~5~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(7,273)~~	~~(18,909)~~	~~11,636~~		~~(10,464)~~	~~10,464~~
~~6~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(7,273)~~	~~(18,909)~~	~~11,636~~		~~(9,932)~~	~~9,932~~
~~7~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(7,273)~~	~~(18,909)~~	~~11,636~~		~~(9,349)~~	~~9,349~~
~~8~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(7,273)~~	~~(18,909)~~	~~11,636~~		~~(8,710)~~	~~8,710~~
~~9~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(25,816)~~	~~(26,327)~~	~~511~~		~~(8,009)~~	~~8,009~~
~~10~~	~~(10,000)~~	~~(20,000)~~	~~10,000~~	~~(16,000)~~	~~(22,401)~~	~~6,401~~		~~(7,236)~~	~~7,236~~
~~11~~									
~~12~~									
~~13~~									
~~14~~									
~~15~~									
~~Total~~	~~$ (100,000)~~	~~$ (200,000)~~	~~$ 100,000~~	~~$ (100,000)~~	~~$ (200,000)~~	~~$ 100,000~~	~~$ -~~	~~$ (100,000)~~	~~$ 100,000~~

323-740-55-7 A detailed analysis of the cost method with amortization follows.

Year	Net Investment (1)	Amortization of Investment (2)	Tax Depreciation (3)		Tax Credit (4)		Current Tax Benefit (5)		Deferred Tax Benefit (Expense) (6)		Impact on Net Income (7)	
1	$ 90,000	$ 10,000	$ 7,273		~~$ 16,000~~	$ 8,000	~~$ 18,909~~	$10,909	$ 1,091		$ 2,000	~~$10,000~~
2	80,000	10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
3	70,000	10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
4	60,000	10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
5	50,000	10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
6	40,000	10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
7	30,000	10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
8	20,000	10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
9	10,000	10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
10		10,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	1,091		2,000	~~10,000~~
11			7,273				2,909		(2,909)			
12			7,273				2,909		(2,909)			
13			7,273				2,909		(2,909)			
14			~~7,273~~	5,451			~~2,909~~	2,183	~~(2,909)~~	(2,183)		
15			~~7,273~~				~~2,909~~		~~(2,909)~~			
Total		$ 100,000	~~$ 109,095~~	$100,000	~~$ 160,000~~	$80,000	~~$ 203,635~~	$120,000	~~$ (3,635)~~	$ -	~~$ 100,000~~	$20,000

(1) End-of-year investment for a 5 percent limited ~~partnership~~ 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) ~~8~~ 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 ~~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).

323-740-55-8 A detailed analysis of the equity method follows.

Year	Net Investment (1)	Book Loss (2)	Tax Loss (Depreciation) (3)		Tax ~~Credit~~Credits (4)		Current Tax Benefit (5)		Deferred Tax Benefit (Expense) (6)		Impact on Net Income (7)	
1	$ 92,727	$ 7,273	$ 7,273		~~$ 16,000~~	$8,000	~~$ 18,909~~	$10,909			~~$ 11,636~~	$ 3,636
2	85,454	7,273	7,273		~~16,000~~	8,000	~~18,909~~	10,909			~~11,636~~	3,636
3	78,181	7,273	7,273		~~16,000~~	8,000	~~18,909~~	10,909			~~11,636~~	3,636
4	70,908	7,273	7,273		~~16,000~~	8,000	~~18,909~~	10,909			~~11,636~~	3,636
5	63,635	7,273	7,273		~~16,000~~	8,000	~~18,909~~	10,909			~~11,636~~	3,636
6	56,362	7,273	7,273		~~16,000~~	8,000	~~18,909~~	10,909			~~11,636~~	3,636
7	49,089	7,273	7,273		~~16,000~~	8,000	~~18,909~~	10,909			~~11,636~~	3,636
8	41,816	7,273	7,273		~~16,000~~	8,000	~~18,909~~	10,909			~~11,636~~	3,636
9 [(a)]	16,000	25,816	7,273		~~16,000~~	8,000	~~18,909~~	10,909	$ 7,418		~~511~~	(7,489)
10		16,000	7,273		~~16,000~~	8,000	~~18,909~~	10,909	3,492		~~6,401~~	(1,599)
11			7,273				2,909		(2,909)			
12			7,273				2,909		(2,909)			
13			7,273				2,909		(2,909)			
14			~~7,273~~	5,451			~~2,909~~	2,183	~~(2,909)~~	(2,183)		
15			~~7,273~~	-			~~2,909~~	-	~~(2,909)~~	-		
Total		$ 100,000	~~$ 109,095~~	$100,000	~~$ 160,000~~	$80,000	~~$ 203,635~~	$120,000	~~$ (3,635)~~	$ 0	~~$ 100,000~~	$20,000

(1) End-of-year investment for a 5 percent limited ~~partnership~~ 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) ~~8~~ 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).

323-740-55-9 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.

323-740-55-10 ~~-~~Paragraph superseded by Accounting Standards Update 2014-01.~~A detailed analysis of the effective yield method follows.~~

~~Year~~	~~Net Investment (1)~~	~~Tax Credits (2)~~	~~Amortization of Investment (3)~~	~~Tax Depreciation (4)~~	~~Current Tax Benefit (5)~~	~~Deferred Tax Benefit (Expense) (6)~~	~~Impact on Net Income (7)~~
~~1~~	~~$ 93,607~~	~~$ 16,000~~	~~$ 6,393~~	~~$ 7,273~~	~~$ 12,516~~	~~$ (352)~~	~~$ 12,164~~
~~2~~	~~86,599~~	~~16,000~~	~~7,008~~	~~7,273~~	~~11,901~~	~~(106)~~	~~11,795~~
~~3~~	~~78,918~~	~~16,000~~	~~7,681~~	~~7,273~~	~~11,228~~	~~163~~	~~11,391~~
~~4~~	~~70,499~~	~~16,000~~	~~8,419~~	~~7,273~~	~~10,490~~	~~458~~	~~10,948~~
~~5~~	~~61,272~~	~~16,000~~	~~9,227~~	~~7,273~~	~~9,682~~	~~782~~	~~10,464~~
~~6~~	~~51,158~~	~~16,000~~	~~10,114~~	~~7,273~~	~~8,795~~	~~1,136~~	~~9,931~~
~~7~~	~~40,073~~	~~16,000~~	~~11,085~~	~~7,273~~	~~7,824~~	~~1,525~~	~~9,349~~
~~8~~	~~27,923~~	~~16,000~~	~~12,150~~	~~7,273~~	~~6,759~~	~~1,951~~	~~8,710~~
~~9~~	~~14,605~~	~~16,000~~	~~13,318~~	~~7,273~~	~~5,591~~	~~2,418~~	~~8,009~~
~~10~~		~~16,000~~	~~14,605~~	~~7,273~~	~~4,304~~	~~2,935~~	~~7,239~~
~~11~~				~~7,273~~	~~2,909~~	~~(2,909)~~	
~~12~~				~~7,273~~	~~2,909~~	~~(2,909)~~	
~~13~~				~~7,273~~	~~2,909~~	~~(2,909)~~	
~~14~~				~~7,273~~	~~2,909~~	~~(2,909)~~	
~~15~~				~~7,273~~	~~2,909~~	~~(2,909)~~	
~~Total~~		~~$ 160,000~~	~~$ 100,000~~	~~$ 109,095~~	~~$ 103,635~~	~~$ (3,635)~~	~~$ 100,000~~
~~Internal rate of return based on tax credits only~~						~~9.61%~~	

~~(1) End-of-year investment for a 5 percent limited partnership interest in the project net of amortization in Column (3).~~

~~(2) 8 percent tax credit on $200,000 tax basis of the underlying assets.~~

~~(3) Column (2) - (beginning investment x 9.61%).~~

~~(4) Depreciation (on $200,000 tax basis of the underlying assets) using the straight-line method over 27.5 years.~~

~~(5) Column (2) - Column (3) + (Column [4] x 40% tax rate).~~

~~(6) The change in deferred taxes resulting from the difference 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 [3] - Column [4]) x 40% tax rate.~~

~~(7) Column (5) + Column (6).~~

5. Add paragraph 323-740-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*

323-740-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects:*

a. The pending content that links to this paragraph shall be effective for **public business entities** for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments shall be effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015.

b. A reporting entity shall apply the pending content that links to this paragraph retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption of the pending content that links to this paragraph may continue to apply the effective yield method for those preexisting investments.

c. Early application of the pending content that links to this paragraph is permitted.

d. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-2 in the period the entity adopts the pending content that links to this paragraph.

6. Amend paragraph 323-740-00-1 as follows:

323-740-00-1 The following table identifies the changes made to this Subtopic. ~~No updates have been made to this subtopic.~~

Paragraph Number	Action	Accounting Standards Update	Date
Current Tax Expense (or Benefit)	Added	2014-01	01/15/2014
Income Taxes	Superseded	2014-01	01/15/2014
Income Tax Expense (or Benefit)	Added	2014-01	01/15/2014
Investor	Superseded	2014-01	01/15/2014
Not-for-Profit Entity	Added	2014-01	01/15/2014
Public Business Entity	Added	2014-01	01/15/2014
323-740-05-2	Amended	2014-01	01/15/2014
323-740-05-3	Amended	2014-01	01/15/2014
323-740-15-3	Amended	2014-01	01/15/2014
323-740-25-1	Amended	2014-01	01/15/2014
323-740-25-1A through 25-1C	Added	2014-01	01/15/2014
323-740-25-2	Amended	2014-01	01/15/2014
323-740-25-4	Amended	2014-01	01/15/2014
323-740-25-5	Amended	2014-01	01/15/2014
323-740-30-1	Amended	2014-01	01/15/2014

Paragraph Number	Action	Accounting Standards Update	Date
323-740-35-1 through 35-3	Amended	2014-01	01/15/2014
323-740-35-4 through 35-6	Added	2014-01	01/15/2014
323-740-45-1	Amended	2014-01	01/15/2014
323-740-45-2	Amended	2014-01	01/15/2014
323-740-50-1	Added	2014-01	01/15/2014
323-740-50-2	Added	2014-01	01/15/2014
323-740-55-2 through 55-5	Amended	2014-01	01/15/2014
323-740-55-6	Superseded	2014-01	01/15/2014
323-740-55-7	Amended	2014-01	01/15/2014
323-740-55-8	Amended	2014-01	01/15/2014
323-740-55-10	Superseded	2014-01	01/15/2014
323-740-65-1	Added	2014-01	01/15/2014

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

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 low-income housing tax credit program is designed to encourage private capital investment in the construction and rehabilitation of low-income housing. This program is an indirect tax subsidy that allows investors in flow-through limited liability entities, such as limited partnerships or limited liability companies that manage or invest in qualified affordable housing projects, to receive the benefits of the tax credits allocated to the entities that own qualified affordable housing projects. The Revenue Reconciliation Act of 1993 retroactively extended and made permanent the low-income housing tax credit. Investors in entities operating qualified affordable housing projects receive tax benefits in the form of tax credits and tax deductions from operating losses. The tax credits are allowable on the investor's tax return each year over a 10-year period as a result of a sufficient number of units being rented 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 the tax credits are earned.

BC3. Investments in qualified affordable housing projects through flow-through limited liability entities have different risks and rewards than traditional equity investments. Generally, investors in qualified affordable housing project investments expect to receive a majority of their return through the receipt of tax credits and other tax benefits (such as deductions from taxable income for operating losses). Accordingly, the principal risk associated with qualified affordable housing investments is potential noncompliance with the tax code requirements (for example, failure to rent property to qualified tenants may result in loss of low-income housing tax credits resulting in unavailability or recapture of the tax credits) and other tax benefits.

BC4. Under current U.S. 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 effective yield method (described in paragraphs 323-740-35-2 and 323-740-45-2) provided all of the following conditions are met:

a. The availability (but not necessarily the realization) of the tax credits allocable to the investor is guaranteed by a creditworthy entity through a letter of credit, a tax indemnity agreement, or another similar arrangement.
b. The investor's projected yield based solely on the cash flows from the guaranteed tax credits is positive.
c. The investor is a limited partner in the affordable housing project for both legal and tax purposes, and the investor's liability is limited to its capital investment.

BC5. For those qualified affordable housing project investments that are not accounted for using the effective yield method, paragraph 323-740-25-2 requires that they be accounted for in accordance with Subtopic 970-323, which results in qualified affordable housing project investments being accounted for under either the equity method or the cost method. The Task Force received feedback from stakeholders that certain of the conditions are overly restrictive and thus prevent many investments in qualified affordable housing projects from qualifying for the use of the effective yield method, which those stakeholders believe more fairly represents the economics and provides users with a better understanding of such investments than the equity or cost methods.

BC6. The Board issued a proposed Accounting Standards Update on April 17, 2013, with a comment period that ended on June 17, 2013, and received 73 comment letters.

Scope and Other Considerations

BC7. The Task Force reached a consensus that an entity may make an accounting policy election to account for its limited liability investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The Task Force reached a consensus to change the method of accounting from the effective yield method to the proportional amortization method on the basis that these investments are different from debt instruments for which effective yield may be more appropriate and that the proportional amortization method should provide a fair reflection of the economics of such investments in a less complex manner than the effective yield method. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). To qualify for the proportional amortization method, all of the following conditions must be 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 (for example, tax benefits generated from the operating losses of the investment).
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.

BC8. The Task Force agreed that for those limited liability investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should continue to be accounted for in accordance with Subtopic 970-323. In accounting for such an investment under that Subtopic, a reporting entity should apply the amendments in this Update that are not related to the proportional amortization method.

BC9. In reaching its consensus, the Task Force discussed whether the scope of the amendments in this Update should apply only to limited partnership investments in affordable housing projects. The Task Force noted that investments in affordable housing projects have increased and that entities have invested in affordable housing projects through both limited partnerships and limited liability companies. One Task Force member noted that limited liability entities are required to elect to be taxed as flow-through entities for investors to be eligible to receive the tax credits. The Task Force clarified that the amendments in this Update should apply to both limited partnership and limited liability investments in qualified affordable housing projects.

BC10. The Task Force also discussed whether the scope of the amendments in this Update should be extended to tax credit investments other than investments in qualified affordable housing projects. Some Task Force members stated that the proportional amortization method should be applied to all tax credit investments that meet the conditions in this Update because that method would be suitable for all tax credit investments that are made for the primary purpose of receiving tax credits and other tax benefits regardless of the type of investment. Other Task Force members expressed concern that there may be unintended consequences if the guidance in the Update was applied to other types of tax credit investments. The Task Force reached a consensus to limit the scope of the amendments in this Update to only investments in qualified affordable housing projects because it will more quickly address the concerns in practice about the income statement presentation of those investments.

BC11. The Task Force also recommended that the Board consider adding a separate project to the Task Force's agenda to assess the applicability of the guidance in this Update to other types of tax credit investments. The Task Force expects that more investments in qualified affordable housing projects will qualify for the proportional amortization method under the amendments than those that qualify for the effective yield method under current U.S. GAAP. This is principally the result of (a) removing the requirement for a guarantee by a creditworthy entity and (b) modifying the requirement for a positive yield based not only on the cash flows from the tax credits but, rather, on cash flows from *both* the tax credits *and* other tax benefits. The Task Force observed that the threshold for applying the proportional amortization method should remain high absent the requirement for a guarantee by a creditworthy entity and therefore decided that it should be probable that the tax credits allocable to the investor will be available. The Task Force acknowledged that such a threshold should be higher than the more-likely-than-not threshold described in Topic 740, Income Taxes.

BC12. In reaching its consensus, the Task Force also clarified that the intent of the guidance in this Update is to identify those investments that are made for the primary purpose of receiving tax credits and other tax benefits. Therefore, an investor who has the ability to influence the operating and financial policies of the limited liability entity should not be precluded from applying the guidance in the amendments in this Update as long as that investor does not have the ability to exercise *significant* influence. The Task Force determined that the existence of significant influence should be assessed in accordance with Topic 323 considering the indicators of significant influence in paragraphs 323-10-15-6 through 15-7. The Task Force acknowledged that the guidance in those paragraphs was intended for application to investments in common stock and not to investments in limited liability partnership interests. Therefore, the subsequent paragraphs (paragraphs 323-10-15-8 through 15-11) that address voting stock ownership levels (for example, the significant influence presumption at a 20 percent or more voting stock ownership) would not be applicable in determining whether a limited liability investor has significant influence in an investment in an affordable housing tax credit project. However, if a reporting entity either does not qualify for or elects not to apply the proportional amortization method, it should apply the existing guidance for real estate investments in paragraph 970-323-25-6, as interpreted for SEC registrants in paragraph 323-30-S99-1, in evaluating whether the limited liability entity would be accounted for as an equity method or a cost method investment. That is, when an entity does not qualify for or elects not to apply the proportional amortization method, the equity method should be used unless the investor's interest "is so minor that the limited partner may have virtually no influence over partnership operating and financial policies."

BC13. The Task Force considered but decided against the use of an alternative condition of "no substantive participating rights." The Task Force noted that the term *participating rights* currently used in the consolidation guidance of Topic 810 is designed for determining whether a presumption of control by a general partner can be overcome and therefore may not be appropriate in the context of determining the level of influence an individual limited partner investor can exercise on its investment. The Task Force decided that the use of existing equity method accounting concepts and principles would be more appropriate and more operable for purposes of assessing the ability to influence the operating and financial policies of the limited liability entity.

BC14. The Task Force also decided that a reporting entity should evaluate its eligibility to use the guidance in this Update at the time of the initial investment based on facts and conditions that exist at that date and reevaluate those conditions if necessary upon a change in (a) the nature of the investment (for example, if the investment is no longer a flow-through entity for tax purposes) or (b) the relationship with the limited liability entity that could result in the reporting entity no longer meeting the conditions to be able to use the guidance in the amendments in this Update. In addition, the Task Force clarified that other transactions between the investor and limited liability entity (for example, bank loans) should not preclude an investor from applying the proportional amortization method as long as the investment is still made for the primary purpose of receiving tax credits and other tax benefits. To achieve that objective, the Task Force introduced a principle that states that other transactions should not be considered when determining whether the conditions are met, provided that (a) the reporting entity is in the business of entering into those other transactions, (b) the terms of those other transactions are consistent with the terms of arm's-length transactions, and (c) the reporting entity does not acquire the ability to exercise significant influence over the operating and financial policies of the limited liability entity as a result of those other transactions.

BC15. Under the proportional amortization method, the cost of the investment is amortized in proportion to the tax credits and other tax benefits allocated to the investor. The resulting net investment performance should be recognized as a component of income tax expense (benefit). Some stakeholders noted that they would prefer an amortization model based solely on the tax credits because the benefits of a more precise amortization method do not justify the complexity associated with that method. The Task Force concluded that as a practical expedient, an investor should be permitted to amortize the initial cost of the investment in proportion to only the tax credits allocated to the investor, if doing so would produce a measurement that is substantially similar to the measurement that would be produced when amortizing the investment in proportion to the tax credits and other tax benefits allocated to the investor.

BC16. The Task Force reached a consensus that a reporting entity electing to use the proportional amortization method should test its investments in qualified affordable housing projects for impairment when there are events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. In testing the investment for impairment, the Task Force noted that the carrying amounts of qualified affordable housing project investments generally are realized through the receipt of tax credits and other tax benefits but also may be realized through sale of the investments in the secondary market. The Task Force decided that if it is more likely than not that the expected tax benefits will not be realized, an impairment loss should be measured as the amount by which the carrying amount of an investment exceeds its fair value. A previously recognized impairment loss should not be reversed.

BC17. The Task Force considered whether investments in qualified affordable housing projects should be classified as deferred tax assets in a reporting entity's balance sheet and concluded that those investments would not meet the definition of a deferred tax asset because they are neither the result of a difference between the tax basis of the investment and the reported amount in the financial statements nor analogous to a tax credit carryforward (because the related tax credits are not earned and therefore not available at the time of initial investment). The classification of these investments within deferred tax assets would therefore have the effect of aggregating assets of a dissimilar nature in the balance sheet. Some stakeholders also noted that the classification of these investments as deferred tax assets would adversely affect the minimum regulatory capital requirements for reporting entities subject to U.S. and global banking industry regulations because deferred tax assets do not have the same risk weighting in those calculations as investments do. The Task Force concluded that the guidance in the amendments in this Update should not prescribe the balance sheet presentation for investments in qualified affordable housing projects.

Disclosures

BC18. The Task Force reached a consensus that the amendments in this Update should include required disclosure objectives for all reporting entities that invest in qualified affordable housing projects. In reaching its consensus, the Task Force noted that disclosures should help users of the financial statements understand the nature of the qualified affordable housing project investments and the effect of the measurement of those investments and the related tax credits on the reporting entity's financial position and results of operations. The Task Force agreed that the amendments should include disclosure objectives for reporting entities and provide potential items that the reporting entity should consider disclosing to meet those objectives. Disclosures also should be incremental to limit the increased burden on reporting entities. Therefore, the Task Force suggested that to meet the disclosure objectives, a reporting entity may consider disclosing the following:

a. The amount of affordable housing tax credits recognized during the year
b. For qualified affordable housing project investments accounted for using the equity method, the amount of investment income or loss included in pretax income
c. Any commitments or contingent commitments (for example, guarantees or commitments to provide additional capital contributions), including the amount of equity contributions that are contingent commitments related to qualified affordable housing project investments and the year(s) that contingent commitments are expected to be paid

d. The amount and nature of impairment losses during the year resulting from the forfeiture or ineligibility of tax credits or other circumstances. For example, 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.

Transition

BC19. The Task Force discussed whether the guidance should be applied retrospectively, prospectively to new investments, or under a modified retrospective approach with a cumulative-effect adjustment to opening retained earnings at the beginning of the fiscal year of adoption. The Task Force reached a consensus that an entity should apply the guidance on a retrospective basis by applying the requirements for accounting changes in paragraphs 250-10-45-5 through 45-10 because investments in qualified affordable housing projects have long terms and, thus, a retrospective application provides comparable information that other transition methods could not provide. The Task Force also observed that information to retrospectively apply the amendments should be readily available in most instances.

BC20. The Task Force decided, however, that a reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption of this Update will be permitted to continue to apply the effective yield method for those preexisting investments. In reaching that decision, the Task Force considered the possibility that the costs may outweigh the benefits of changing from the effective yield method to a proportional amortization method for some reporting entities. Early adoption is permitted.

BC21. The guidance on other presentation matters in Subtopic 250-10, Accounting Changes and Error Corrections—Overall, is applicable for 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. No additional transition disclosures other than the requirements in paragraphs 250-10-50-1 through 50-3 are required.

BC22. The Task Force decided that the amendments in this Update should be effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. For all entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2014, and interim periods within annual reporting periods beginning after December 15, 2015. After considering the decisions in the Private Company Decision-Making Framework, which indicates that nonpublic entities generally should be provided an additional year, the Task Force decided not to extend the effective date further for nonpublic entities because of the elective nature of the amendments in this Update.

Benefits and Costs

BC23. 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.

BC24. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The amendments are elective, and the costs and complexity of applying the proportional amortization method are not expected to be greater than the costs and complexity of applying the equity or cost methods or the effective yield method. The Task Force noted that presenting the income statement effect of qualifying investments using a proportional amortization method as a component of income taxes is a better reflection of the investment's performance and thus should provide users with a better understanding of the entity's investment in qualified affordable housing projects. Accordingly, the Task Force determined that the benefits of the amendments justify the related costs.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Those changes, which will be incorporated into the proposed 2015 UGT, are available for public comment through ASU Taxonomy Changes at www.fasb.org, and finalized as part of the annual release process starting in September 2014.