




Complying with FIN 48:

An Overview for Corporate Accounting and Tax Departments



FIN 48 represents a significant shift in income tax accounting, requiring a far more rigorous process for evaluating and tracking uncertain tax positions. Implementation efforts and establishing the process changes necessary to address accounting for uncertain tax positions on an ongoing basis will strain most companies' internal resources, particularly those who are subject to multiple tax jurisdictions.



Concerned about FIN 48?

Time is short and the task is large. If you're struggling with how to manage FIN 48 compliance and still keep up with your existing workload, talk to Titus. In the following pages, we answer a few of your questions on how to address the challenges and complexities of the extensive FIN 48 rules for accounting for uncertain tax positions.

As a national consulting firm, Titus and its tax and accounting experts have been monitoring and planning for the dramatic changes FIN 48 brings to tax compliance and financial reporting. We have years of experience successfully assisting Fortune 1000 companies comply with accounting for income taxes under FAS 109, and we've added compliance with FIN 48 to the list of services provided by our experienced professionals. Our methodologies combine the best practices of the Big 4 public accounting firms with a practical and straightforward approach. You will find our fees to be extremely reasonable and our services to go beyond your expectations.

We had hoped for a delay in implementing FIN 48. Now that it's here, what are the first steps?

- ◆ It is important to establish a game plan for assessing the impact of FIN 48 and implementing its provisions. We suggest you start by:
 - **Educating financial management.** Understand the potential impact of FIN 48 as it relates to processes, internal controls, financial statements and tax planning.
 - **Creating a team.** Identify available resources. Who will drive FIN 48 and which key individuals need to be involved from tax, accounting, internal audit, etc.? Engage any outside resources necessary to successfully adopt FIN 48 within the established time frame.
 - **Planning for year one.** Revise processes and work papers to accommodate the additional information required for FIN 48. Plan for any necessary staff training.

What's the best approach to quickly complying with FIN 48?

- ◆ We are finding that many companies are taking a “top-down” approach, which identifies material uncertain tax positions. With this approach, consider the risks, both current and deferred, and the processes and internal controls that are in place to ensure that all material uncertain tax positions have been identified. Leveraging existing Sarbanes-Oxley control documentation can reduce some of the effort in this area. This approach is then supplemented with a review of the general ledger and transaction processes to insure completeness in identifying material tax positions for each open year and for each tax jurisdiction that could result in uncertain tax positions.

Do we need special software to help manage the process?

- ◆ Contrary to what some consulting firms may advise, you do not need expensive, proprietary software to manage your FIN 48 process. Titus has tools and templates that utilize the Microsoft Office suite of products and are more than adequate. This is a significant savings in both time and cost.

What is the process to comply with FIN 48?

- ◆ Compliance can be broken down into a two-step process.
 1. **Recognition of the Tax Benefit.** You must determine the “unit of account” at which individual tax positions will be evaluated. Management must then evaluate each tax position by determining if the weight of available evidence, based solely on technical merits, indicates that there is a more-likely-than-not (more than a 50% probability) that the tax position will be sustained by taxing authorities.
 2. **Measurement of the Tax Benefit.** For tax positions that meet the more-likely-than-not threshold, companies must determine the appropriate amount of the benefit to be recognized – which would be the largest amount of benefit that has a greater than 50% likelihood of being realized upon settlement.

Can you explain Titus' FIN 48 methodology?

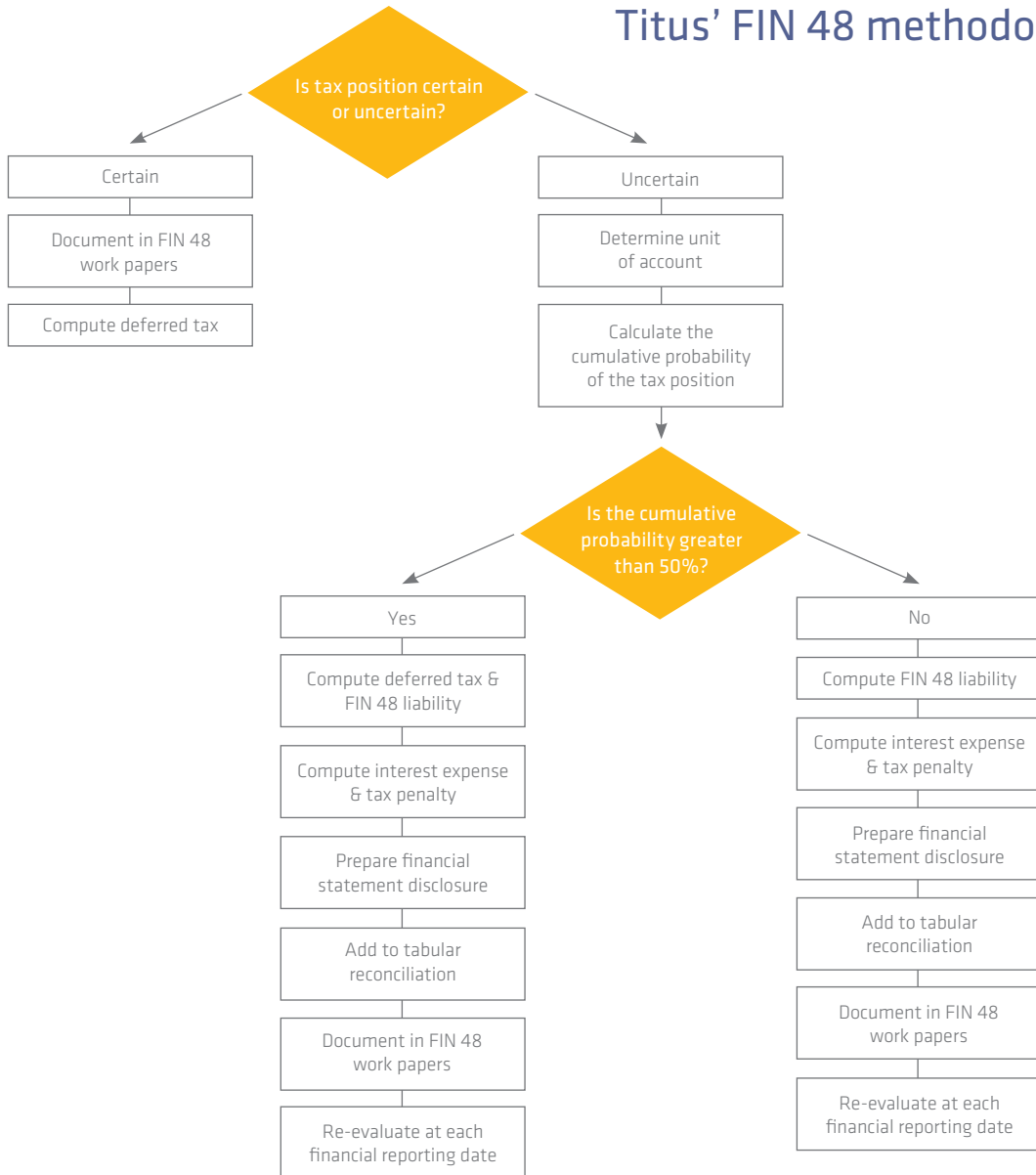
- ◆ First, we assist with planning by reviewing and documenting all appropriate reports, tax returns, work papers and discussing transactions with your personnel.

Then, we perform your implementation using a thorough 10-step process, where we:

- 1) Inventory all tax positions
- 2) Determine unit of account
- 3) Evaluate uncertain tax positions
- 4) Make adjustments for positions not meeting the “more-likely-than-not” standard
- 5) Measure expected tax benefits
- 6) Document criteria and conclusions
- 7) Determine interest expense
- 8) Determine tax penalties
- 9) Prepare cumulative disclosure
- 10) Prepare tabular reconciliation

Titus can train your staff to follow our methodology, or we can return to determine the status of uncertain tax positions for subsequent reporting dates.

Titus' FIN 48 methodology



Will increased disclosure lead to additional audits?

- ◆ While FIN 48 does require increased disclosure, it does not result in significantly more information being available to taxing authorities than was already available to them through FAS 5 working papers. Historically, U.S. taxing authorities have looked to Schedule M-3 and other related schedules in the tax return to determine the focus of their examinations and there has been no indication that this approach will change with FIN 48. That said, careful consideration should be taken when developing the disclosure requirements of FIN 48 so as not to compromise tax positions taken. Titus can help you develop your disclosure and work with your tax advisors and accountants to balance the various needs in this area.

What impact will FIN 48 have on my tax planning strategies?

- ◆ FIN 48 may have a significant impact on how tax planning strategies are accounted for in your financial statements. More aggressive strategies are likely to result in a portion of the benefit being recognized as a FIN 48 liability instead of a deferred tax which can impact a company's effective tax rate. Under FIN 48, companies will need to be more aware of the unit of account of a transaction and the probability of the tax benefit being in excess of 50% when evaluating the impact the strategy will have on a company's effective tax rate.

Is Titus the right fit for my organization?

◆ *Let's find out in three easy steps:*

- 1) Titus would like to conduct a 20- to 30-minute telephone conference call to ask a few questions and share some preliminary information in order to determine if a meeting should occur.
- 2) If so, we'd request a 45- to 60-minute meeting with key members of your team to learn more about your organization, to further describe Titus' capabilities and to determine if a proposal is appropriate.
- 3) Titus would then submit a written proposal and request the opportunity to present our thinking to your team in person.

How is Titus different?

- ◆ **Depth of experience.** We only hire experienced professionals with at least 8 years of experience (they average 14 years of experience). With backgrounds in public accounting and in industry for blue-chip companies, our people understand how a corporate tax department functions and what it takes to get engagements completed with little guidance or direction.
- ◆ **Expertise.** Our professionals have experience in federal, state, local and international tax compliance, and have considerable expertise in tax reporting, including FAS 109 compliance. They also have knowledge and training specifically in FIN 48 compliance.
- ◆ **Service.** Titus strives to deliver more than what's expected and with a sense of urgency toward solving your problems.
- ◆ **Value.** Titus is a cost-effective business partner. Our flat management structure and built-in efficiencies result in very reasonable rates for our services.

Other questions?

If you have more questions about FIN 48, please ask us.

It is our driving passion to serve and be of assistance. For the Titus office nearest you, please visit the “Contact Us” page on our web site at www.titus-us.com or call our company headquarters at **414-727-0400**.





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titus
Titus is not a CPA firm.