

SOS DTA Balance Proof Application

Are you using Equity Edge Online? If so, our DTA Balance Proof Application and services will save you and your tax department hours of manual labor and risk-prone spreadsheet work to arrive at and prove out your company's DTA balance. If you are using a third-party provider for your DTA balance "proof", our Application can also save you significant expense. SOS has been a pioneer in proving out DTA balances, developing DTA balance methodologies, performing calculations and helping clients through audits.

Don't trust your DTA proof to just anyone. Let the experts at SOS solve your DTA challenges.

A Quick Refresher on DTAs and DTA balances:

Deferred Tax Assets (DTAs) are estimated tax benefits that are booked for grants that give rise to a future tax deduction (at exercise, release, etc.) in anticipation of that tax deduction. The DTA is booked based on the expense as it is recognized multiplied by the applicable corporate tax rate. Then, when the event that triggers the actual tax deduction occurs, the DTA (estimated tax benefit) that was previously booked is reversed and a tax benefit/windfall or deficiency/shortfall is calculated by comparing the DTA booked to the actual tax deduction received. If/when vested options expire unexercised, the DTA is also reversed and a tax deficiency is calculated since no tax deduction was received.

SOS DTA Balance Application

Based on our years of experience providing DTA balance assistance, we have developed a user-friendly Application that automates the required processing, eliminating the need for labor-intensive and error-prone spreadsheet work that takes hours of time and a significant amount of manual data manipulation.

If you wish to use our Application, the implementation process begins with a review – generally via conference call – of your processes, equity types, grant features (including vesting changes and accelerated amortization) and system capabilities.

SOS then creates custom reports in your EEO database, pulls the required data for you, and runs the DTA Balance Application. But, that's not all! The SOS DTA Balance Application will provide not only a DTA balance by grant and by jurisdiction, it also compares that balance by grant against the balance calculated using EEO's Tax Benefit Reconciliation report. Any discrepancies identified by the Application are researched and explained by our experts at SOS. Auditors appreciate the fact that the SOS DTA Balance Application output is validated against a second source (i.e., the Tax Benefit Reconciliation report data).

DTA Balance Application Features

- **Tranche-Level Proof Method:**
 - **Vested tranches**
Our Application uses shares outstanding by vest tranche and multiplies any vested shares outstanding by the fair value. Using vested shares outstanding provides the correct gross DTA balance because, even though the shares are fully vested and all expense has been recognized, some shares may have been exercised or released.
 - **Unvested tranches**
For unvested tranches (that is, tranches for which expense is still being recognized or has not yet begun to be recognized), our Application pulls the cumulative expense including any forfeiture rate being applied from the related expense report for each tranche to calculate the total gross DTA. Because this expense is reduced by the estimated forfeiture rate, this formula correctly reflects the gross DTA balance.

- Once the Application has calculated the gross DTA by jurisdiction, the applicable corporate tax rate is applied to arrive at the total tax-affected DTA.
- **No DTA for ISOs**
Our Application identifies ISOs via the grant type field and never generates a DTA for these grants.
- **Cost Sharing Support**
Some companies have cost sharing arrangements in certain countries. Our Application can be configured to apply a certain percentage of the DTA balance for the applicable countries or departments.
- **Support for non-unique vest dates**
Some applications/processes use the vest date as the key field. However, this can make linking data from one report to another problematic when a grant has the same vest date for multiple vest tranches. Our Application solves this potential problem by assigning a unique identifier to each vesting tranche.
- **Support for "Straddle options"**
Options granted prior to the adoption of ASC 718 / FAS 123(R) are prorated so that only the portion of expense booked after the adoption of ASC 718 contributes to the DTA balance. Because RSUs/RSAs always required the recognition of expense, any RSUs or RSAs granted prior to the adoption of ASC 718 will produce a full DTA. Most straddle grants will have expired by this point in time. However, if you do need a historic DTA balance that still includes any of these "straddle" grants, the SOS DTA Balance Application will handle them correctly.
- **Speedy processing**
For the tranche-level approach, the source data can be comprised of hundreds of thousands of rows and make processing your balance in a spreadsheet slow and painful if you have monthly vesting. The SOS DTA Balance Application cuts processing time down significantly. We simply load the source data reports, process the data and your report is ready for export.
- **DTA by Country**
Our Application produces a summary of each DTA balance at the country or department level since grants to participants in most countries other than the US do not give rise to a tax deduction. The gross DTA balance generated by our Application is pre-tax-affected. Your tax department simply populates the appropriate tax rate for each country on Summary tab and the tax-affected balance is derived. This also allows a true up should the applicable tax rate in a given country change.
- **Support for True Up at Vest**
If you are using the True up at Vest approach for the recognition of expense, there may be expense "still being recognized" that is part of your DTA balance even though the shares have been cancelled and are no longer outstanding. Our Application determines which cancelled grants are still contributing to the DTA balance from the expense report and captures that amount.
- **Implementation Process**
Our standardized implementation process allows our consultants to work closely with you to make sure our Application is providing the appropriate output for your company and your data. If you choose to allow us read-only and report customization access to your Equity Edge Online database, we can even run the source reports for you. This will save you time and effort and ensure the source reports are generated correctly. Reports will be generated in text format for our Application's use and in Excel and PDF to allow for easy review and audit.
- **Expert review**
Our experts do not just run the DTA Balance Application, but also conduct a thorough grant-by-grant review of the output so that any issues with the output are discovered immediately, before you provide the proof to your auditors.

- **Auditor support available**

For an additional hourly fee, our SOS experts can be available to walk your auditors through the output and answer questions about how our Application works.

Enhancement Requests (Internal Only)

- Modification Accounting Support
Place to import a file with grant number, vest date, and different fair value for each vest tranche.
- Mobility
Prorate DTA based on different locations of participant over vesting of grant

Limitations (Internal Only)

- Grants / individuals subject to 162(m) tax deductibility cap
- Option exchanges or repricings
Many systems do not "capture" the expense (and therefore DTA) booked prior to the option exchange or repricing.
- Grants being expensed outside of Equity Edge Online
These may include, but are not limited to: non-employee grants, modified grants, performance options, performance grants where the goals were not set on grant date.

About Stock & Option Solutions

Stock & Option Solutions (SOS) has built a team of extremely qualified and dedicated professionals for the outsourced management or staffing of your stock plans and special projects. SOS's Stock Plan Outsourcing Solution is the most comprehensive outsourcing service in the marketplace, making the choice easy. Beyond our total outsourcing solutions, we are focused on helping companies like yours through challenging steps with temporary staffing, permanent placement, expert project resources, and high level project management. Call us today at 408.979.8700 to learn more or visit us online at www.sos-team.com.