Accounting for Throttling, the New Net Neutrality

When it comes to technology nothing has taken the business world by storm like cryptocurrency. However, something that slid under the radar and continues to slide under the radar with ever lasting effects are the changes to the Net Neutrality Rules.

Net Neutrality is dead, but what does this even mean?

Net Neutrality is the concept that all internet is created equal. The idea of Net Neutrality forbids selective “throttling” or slowing down the internet for certain content providers (i.e. websites).

In December 2017, the Federal Communications Commission voted to repeal Net Neutrality Rules. The overwhelming fear is that consumers will have content either blocked or throttled while trying to access websites or delivery of content. Throttling or blocking content will push businesses to pay these internet providers additional fees to maintain consumers’ current internet experience. The change is expected to be a slow rollout and companies will have an opportunity to pay internet providers additional fees to allow their customers stay in the “fast lanes”. The struggle will be real for smaller businesses that need reliable internet services because fees for paid prioritization are expected to be high.

How do I account for throttling?

Whether you are for or against Net Neutrality, your company must be aware of how to account for the transaction. If the fee is an upfront cost from an internet provider, it may appear to be a utility expense. However, you must be mindful of US GAAP because it has a way with words. When this slow rollout occurs, companies will most likely expense as they have always done with utilities. However, the substance of the transaction is not one that should be recognized immediately. There is value in paying for the prioritization right to faster internet. Therefore, this transaction meets the capitalization guidance under ASC 350 Intangibles. As a result, the upfront costs should be recorded as an asset on the date the paid prioritization takes effect. If the agreement with the internet provider has a maturity date, then the amortization should occur over the length of time that the internet is prioritized over other competitors.

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