Accounting for Income Taxes Bulletin

April 2023

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Featured items

Proposed ASU: Improvements to Income Tax Disclosures

On March 15, 2023, the Financial Accounting Standards Board (FASB) issued *Proposed Accounting Standards Update (ASU)—Income Taxes (Topic 740): Improvements to Income Tax Disclosures* that addresses requests for improved disclosures related to income taxes from investors, lenders, creditors, and other allocators of capital (collectively, investors) that use the financial statements to make capital allocation decisions. The amendments in the proposed ASU would address investor requests for more transparency about income taxes, including jurisdictional information, by requiring consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid. Stakeholders are encouraged to review and provide feedback to the FASB within the 75 day comment period on the proposed ASU ending May 30, 2023.

Refer to the KPMG *Defining Issues* for further information.

FASB improves accounting for investments in tax credit structures

On March 29, 2023, the FASB issued ASU 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, that allows reporting entities to consistently account for investments in income tax credit structures made primarily for the purpose of receiving income tax credits and other income tax benefits. The ASU is a consensus of the FASB's Emerging Issues Task Force (EITF).

The ASU introduces the option for reporting entities to account for qualifying tax equity investments using the proportional amortization method, regardless of the tax credit program from which the income tax credits are received, if certain conditions are met. The ASU responds to stakeholder feedback that the proportional amortization method provides investors and other allocators of capital with a better understanding of the returns from investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits.

Reporting entities were previously permitted to apply the proportional amortization method only to qualifying tax equity investments in Qualified Affordable Housing Projects (e.g., low-income housing tax credit or (LIHTC) structures). In recent years, stakeholders asked the FASB to extend the application of the proportional amortization method to qualifying tax equity investments that generate income tax credits through other programs, which resulted in the EITF addressing this issue. As a result, through the adoption of the ASU, tax equity investors in similar investments to LIHTCs that are made primarily for the purpose of receiving income tax credits and other income tax benefits (in other words, when certain conditions are met) may elect to apply the proportional amortization method.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities. The amendments in the ASU are applied on either a modified retrospective or a retrospective basis (except as noted for LIHTC investments not accounted for using the proportional amortization method).

Refer to the KPMG *Defining Issues* article for further information.

Accounting for the new GloBE rules

Accounting for the new global anti-base erosion (GloBE) rules under the Organisation for Economic Co operation and Development (OECD) Pillar Two initiative is proving to be a challenge, and stakeholders have raised questions, including whether the top up tax under the GloBE rules is within the scope of the income taxes guidance within U.S. generally accepted accounting principles (U.S. GAAP) and IFRS® Accounting Standards (ASC 740 and IAS 12, respectively), as well as the accounting for temporary differences and related deferred tax consequences.

Under U.S. GAAP, because the GloBE top-up tax is based on financial statement net income with certain adjustments, the top up tax is within the scope of ASC 740. Consistent with the Financial Accounting Standards Board (FASB) staff's comments at a February 1, 2023 board meeting, KPMG believes the GloBE top up tax, including a qualified domestic minimum top-up tax (QDMTT), is an alternative minimum tax (AMT) because it is a separate but parallel system for a company to pay a minimum level of tax and an entity can never pay less than it would under local regular income tax systems. As such, consistent with existing guidance on accounting for AMT regimes, entities will not record GloBE-specific deferred taxes or remeasure existing deferred taxes under local regular income tax systems to a GloBE rate. Instead, entities will continue to measure deferred taxes at the regular income tax rate and will recognize the incremental effect of the GloBE top up tax as incurred within current tax expense (benefit). Further, entities are not required to consider the GloBE top-up tax in its valuation allowance determinations. Entities may consider whether to include disclosures related to the GloBE top up tax in management's discussion and analysis.

Under IFRS Accounting Standards, the GloBE top-up tax is in the scope of IAS 12 because it is based on taxable profits. IFRS guidance does not specifically address the accounting for AMTs and may suggest certain deferred taxes arise from the implementation of the GloBE rules. In response to the challenges, the International Accounting Standards Board (IASB) issued an Exposure Draft, *International Tax Reform—Pillar Two Model Rules*, to provide clarity on the accounting for the top-up taxes in the light of imminent enactment of tax laws. The proposed amendments to IAS 12 would introduce a mandatory temporary exception from accounting for deferred taxes that arises from the enactment or substantive enactment of legislation implementing the GloBE model rules. If finalized as proposed, entities would be prohibited from providing for deferred taxes related to GloBE top-up taxes. Further, the proposal would require additional disclosure upon issuance of the amendments to IAS 12 that the exception is being applied and new disclosures in annual financial statements for periods beginning on or after January 1, 2023 related to legislation enacted or substantively enacted to implement Pillar Two model rules and aggregate information related to jurisdictions in which the entity's effective tax rate under IAS 12 for the current period is below 15 percent, among other proposed requirements.

The comment period on the exposure draft ended March 10, 2023. Subject to comments, the IASB expects to finalize the amendments to IAS 12, which would be effective immediately and apply retrospectively, before June 30, 2023. The IASB intends to hold a supplementary meeting on the Pillar Two model rules on April 11, 2023 to discuss feedback from the exposure draft.

Read the KPMG report for further information.

Updated handbook: Accounting for income taxes

KPMG has updated its Accounting for income taxes handbook to include new and updated guidance and interpretations. Among other things, this February 2023 edition incorporates:

- New guidance on the accounting for key provisions of the Inflation Reduction Act (IRA) and CHIPS and Science Act, including corporate alternative minimum tax (CAMT) and refundable and transferable tax credits
- Clarified guidance on accounting for tax credits that are like government grants
- New guidance on accounting for the global minimum tax.

KPMG report: Accounting for tax provisions in the "Inflation Reduction Act of 2022" and CHIPS legislation (updated)

KPMG has updated its report on accounting for the key tax provisions in the IRA and CHIPS legislation to address accounting considerations under IFRS Accounting Standards related to the CAMT, excise tax, and tax credits.

Updates on accounting and auditing matters

National Association of Insurance Commissioners 2022 Fall meeting

KPMG reports on the 2022 National Association of Insurance Commissioners (NAIC) Fall meeting. During the fall meeting, the NAIC adopted guidance to provide an exception to insurers from assessing the effects of the CAMT on the valuation allowance and deferred tax assets and exposed guidance on accounting for tax equity investments, among others.

KPMG DPP quarterly outlook

The March 2023 Quarterly Outlook summarizes major accounting and financial reporting developments that may affect entities in the current period or in the near term.

Remember recent pronouncements

Professionals should be mindful of certain recently updated U.S. GAAP standards, listed by order of required application.

Updated Standard	Brief Description of Standard	Public Business Entities Effective Date	Other Entities Effective Date
ASU 2017-04, *Simplifying the Test for Goodwill Impairment*	Provides guidance, among others, on the income tax effects from tax deductible goodwill when measuring goodwill impairment loss	Annual and interim impairment tests for periods beginning after December 15, 2019 for SEC filers other than smaller reporting companies	Annual and interim impairment tests for periods beginning after December 15, 2022
ASU 2019-12, *Simplifying the Accounting for Income Taxes*	Removes specific exceptions to the general principles of ASC 740 and improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for certain income tax items	Fiscal years beginning after December 15, 2020, and interim periods within those fiscal years	Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022
ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*	Requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy	Annual periods beginning after December 15, 2021	Annual periods beginning after December 15, 2021
ASU 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*	Permits reporting entities to elect to account for tax equity investments, regardless of the program from which the income tax credits are received, using the proportional amortization method if certain conditions are met	Fiscal years beginning after December 15, 2023 and interim periods within those fiscal years	Fiscal years beginning after December 15, 2024 including interim periods within those fiscal years

Professionals should be mindful of the recently updated IFRS Standards.

Updated Standard	Brief Description of Standard	Effective Date
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	Narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences (e.g., leases and decommissioning provisions)	Annual reporting periods beginning on or after January 1, 2023, with earlier application permitted

On the horizon

Other FASB projects

The FASB's *Accounting for Government Grants, Invitation to Comment* project to solicit feedback on whether the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, should be incorporated into U.S. GAAP continues in the research phase. The Board is considering feedback from the Invitation to Comment on the potential project for which the comment period concluded on September 12, 2022.

IASB project on primary financial statements

At its March 2023 meeting, the IASB discussed approaches to calculating the income tax effect of each item in the reconciliation between a management performance measure and the most directly comparable subtotal or total specified by IFRS Accounting Standards as part of its project on General Presentation and Disclosures. The IASB tentatively decided, with unanimous consent of its members, the following:

- To retain the option of calculating the tax effects of the reconciling items at the statutory tax rate(s) applicable to the underlying transaction(s) in the relevant jurisdiction(s)
- To replace the alternative option of adding an allocation of other income tax effects to the tax effects description, with options to:
  - Calculate the tax effects of the reconciling items on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned; or
  - Calculate the tax effects of the reconciling items by another method that achieves a more appropriate allocation in the circumstances
- To confirm the requirement for an entity to disclose how it has determined the income tax effects of the reconciling items
- To provide application guidance requiring the disclosure for each reconciling item if more than one method is used to calculate the tax effect
- To expand the disclosures relating to changes in management performance measures so that they apply to changes to the calculation of the tax effects of reconciling items.

Other items of interest

KPMG Learning – Executive education

KPMG offers digital self-studies, which are mobile friendly and easily accessible at the learner's convenience. The CPE-eligible curriculum covers current and emerging technical accounting topics, including accounting for income taxes, to build skills and confidence in a variety of areas of accounting.

The Accounting for Income Taxes virtual Executive Education classes will be offered on:

- May 16–19, 2023
- June 20–23, 2023

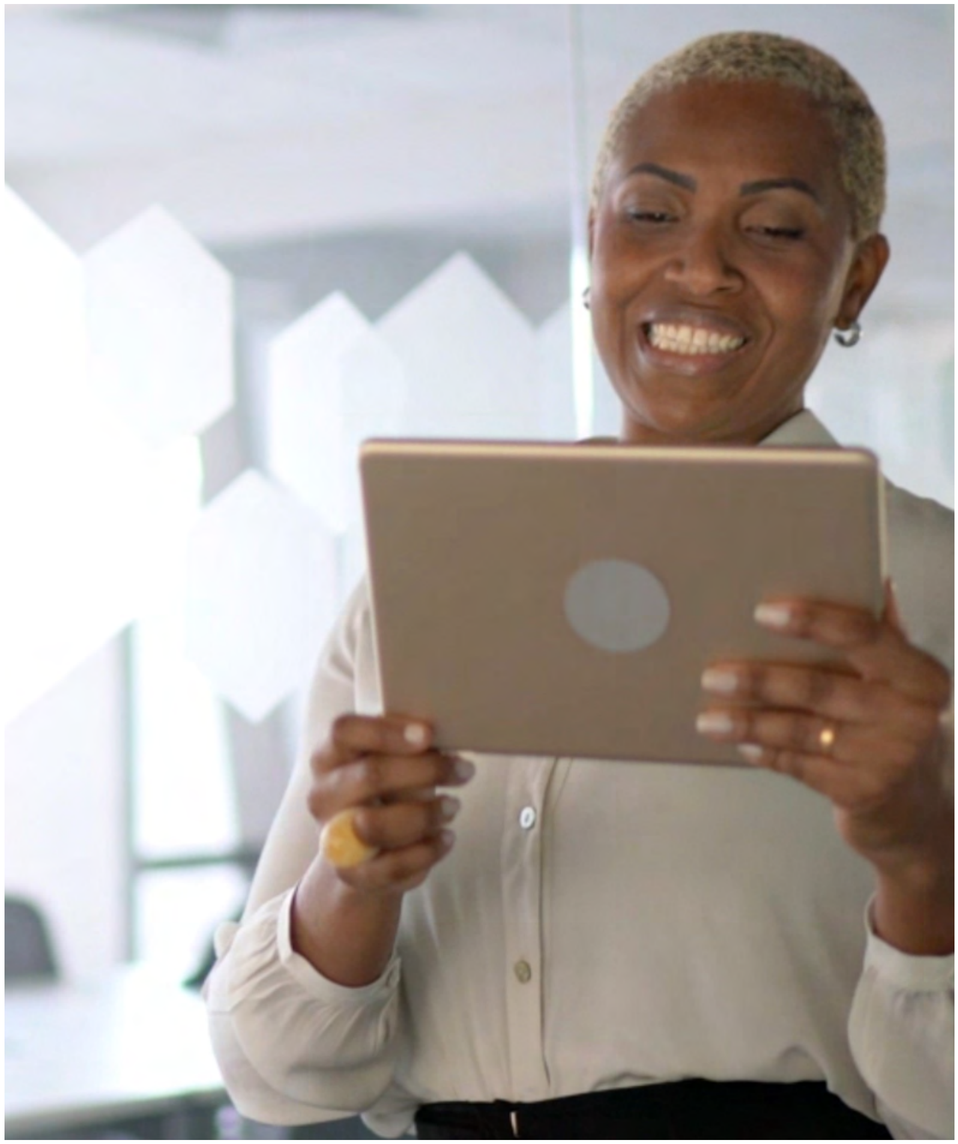
The Advanced Accounting for Income Taxes virtual Executive Education classes will be offered on:

- June 26–29, 2023

View the catalog of KPMG virtual seminars and digital self-studies.

Resources

- KPMG Handbook: Accounting for income taxes
- Financial Reporting View
- TaxNewsFlash
- Chief Tax Officer Insights
- Insights into IFRS
- KPMG Handbook: IFRS compared to U.S. GAAP



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