KPMG

Accounting for Income Taxes Bulletin

October 2023

About this publication

This publication is issued by the KPMG Accounting for Income Taxes group in Washington National Tax to highlight developments and other items of interest to professionals involved with accounting for income taxes matters.

FEATURED ITEMS

Forthcoming changes 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 was intended to 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. The FASB held a meeting on August 30, 2023, and discussed the *Improvements to income tax disclosures* project. In summary, the Board affirmed and clarified many of the items in the proposed ASU and directed the staff to draft a final standard for vote by written ballot. Most of the items in the proposed ASU were affirmed including, but not limited to, the following annual disclosure requirements:

- The five percent threshold (five percent of the amount of pretax income from continuing operations times the applicable statutory federal income tax rate) will be used to determine items for further disaggregation (similar to the current Security and Exchange Commission (SEC) rule).

- Eight specific categories will be required to be disclosed within the rate reconciliation, including further disaggregation by nature within the cross-border tax laws, tax credits and nontaxable or nondeductible categories as well as further disaggregation within the foreign tax effects category by both jurisdiction and nature.
- A qualitative explanation of the state and local jurisdictions that contribute to a simple majority of the effect of the state and local income tax category will be required to be disclosed.
- Further explanation will be required related to individual reconciling items.
- The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign, with further disaggregation to jurisdictions by individual jurisdictions equal to or greater than five percent of total income taxes paid (or received).

Additionally, the tentative decisions from the August 30 meeting would change or clarify the forthcoming ASU with the more significant items as follows:

- All items within the rate reconciliation must be presented gross, unless specific guidance allows net presentation.
- As it relates to the category of cross-border tax laws, entities will be permitted to disclose the impact of certain cross border tax law effects with the related credits (for instance, GILTI may be presented net of the GILTI related foreign tax credits).
- Unrecognized tax benefits will be permitted to be reflected on an aggregate basis for all jurisdictions.
- The unrecognized tax benefits category is intended to reflect changes in prior year positions with current year positions reflected net with the related tax positions by jurisdiction (for instance, a current year unrecognized tax benefit related to US research tax credits generated in the current year will be presented net with the US credit itself).
- The proposed interim disclosure was removed which would have required entities to disclose in interim periods any significant changes from its prior year actual effective tax rate when compared to the estimated annual effective tax rate.
- The disaggregation of income taxes paid will only be required for annual periods and not for interim periods.

The ASU is expected to be effective for public business entities for periods beginning after December 15, 2024 and for all other entities for periods beginning after December 15, 2025. It is expected that prospective application will be required;

however, retrospective application is expected to be permitted. Additionally, it is expected that an entity will be permitted to early adopt the standard.

Refer to the KPMG *Defining Issues* for further information regarding the proposed ASU. Additionally, professionals from KPMG WNT as well as KPMG Audit's Department of Professional Practice (DPP) provided an overview of the proposed guidance and walked through examples of the proposed disclosures in an earlier webcast that is available for replay.

Impacts to accounting for foreign tax credits

A recent What's News in Tax article discusses accounting for income taxes considerations of Notice 2023-55 under US generally accepted accounting principles. On July 21, 2023, the IRS released an advance version of Notice 2023-55 announcing temporary relief for taxpayers determining whether a foreign tax is eligible for a foreign tax credit under sections 901 and 903. The issuance of the notice does not change or revise existing legislation or regulations; however, it provides a new administrative practice or precedent of the taxing authority that is permitted under ASC 740, *Income Taxes*, to be taken into consideration when assessing if the recognition threshold has been met. Under U.S. GAAP, we believe the effects of the notice should be accounted for in the interim period that includes the publication of the notice. This includes any potential effects the notice may have on the amount of foreign tax credits generated, the evaluation of the technical merits of positions taken by the entity, as well as the analysis of the realizability of the entity's deferred tax assets.

UPDATES ON ACCOUNTING MATTERS

Amendments to the IFRS for SMEs Standard

The IASB published *International Tax Reform – Pillar Two Model Rules – Amendments to the IFRS for SMEs Standard* on September 29, 2023.

The amendments introduce a temporary exception to the requirements in Section 29 *Income Taxes* providing that an SME will not recognise deferred tax assets and liabilities related to Pillar Two income taxes. Also, SMEs will not disclose information that would otherwise be required by paragraphs 29.39 to 29.41 about deferred tax assets and liabilities related to Pillar Two income taxes. The temporary exception is mandatory and there is no end date for the application of the temporary exception.

The amendments also require SMEs within the scope of Pillar Two legislation to disclose that it has applied the temporary exception, clarifies the requirements to make disclosures about other events (such as Pillar Two legislation), and requires disclosure of current tax expense or income related to Pillar Two income taxes.

Guides to annual financial statements under IFRS Standards

KPMG International Standards Group (ISG) 2023 guides to annual financial statements issued under IFRS standards are now available. They comprise disclosure checklist, illustrative disclosures, and supplements. The 2023 guides reflect standards in issue on August 31, 2023, that are required to be applied by a company with an annual reporting period beginning on January 1, 2023. In particular, they illustrate amendments to IAS 12 *Income Taxes* relating to the initial recognition exemption and Pillar Two top-up taxes.

Refer to the web article for additional detail and information.

KPMG DPP quarterly outlook

The October 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	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

	income tax–related guidance and simplifies GAAP for certain income tax items		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

See the FRV Accounting Standards Effective Dates page for a full list of recently issued ASUs.

Professionals should be mindful of the recently updated IFRS Accounting 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	Annual reporting periods beginning on or after January 1, 2023, with earlier application permitted

	offsetting temporary differences (for example, leases and decommissioning provisions)	
International Tax Reform —Pillar Two Model Rules (Amendments to IAS 12)	Provides a mandatory temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to Pillar Two top-up taxes and introduces targeted disclosure requirements for affected entities	Immediately for certain aspects and annual reporting periods beginning on or after January 1, 2023 for other aspects

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.

Among the referred SEC disclosures to be incorporated into U.S. GAAP through the proposed ASU, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, real estate investment trusts (REITs) will be required to disclose the tax status of distributions per unit (for example, ordinary income or capital gain), which would require privately held REITs to provide additional disclosures beyond the current requirements. The Board directed the staff to draft a final ASU for vote by written ballot.

Other IASB projects

The IASB previously discussed proposals from the Exposure Draft *General Presentation and Disclosures* relating to categories and subtotals and tentatively decided to clarify, among other things, foreign exchange differences arising from assets and liabilities within the scope of IAS 12 that are recognised in profit or loss be classified in the income tax category of the statement of profit or loss, unless doing so involves undue cost or effort. The IASB also tentatively decided to amend the requirements in paragraph 78 of IAS 12 for classifying foreign exchange differences on deferred tax assets and liabilities to align with the recommendation above. The IASB intends to continue to redeliberate the project proposals at future meetings.

The IASB previously discussed application questions within the scope of its Equity Method research project and tentatively decided to propose that an investor would account for, and include in the carrying amount of its investment in an associate, a deferred tax asset (liability) arising from recognising its share of the associate's net identifiable assets and liabilities at fair value. The IASB decided to move the project to its standard-setting work plan with an expectation to publish an exposure draft as the next due process step in 2024.

As a part of its *Conceptual Framework for Financial Reporting* project, the IASB discussed possible amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to address the apparent contradictions within the principles in IAS 37 for identifying liabilities, which have resulted in inconsistent, and sometimes unsatisfactory application requirements. For example, IFRIC 21 *Levies*, an interpretation of IAS 37, has been criticized for resulting in information that is not useful to investors. The possible amendments to IAS 37 are likely to include replacing IFRIC 21 with new application requirements for levies. The IASB will continue to discuss possible amendments and is expected to decide the project direction during the second half of 2023.

PCAOB proposal would expand auditors' responsibility for NOCLAR

A recent KPMG Hot Topic summarizes significant changes and potential impacts for both auditors and management due to the PCAOB's proposed amendments on noncompliance with laws and regulations (NOCLAR). The amendments would make extensive changes related to auditors' responsibilities, including identifying laws and regulations with which noncompliance could reasonably have a material effect, identifying whether there are instances of NOCLAR that have or may have occurred, and regardless of perceived materiality, evaluating those NOCLAR instances and communicating to appropriate parties. The Center for Audit Quality has also launched a webpage with information.

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.

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

Additionally, the Accounting for Income Taxes live virtual Executive Education classes will be offered:

- December 12–15, 2023

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

- December 18–20, 2023

RESOURCES

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