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FASB issues ASU

Improvements to income tax disclosures

December 15, 2023

Enhanced jurisdictional and other disaggregated disclosures for the effective tax rate reconciliation and income taxes paid

Source and applicability

- ASU 2023-09, Improvements to Income Tax Disclosures
- All entities subject to the income tax disclosure requirements

Fast facts, impacts, actions

The ASU enhances annual income tax disclosures to address investor requests for more information about the tax risks and opportunities present in an entity's worldwide operations. The two primary enhancements disaggregate existing income tax disclosures related to the effective tax rate reconciliation and income taxes paid. Provided below is a snapshot of these enhancements and their effective dates.

	Public business entities	Other entities
Reconciliation of the expected tax to the reported tax	Disclose a tabular reconciliation using both percentages and amounts, broken out into specific categories with certain reconciling items at or above 5% of the expected tax further broken out by nature and/or jurisdiction.	Qualitatively disclose the nature and effect of significant reconciling items by specific categories and individual jurisdictions.
Income taxes paid	Disclose income taxes paid (net of refunds received), broken out between federal (national), state/local and foreign. Disclose the income taxes paid (net of refunds received) to an individual jurisdiction when 5% or more of the total income taxes paid (net of refunds received).	
Effective date	Annual periods beginning after December 15, 2024	Annual periods beginning after December 15, 2025
	Early adoption permitted for annual financial statements not yet issued or made available for issuance.	

Don't delay your analysis of the ASU's effects on your organization. While the changes are manageable, the effects on an entity's financial reporting process and related internal controls may be significant. Read on for more information about the ASU.

Enhancements and other changes

Replacing ‘public entity’ with ‘public business entity’

The term ‘public business entity’ (PBE) replaces ‘public entity’ in the income tax disclosure requirements. An entity that is not considered a public entity, but is considered a PBE, is subject to:

- the enhancements and other changes in the ASU applicable to PBEs; and
- other income tax disclosure requirements not affected by the ASU that had been applicable to public entities, such as the requirement to disclose a tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period.

Introducing new and enhanced disclosures

The following is a summary of the ASU’s new and enhanced **annual** income tax disclosure requirements for each period presented.

Disclosure	PBEs/other entities
Effective tax rate reconciliation	
Tabular reconciliation of expected tax (i.e. statutory tax) and reported tax on income from continuing operations using both percentages and amounts, broken out into specific categories with certain reconciling items at or above 5% of the expected tax (the 5% threshold) further broken out by nature and/or jurisdiction Additional information about the tabular reconciliation and related supplemental disclosures, as well as a detailed example, are provided below.	PBEs only
Qualitative discussion of the nature and effect of significant differences between the statutory tax rate and the effective tax rate by specific categories of reconciling items[1] and by individual jurisdictions	Other entities only
Income taxes paid	
Income taxes paid (net of refunds received) broken out between federal (national)[2], state/local[3] and foreign	Both
Income taxes paid (net of refunds received) to an individual jurisdiction when 5% or more of total income taxes paid (net of refunds received)	Both
Other disaggregated amounts[4]	
Income (or loss) from continuing operations before income taxes, broken out between domestic[5] and foreign	Both
Income tax expense (or benefit) from continuing operations, broken out between federal (national)[2, 6], state/local[3] and foreign[6]	Both

Notes:

1. The same categories are used for this purpose as are used by PBEs in the tabular reconciliation.
2. ‘Federal (national)’ income taxes are those imposed by the taxing authority for the jurisdiction (country) of domicile (see discussion about the applicable statutory tax rate below).
3. ‘State/local’ income taxes are those imposed by the subnational taxing authorities in the jurisdiction (country) of domicile.
4. Disclosure of similar information is already required by SEC regulations.
5. ‘Domestic’ pretax income (or loss) from continuing operations represents all such amounts in the jurisdiction (country) of domicile (see discussion about the applicable statutory tax rate below).

6. Income taxes on foreign earnings imposed by the jurisdiction (country) of domicile are presented as income taxes in the jurisdiction (country) of domicile.

Removing disclosures

The ASU removes disclosure requirements for all entities related to:

- reasonably possible significant changes in the total amount of unrecognized tax benefits within 12 months of the reporting date; and
- the cumulative amount of each type of temporary difference for which a deferred tax liability has not been recognized (due to the exception to recognizing deferred taxes related to subsidiaries and corporate joint ventures).

Tabular rate reconciliation for PBEs

The ASU requires disclosure of a tabular reconciliation between the following amounts and related rates for each annual reporting period.

$ (amount)				% (rate)
Expected income tax expense (benefit)	=	Pretax income (loss) from continuing operations	×	Statutory tax rate
Reported income tax expense (benefit)	÷	Pretax income (loss) from continuing operations	=	Effective tax rate

The objective of the rate reconciliation is to provide information (principally, nature and magnitude) about what causes the difference between the expected tax and the reported tax, which is particularly relevant when an entity operates in multiple jurisdictions.

Prior to adoption of the ASU, public entities are required to disclose reconciling items in amounts **or** percentages. However, the ASU requires disclosure of amounts **and** percentages. In addition, while entities subject to SEC regulations were already required to disclose reconciling items using a 5% threshold, the ASU provides incremental disaggregation guidance.

Applicable statutory tax rate

The ASU indicates that the applicable statutory federal (national) income tax rate in the jurisdiction (country) of domicile is used in the tabular reconciliation. However, for non-US-domiciled reporting entities, the ASU indicates that the statutory federal (national) income tax rate in the jurisdiction (country) of domicile is ‘normally’ used in the tabular reconciliation. This guidance is consistent with current SEC regulations related to the rate reconciliation and is not expected to change practice.

In paragraph BC38 of the ASU, the FASB acknowledged that exercising judgment is expected when determining whether it is appropriate to use a statutory income tax rate other than the income tax rate in the entity's jurisdiction (country) of domicile, particularly when the jurisdiction (country) of domicile has an income tax rate significantly lower than the US statutory income tax rate or when the entity operates at or around break even.

When the statutory income tax rate used in the tabular reconciliation is other than the US federal corporate income tax rate, the rate used and the basis for its use must be disclosed.

Reconciling items

The ASU includes specific guidance on the reconciling items required in the rate reconciliation. The first layer of this guidance breaks out the reconciling items into specific categories, and the second layer further breaks out certain categories based on the 5% threshold. That threshold is met when a reconciling item is 5% or more of the expected tax. The following table provides additional information about each of these layers. Reconciling items are presented on a gross basis unless otherwise noted.

Categories	Further disaggregation based on the 5% threshold
Domestic federal reconciling items	
Tax credits[1] Includes federal (national) income tax credits in the jurisdiction (country) of domicile	Required by nature[2] of the reconciling item
Nontaxable or nondeductible items Includes nontaxable or nondeductible items for purposes of federal (national) income taxes in the jurisdiction (country) of domicile	Required by nature[2] of the reconciling item
Effect of cross-border tax laws[1] Includes the effect of incremental federal (national) income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions	Required by nature[2] of the reconciling item
Effect of changes in tax laws or rates enacted in the current period Captures changes in federal (national) tax laws or rates in the jurisdiction (country) of domicile Reflects the cumulative tax effects of the change on current or deferred tax assets and liabilities at the date of enactment	Not required
Changes in valuation allowances Includes changes in valuation allowances for deferred tax assets related to federal (national) income taxes in the jurisdiction (country) of domicile	Not required
Other Captures any reconciling item related to federal (national) income taxes in the jurisdiction (country) of domicile that does not fall within any of the previously listed specific categories (e.g. excess tax benefits on share-based payments)	Required by nature[2] of the reconciling item
Domestic state and local income taxes, net of federal effect	
Represents income taxes imposed at the state or local level in the jurisdiction (country) of domicile, net of the related federal (national) income tax effect	Not required However, PBEs must qualitatively describe the states and local jurisdictions that make up greater than 50% (i.e. a simple majority) of the total effect of this category.[3]

Categories	Further disaggregation based on the 5% threshold
Foreign reconciling items	
Includes all reconciling items associated with the difference between foreign income tax expense (or benefit) calculated using the domestic statutory tax rate and the reported tax in the foreign jurisdictions – i.e. those jurisdictions outside the jurisdiction (country) of domicile	Required by:[4] • jurisdiction (country); and • nature
Worldwide changes in prior year unrecognized tax benefits[5]	
Reflects changes in judgment related to tax positions (e.g. change in measurement of unrecognized tax benefits) taken in prior annual reporting periods either by jurisdiction or in aggregate across all jurisdictions	Not required

Notes:

1. The reconciling item for the effect of cross-border tax laws may be presented net of a tax credit provided by the jurisdiction (country) of domicile on the same income during the same reporting period (i.e. the tax credit is an inherent part of the cross-border tax law). Net presentation within the tax credits category is not appropriate.
2. When identifying reconciling items by their nature, an entity considers the items' fundamental or essential characteristics. Examples of these characteristics include the event giving rise to, or the activity associated with, the reconciling item.
3. Preparing this disclosure requires aggregation of state and local taxes beginning with the jurisdiction that has the greatest effect and adding jurisdictions in descending order until the aggregated effect is greater than 50%.
4. The requirement to disaggregate foreign reconciling items by jurisdiction and by nature using the 5% threshold could result in disclosing a reconciling item for a foreign jurisdiction regardless of whether the foreign jurisdiction itself meets the threshold. Disaggregation by nature is based on the reconciling item's gross amount (positive or negative).
5. An unrecognized tax benefit recorded in the current annual reporting period may be presented net in the category that includes the tax effects of the related tax position taken in the same annual reporting period (i.e. the current year tax position, net of any related current year unrecognized tax benefit).

A reconciling item's nature, effect and underlying cause(s), as well as any judgment exercised in its categorization, must be evident in the tabular reconciliation or supplemental explanation provided.

The ASU does not eliminate the need for judgment in preparing the rate reconciliation and evaluating the materiality of reconciling items, particularly when a PBE operates at or around break even or is domiciled in a jurisdiction with no or minimal statutory income tax rates. Entities will need to use judgment to determine whether the disclosure objective is achieved.

Detailed example

Provided below is an example of what the effective tax rate reconciliation could look like under the ASU. This example is for illustrative purposes only and does not include the qualitative disclosures that accompany the reconciliation. The information presented would be subject to materiality considerations and based on entity-specific facts and circumstances. It assumes the jurisdiction (country) of domicile is the US, and so the US federal statutory tax rate is reconciled to the entity's effective tax rate. As a result, amounts meet the threshold if they are greater than 1.05% (21% statutory tax rate × 5% threshold) of pretax income or loss from continuing operations ($12,000 in Year 2 and $10,000 in Year 1). For ease of illustration, the example assumes the reporting entity is only required to present one comparative period in its financial statements (i.e. the third year that would be required for certain SEC registrants is not presented).

	Year 2		Year 1	
	Amount	**Percent**	**Amount**	**Percent**
US federal statutory income tax rate	2,520	21.0%	2,100	21.0%
Domestic federal reconciling items				
Tax credits				
• Research credits	(250)	-2.1%	(240)	-2.4%
• Other	(20)	-0.2%	(20)	-0.2%
Nontaxable and nondeductible items, net	60	0.5%	(20)	-0.2%
Cross-border taxes				
• Global intangible low-taxed income	180	1.5%	180	1.8%
• Other	10	0.1%	20	0.2%
Excess tax benefits on share-based payments	(400)	-3.3%	(90)	-0.9%
Other	50	0.4%	(40)	-0.4%
Domestic state and local income taxes, net of federal effect	400	3.3%	350	3.5%
Foreign reconciling items				
United Kingdom				
• Changes in tax laws	-	0.0%	(200)	-2.0%
• Nondeductible legal expenses	150	1.3%	120	1.2%
• Other	(100)	-0.9%	90	0.9%
Ireland				
• Rate differential	(350)	-2.9%	(280)	-2.8%
• Other	10	0.1%	20	0.2%
Japan				
• Changes in valuation allowances	-	0.0%	(300)	-3.0%
• Subnational income taxes	140	1.2%	110	1.1%
• Other	20	0.2%	20	0.2%
Singapore	(150)	-1.3%	(120)	-1.2%
Other foreign jurisdictions	(300)	-2.5%	(20)	-0.2%
Worldwide changes in prior year unrecognized tax benefits	70	0.6%	(230)	-2.3%
Total	**2,040**	**17.0%**	**1,450**	**14.5%**

Transition

The ASU applies on a prospective basis to annual financial statements for periods beginning after the effective date. However, retrospective application in all prior periods presented is permitted.

For example, consider a PBE with a calendar year-end that adopts the ASU for its annual period ending December 31, 2025. In those annual financial statements, the PBE may:

- apply the ASU prospectively by providing the revised disclosures for the period ending December 31, 2025 and continuing to provide the pre-ASU disclosures for the prior periods; or
- apply the ASU retrospectively by providing the revised disclosures for all periods presented.

Effective date

Public business entities	Other entities
Annual periods beginning after December 15, 2024	Annual periods beginning after December 15, 2025
Early adoption permitted for annual financial statements not yet issued or made available for issuance.	

Contributing authors

Matt Drucker, Jennifer Yruma, Teresa Dimattia, Ashby Corum and Jenna Summer

KPMG Financial Reporting View

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