# IRA & CHIPS IFRS® Accounting Standards

## Financial Reporting Podcast Transcript

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### Intro

Welcome to the KPMG Financial Reporting Podcast series, delivering fresh insights and perspectives around major accounting and financial reporting developments across a range of timely topics.

We thank you for joining today.

### John Barbagallo

Hello, I'm John Barbagallo, a Managing Director at KPMG and welcome to another installment in our podcast series on the new Inflation Reduction Act and CHIPS Act. In today's episode, we will focus on some of the key provisions of the IRA and CHIPS Act and how to account for those provisions under IFRS accounting standards.

Today's discussion will be with two of my colleagues from KPMG, Ashby Corum, a Partner with Washington National Tax, and Jenna Terrell and Managing Director in our Department of Professional Practice.

Ashby and Jenna have been closely monitoring these new tax legislations and I wanna thank them today for joining us to share their insights.

So, Ashby, let's start with you. The IRA and CHIPS legislation includes new and expanded tax credits. What is different about this legislation compared to what we have seen in the past?

### Ashby Corum

Thanks, John. You're right the law does include new and expanded credits related to the green energy and the semiconductor manufacturing area. The key item that's really new and unique about these credits is the ability to monetize them. Basically, the ability to get that economic value out of them. Some of the credits and for certain types of entities, have what they call direct pay election. And essentially, in that case, a company can elect to have the credit refunded to them.

It really shows up on their tax returns - similar to an estimated payment. And if the company doesn't have enough tax liability to for it to offset that or say it's a loss-making entity that doesn't have any income tax liability at all, at the end of the year it just gets the full amount of the credit refunded to them.

The other ability to monetize these are that most of the credits have what is called a transferability feature and, in that case, they can transfer or really effectively sell the credit to an unrelated third party. And so, in that case they find a third party and they negotiate a price, and they basically get money from that third party for the credits.

## John Barbagallo

Thanks Ashby. Jenna turning to you - Ashby just mentioned direct pay and transferability elections as well as tax credits under the Act. So, if we put on our IFRS hats, how is all this accounted for under the IFRS?

## Jenna Terrell

Yeah. Thanks, John. So high level, the direct pay and transferability elections that Ashby just discussed are going to impact how these credits are accounted for. Specifically, it impacts whether the credits gonna be accounted for under IAS 12, the income tax standard or whether it should be accounted for under another standard.

Let's first chat about the impact that the direct pay election has on these credits. So as Ashby mentioned, these credits that have the direct pay option allow the taxpayer to realize the benefits by getting a refund in cash if they don't have a federal income tax liability.

These credits appear to meet the definition of a government grant under IAS 20, the standard for accounting for government grants under IFRS and should be accounted for under that standard, regardless of whether the company actually expects to elect the direct pay election.

The IAS 20 standard provides guidance on recognition and measurement for both asset and income-based grants. Both of these models really result in the benefit going above the line- so outside of income taxes. But the presentation, both for the balance sheet and income statement, depend on the nature of that credit and the cost that it's intended to offset.

Moving on to the transferability election accounting for these credits with a transfer election are not specifically addressed in IFRS. We think that a company really should choose an accounting approach that best reflects that economic substance of the credit. So, if the economic substance is more similar to a tax allowance the company is going to account for them by applying IAS 12. On the other hand, if the economic substance is similar to a government grant, it will account for them by applying IAS 20.

Once this accounting policy is developed for transferable credits, it has to be applied consistently from period to period for those credits, regardless of how the benefits are actually realized and subsequent periods.

And then finally, for credits that don't have a direct pay or transferable election, we commonly refer to these as nonrefundable nontransferable credits. These are also not specifically addressed in IFRS and the company has to choose an accounting approach that best reflects the economic substance of the credit.

But because the benefits of these nonrefundable nontransferable credits are really limited on the basis of the company’s income tax liability--so essentially, they're only realizable to the extent that the company has taxable income sufficient to offset the credit. These appear to be more akin to a tax allowance and we generally believe it's appropriate to apply IAS 12 to account for these.

## John Barbagallo

Interesting. So when I think about what we heard in some of our other IRA CHIPS podcasts, it sounds like there are some differences, right? When you compare an accounting when you compare US GAAP to IFRS, specifically as a relates to these transferable and nonrefundable nontransferable credits. So that's very helpful. Thank you.

So, Ashby turning back to you, speaking of prior podcasts, we heard the IRA made no changes to the statutory rate. the US statutory rate and introduced a new alternative minimum tax. So, give us a refresher on this new AMT.

### Ashby Corum

Yes, John. It did introduce a new alternative minimum tax, and this is a tax targeted at large companies, generally those over a billion in pretax income that are not paying current tax or at least not enough current tax that's really commensurate with the amount of pretax book earnings that it has. And so, the minimum tax is based on 15% of adjusted financial statement income sometimes called AFSI or just “af-see” for short. And that minimum tax of 15% of that AFSI amount is then compared to a company’s regular tax or just the amount of income tax that they would owe or pay under the traditional regular tax system. And if that this minimum tax is more than that, then that's deemed to be the amount of alternative minimum tax that they pay for the year.

If in a future year they're regular tax is more then they amount of tax is computed by 15% of this adjusted financial statement income, then that future year they could recover some of the AMT that they've paid in the past.

And this AFSI amount, the adjusted financial statement income, it's really targeted to be something similar to pretax income- it starts at net income, it adds back federal and foreign income taxes, but then it does have a series of other adjustments, in particular depreciation and pension. It puts those amounts something closer to what's being used for regular tax than for financial statement purposes. And then it has some other adjustments including some adjustments for investments in corporations and partnerships.

### John Barbagallo

Thanks Ashby. So, Jenna, moving back to you, in accounting under IFRS, is there any specific guidance on how to account for the corporate AMT?

### Jenna Terrell

So similar to US GAAP, a company is going to account for this incremental tax owed under the corporate AMT system as incurred in and it's gonna continue to measure its deferred taxes at the regular statutory rate. It's not gonna use that AMT rate. As Ashby mentioned, the corporate AMT also has that credit carryforward for corporate AMT previously paid. And when a company is evaluating whether the AMT credit carryforward will be realized in a related deferred tax asset needs to be recognized. A company should consider its expected corporate AMT status.

The companies also gonna consider whether it's subject to corporate AMT when assessing to what extent the deductible temporary differences under the regular tax will be realized in the future. So, think about it, if a company is projections of future taxable profits, indicate that a certain amount of deductible temporary differences will not be realized because of the company is expected to be subject to corporate AMT, it needs to take that into account when it is accounting for its deferred tax assets.

You may notice that we have a difference here between IFRS and US GAAP when assessing the realizability of these deferred tax assets under the regular tax system. So, under US GAAP you can choose whether or not you want to consider or disregard your AMT status, while under IFRS you are expected to consider your corporate AMT status.

### John Barbagallo

Thanks, Jenna. So, let's move on to another key topic of legislation, Ashby, the IRA also includes a new excise tax on stock repurchases, which is a hot topic these days. So, tell us how this is going to work.

### Ashby Corum

Yes, John, it's a new tax and it's the tax based on 1% of share repurchases. It's really the excess of the amount of share repurchases over share issuances. So, in that way it's a little bit of a net tax in that you do get to net those repurchases with the share issuances, but it's 1% of that net excess repurchases over issuances. There are a handful of exceptions out there related to certain corporate reorganizations and amounts used in stock ownership plans and other employee stock-based compensation.

And like all the new taxes, there's still a number of issues in practice that need to be resolved. You know, in this case, particularly looking at how reorganizations are considered, and we hope to get clarification for clarifying guidance from treasury in the future on how those things operate.

### John Barbagallo

Yeah. Thanks, Ashby. So, Jenna, back to you on accounting under IFRS. So, based on what we currently know about the excise tax, how will companies account for the excise tax under IFRS?

### Jenna Terrell

Yeah. So, when we think about how these need to be accounted for, we need to step back and look at what the excise taxes levied on. So, it's levied on the value of the company's stock repurchases rather than on taxable profits. So, because of this, it's actually not an income tax within the scope of IAS 12.

The excise tax is viewed as a cost that is directly attributable to the repurchase and the presentation of the tax is gonna follow the associated transaction. So, for example, if you repurchase equity, classified stock, you're gonna record the 1% excise tax to equity. Whereas if you repurchase liability classified stock, the excise tax is gonna be recorded as part of the gain or loss on the extinguishment of the financial liability under IFRS 9.

So, the accounting here for the excise tax under IFRS is generally consistent with US GAAP.

### John Barbagallo

Yeah. Thanks, Jenna. So, there are some consistencies with the US GAAP and there are some differences, very helpful. Jenna and Ashby, thank you so much for joining us today and I appreciate you taking time to walk us through the tax and the IFRS accounting implications of IRA and CHIPS Act. I look forward to speaking with you again on future podcasts. And again, thanks so much and have a great day.

### Outro

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