HOT TOPIC

Income tax disclosures

Time counts: Approaching application of disaggregation and its moving parts

May 2024 (updated August 2025)

With effective dates looming, precious little time is left for many to prepare for ASU 2023-09's disaggregated income tax disclosures.

The Financial Accounting Standards Board (the Board) issued Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures, to enhance the transparency and decision usefulness of income tax disclosures. The ASU expands annual income tax disclosures to address investor requests for more information about how the tax risks, tax planning and operational opportunities in an entity's worldwide operations affect the effective tax rate and future cash flows.

The ASU's effective date is fast approaching – public business entities (PBEs) with calendar year-ends must provide the enhanced disaggregated disclosures in their December 31, 2025 financial statements.

This Hot Topic summarizes the guidance in the ASU on a topic-by-topic basis and provides KPMG observations related to implementing the guidance based on our current understanding of the ASU. Discussion and detailed examples are provided about disaggregating the following under the ASU.

Effective tax rate reconciliation | **Income taxes paid**

Pretax income (loss) and income tax expense (benefit), both from continuing operations

This Hot Topic also answers many of the questions encountered in practice when implementing the ASU, including the following.

- **Effective tax rate reconciliation** (the rate reconciliation). Which country's federal statutory income tax rate is reconciled to, what are the categories into which the reconciling items must be disaggregated, and what categories will many of the specific types of reconciling items fall into?
- **Income taxes paid**. What are the jurisdictions into which they must be disaggregated, and how do certain items affect income taxes paid?
- **Pretax income (loss) and income tax expense (benefit), both from continuing operations**. What are the jurisdictions into which they must be disaggregated, and to which jurisdiction are certain common items of income and expense (and the related income tax expense (benefit)) attributed?

With the experience gained in addressing a multitude of issues encountered by entities implementing the ASU and seeing firsthand the level of effort it requires, we provide key insights on the implementation process and next steps.

About this Hot Topic

The purpose of this Hot Topic is to inform you about ASU 2023-09 and issues that have arisen in practice related to its implementation. For information about income tax disclosure requirements before the adoption of ASU 2023-09, see chapter 9 of KPMG Handbook, Accounting for income taxes.

New items and significantly updated items in the August 2025 update of this Hot Topic are identified with ** and #, respectively.

The following lists and links to the main sections in this Hot Topic.

This Hot Topic references the FASB's Accounting Standards Codification® (ASC or Codification) and other literature, where applicable. The following are examples.

- 740-10-50-12C is paragraph 50-12C of ASC Subtopic 740-10 (income taxes – overall)
- BC38 of ASU 2023-09 is paragraph BC38 in the Basis for Conclusions of ASU 2023-09
- SAB Topic 11M (Q1) is Question 1 in SEC Staff Accounting Bulletin Topic 11M
- FRM 10230.1 is section 10230.1 of the Financial Reporting Manual of the Division of Corporation Finance of the SEC

'Jurisdiction' terminology

The ASU uses various terminology to refer to different jurisdictions. For the purpose of this Hot Topic, we have used the following terminology and related meanings.

Terminology	Meaning in this Hot Topic
Country of domicile	Refers to the country whose statutory income tax rate is reconciled to in the rate reconciliation. It refers to the US for US-domiciled reporting entities and the actual country of tax domicile for non-US domiciled reporting entities (with limited exceptions – see additional discussion in a related KPMG observation).
Federal	Refers to federal or national taxing jurisdictions at the country level.
State	Refers to jurisdictions below the federal level. For the US, 'state' refers to US states, counties, cities and other subnational jurisdictions. For other countries, this refers to all subnational jurisdictions in a country. For example, for Canadian-domiciled reporting entities that use the Canadian federal statutory income tax rate in the rate reconciliation, 'state' refers to provinces, territories and other subnational jurisdictions.

Terminology	Meaning in this Hot Topic
Domestic	Refers to the federal and state jurisdictions in the country whose statutory income tax rate is reconciled to in the rate reconciliation.
Foreign	Refers to all jurisdictions outside the country whose statutory income tax rate is reconciled to in the rate reconciliation – this includes federal and state jurisdictions outside that country.

Materiality

The Board considered whether to provide specific guidance on materiality in the ASU. However, given the existing guidance stating that the provisions of the Codification need not be applied to immaterial items, the Board decided not to provide any specific materiality guidance for income tax disclosures in the ASU. [105-10-05-6, BC22 – BC24, BC65 – BC67, BC81 and BC102 of ASU 2023-09]

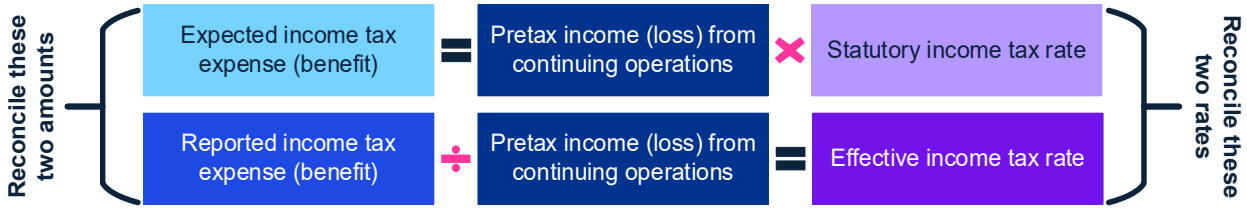
Rate reconciliation

Overview

The following summarizes the ASU's new and enhanced disclosure requirements for the rate reconciliation.

PBEs	Non-PBEs
Tabular reconciliation of the expected income tax expense (benefit) (i.e. expected or statutory income tax) and the reported income tax expense (benefit) on income from continuing operations (i.e. reported or effective tax) using both percentages and amounts, broken out into specific categories with certain reconciling items at or above 5% of the expected income tax (the 5% threshold) further broken out by nature and/or jurisdiction [740-10-50-12 – 50-12C]	Qualitative discussion of the nature and effect of significant differences between the statutory income tax rate and the effective tax rate by specific categories of reconciling items and by individual jurisdictions (the specific categories of reconciling items used for this purpose are the same as those used by PBEs in the tabular reconciliation) [740-10-50-13]

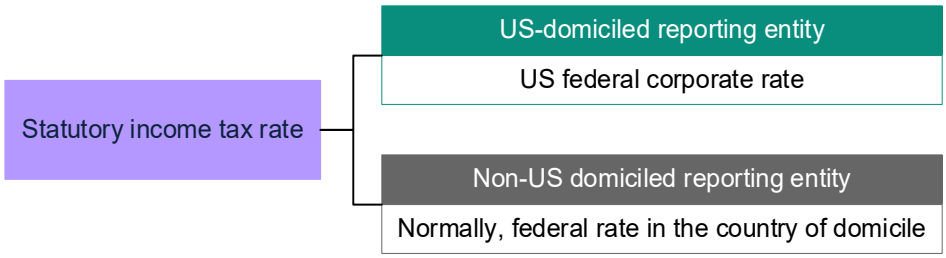
The objective of the rate reconciliation is to provide information (principally, nature and magnitude) about what causes the difference between the expected income tax and the reported income tax (see calculations below), which is particularly relevant when an entity operates in multiple jurisdictions. [740-10-50-11 – 50-11A]



Before 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.

Statutory income tax rate

The rate reconciliation begins with the statutory income tax rate and the expected income tax expense (benefit) calculated using the statutory income tax rate. For PBEs, the ASU indicates that the applicable federal statutory income tax rate in the country of domicile is used in the tabular reconciliation and that different rates are not used for subsidiaries or segments. However, for non-US-domiciled reporting entities, the ASU indicates that the federal statutory income tax rate in the country of domicile is 'normally' used in the tabular reconciliation. [740-10-50-12]



KPMG observations on the statutory income tax rate

Statutory income tax rate for a non-US domiciled reporting entity when its country of domicile has a statutory income tax rate significantly lower than the US rate

While the ASU indicates that the federal statutory income tax rate in the jurisdiction (country) of domicile is 'normally' used in the tabular reconciliation for non-US domiciled reporting entities, it does not provide guidance on when it is appropriate to depart from that rate. Rather, the Board acknowledged that exercising judgment is expected when the entity is domiciled in a country with a statutory income tax rate that is significantly lower than the US statutory income tax rate. [BC38 of ASU 2023-09]

In our experience, some non-US domiciled reporting entities have departed from the statutory income tax rate in the country of domicile when that rate is at or near 0%. These entities have often used the statutory income tax rate in the country where they have the most significant operations. Entities may want to consider consulting with their accounting advisers, auditors and potentially the SEC staff before departing from the statutory income tax rate in the country of domicile.

In addition, when a non-US domiciled reporting entity departs from using the federal statutory income tax rate in its country of domicile, we believe the statutory income tax rate it reconciles to should be consistently applied from period to period, unless there are changes in facts and circumstances.

Disclosure implications of departing from the federal income tax rate in the reporting entity's actual country of domicile

When the federal income tax rate in the reporting entity's country of domicile is not the rate used in the rate reconciliation (see the related KPMG observation), we believe the country whose rate is used in the reconciliation becomes the de facto country of domicile for purposes of applying the disclosure requirements throughout Topic 740. Using a de facto country of domicile (instead of the actual country of domicile) affects the:

- reconciling items identified as domestic federal, domestic state and foreign in the rate reconciliation;
- income (loss) from continuing operations before income taxes identified as domestic and foreign;
- income tax expense (benefit) from continuing operations identified as domestic federal, domestic state and foreign; and
- amount of income taxes paid (net of refunds received) identified as domestic federal, domestic state and foreign.

Non-US domiciled reporting entity with state income taxes in its country of domicile

In our experience, some non-US domiciled reporting entities with state income taxes in the country of domicile have historically combined the federal and state statutory income tax rates into a single statutory income tax rate that was then reconciled to the effective tax rate. Upon adopting the ASU, these entities must reconcile the effective tax rate to the applicable federal statutory income tax rate, with the effects of the domestic state income taxes presented as a separate category.

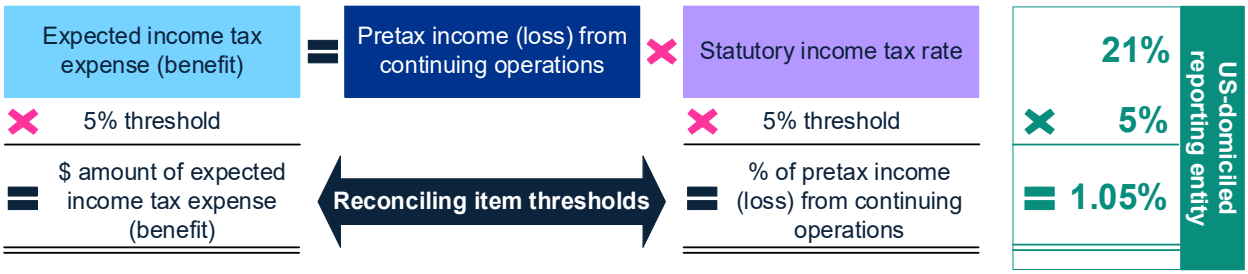
Additional disclosures when not using the US federal corporate income tax rate

When a PBE uses a statutory income tax rate other than the US federal corporate income tax rate in the rate reconciliation, the rate used and the basis for using that rate must be disclosed, even if that rate is the federal statutory income tax rate in the PBE's country of domicile. [740-10-50-12]

Rate reconciliation categories and further disaggregation

The ASU includes specific guidance on the layers of information included in the rate reconciliation. [740-10-50-12A]

- The first layer breaks out the reconciling items into specific categories.
- The second layer further breaks out certain categories based on the 5% threshold. That threshold is met when the reconciling item is 5% or more of the expected income tax.



The following table provides information about each of the layers included in the rate reconciliation. Reconciling items are presented on a gross basis unless netting is explicitly permitted. [740-10-50-12A]

<table>
<tr><td rowspan="5">Worldwide</td><td rowspan="3">Domestic</td><td rowspan="2">Federal</td><td>• Tax credits
• Nontaxable or nondeductible items
• Cross-border tax laws
• Other reconciling items</td><td>Further disaggregation by nature based on the 5% threshold</td></tr>
<tr><td>• Changes in tax laws or rates enacted in the current period
• Changes in valuation allowances</td><td>No further disaggregation required</td></tr>
<tr><td>State income taxes, net of federal effect</td><td colspan="2">No further disaggregation required</td></tr>
<tr><td rowspan="2">Foreign tax effects</td><td colspan="2">Further disaggregation by country based on the 5% threshold</td></tr>
<tr><td colspan="2">Further disaggregation by nature based on the 5% threshold</td></tr>
<tr><td>Changes in unrecognized tax benefits</td><td colspan="2">No further disaggregation required</td></tr>
</table>

When identifying reconciling items by 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. [740-10-50-12A(b)]

A reconciling item's nature, effect and underlying causes, as well as any judgment exercised in its categorization, must either be evident in the tabular reconciliation or in supplemental explanations. [740-10-50-12C]

For an example of disaggregation by category and further disaggregation based on the 5% threshold, see steps 1 and 2 in the rate reconciliation example.

KPMG observations on the rate reconciliation categories and further disaggregation

Materiality considerations for reconciling items

The Board acknowledged that exercising judgment is expected when determining whether a reconciling item is material. However, an entity should consider both the quantitative and qualitative materiality of a reconciling item to the users of the financial statements. If a reconciling item is qualitatively material to a user of the financial statements, we believe it should be disaggregated even if it is not quantitatively material. [BC22 and BC38 of ASU 2023-09]

Determining what constitutes domestic federal for purposes of identifying reconciling items

As discussed in 'Jurisdiction' terminology and a related KPMG observation, we believe what constitutes domestic federal for purposes of identifying the reconciling items in the specific categories should be based on the country whose rate is used in the rate reconciliation (which is either the reporting entity's actual country of domicile or its de facto country of domicile).

The domestic federal categories include:

- tax credits;
- nontaxable or nondeductible items;
- cross-border tax laws;
- changes in tax laws or rates enacted in the current period;
- changes in valuation allowances; and
- other reconciling items that are not included in any of the specific categories.

Other reconciling items

While the ASU provides several specific categories that are required to be presented, entities may have reconciling items that do not meet the definition of a specific category. Domestic federal reconciling items outside of a required category that meet the 5% threshold must be disaggregated by nature. However, if these items do not meet the 5% threshold, they may be aggregated and presented as a separate line item labeled 'other'. For additional information, see Domestic federal: Other reconciling items.

In addition, in each of the specific categories that requires further disaggregation (i.e. tax credits, cross-border tax laws, nontaxable or nondeductible items and foreign tax effects), after items that meet the 5% threshold have been separately presented, the entity may present an 'other' line aggregating the remaining items.

Income tax credits and other income tax benefits accounted for using the proportional amortization method (PAM)

An investor may invest in a pass-through entity to receive income tax credits and other income tax benefits generated by the pass-through entity. In these situations, an investor may elect and account for its investment using the PAM if certain criteria are met. Under the PAM, the cost of the investment is

amortized in proportion to the income tax credits and other income tax benefits allocated to the investor each period.

The Board acknowledged that an entity needs to use judgment in determining where to categorize certain reconciling items for which it provided no specific guidance, including the reconciling item for proportional amortization. [BC31 of ASU 2023-09]

We believe one acceptable presentation of the income tax credits and other income tax benefits generated by investments accounted for under the PAM is to include them as one reconciling item along with the proportional amortization. We believe this presentation best aligns with the purpose of the PAM and the related disclosures, which do not require separate disclosure of the federal and state income tax credits and other income tax benefits. However, there may be other acceptable presentation approaches that separately show the effects of the proportional amortization, the income tax credits and the other income tax benefits generated by investments accounted for under the PAM in the rate reconciliation. [323-740-50-1A(a) and 50-1A(c)]

Comparative reconciling items when some years meet the 5% threshold and others do not

If a reconciling item meets the 5% threshold in one of the years presented but is below 5% in the other years, we believe comparative amounts and percentages should be disclosed for all years presented. Once a reconciling item drops below the 5% threshold for all years presented, it no longer needs to be broken out as a reconciling item. Instead, the item may be combined with other reconciling items that do not meet the 5% threshold. For an example of when some years meet the 5% threshold and others do not, see step 3 in the rate reconciliation example.

Adjustments to current year income taxes from the prior year financial statements

Entities may have reconciling items in the current year to adjust prior year income taxes, such as return-to-provision true-ups or corrections for any immaterial income tax-related errors from the prior year financial statements.

We believe one acceptable policy would be to include these types of adjustments to prior year income taxes in the reconciling item in which they would have been included in the prior year. Entities may consider supplemental explanation of the judgment exercised in categorizing these reconciling items. [740-10-50-12C]

Domestic federal: Tax credits

The tax credits category includes federal tax credits generated in the country of domicile. However, when the credit relates to the same income during the same reporting period as cross-border taxes imposed by the country of domicile (i.e. the tax credit is an inherent part of the cross-border tax law), the credit may be presented net in the cross-border tax laws category (e.g. GILTI; see related KPMG observation). Net presentation of cross-border taxes in the tax credits category is not appropriate, even if the amount of the credit exceeds the related tax. [740-10-50-12A(c)(3)]

Items in the tax credits category are further disaggregated by nature based on the 5% threshold. [740-10-50-12A(b)(1)]

KPMG observations on the tax credits category

Discount on purchased transferable tax credits

An entity that purchases a tax credit may do so at a price that is discounted from the credit amount. As discussed in section 5.5 of KPMG Handbook, Tax credits, the purchased credit is measured under Topic 740. The difference between the purchase price, including direct costs to acquire the credit, and the Topic 740 measurement of the purchased credit is recognized as a deferred credit. The deferred credit is

recognized in income tax expense (benefit) in proportion to the reversal of the associated deferred tax asset.

The domestic federal income tax benefit associated with the discount on a transferable tax credit is included in the tax credits category.

Foreign tax credits on withholding taxes

Governments may require taxes to be withheld at the source of payment, such as dividends, interest or royalties, when the payment is made to the recipient. In our experience, these taxes are frequently determined to be income taxes in the scope of Topic 740 and attributed to the entity receiving the payment. As discussed in the related KPMG observation, we believe the category in which withholding taxes in the scope of Topic 740 should be presented in the rate reconciliation is based on the jurisdiction that imposes the tax. However, in some cases, the domestic federal jurisdiction may provide a tax credit for the withholding taxes imposed by a foreign jurisdiction. When the tax credit is associated with pretax income recognized in the country of domicile, such as interest or royalties, the benefit of any domestic federal foreign tax credit results in a reconciling item in the tax credits category, disaggregated by nature if it meets the 5% threshold.

Domestic federal: Nontaxable or nondeductible items

The nontaxable or nondeductible items category is not defined in the Codification, nor is any guidance provided in the ASU's basis for conclusions. Items in the nontaxable or nondeductible items category are further disaggregated by nature based on the 5% threshold. [740-10-50-12A(b)(1)]

The nontaxable or nondeductible items category inherently permits an entity to net federal reconciling items that may decrease the effective tax rate with reconciling items that may increase the effective tax rate (i.e. nontaxable income and nondeductible expenses, respectively). However, if any individual reconciling item meets the 5% threshold, it is disclosed by its nature. If no individual reconciling item in the category meets the 5% threshold, an entity should determine whether certain reconciling items have common characteristics (i.e. the same nature) and, therefore, should be aggregated and separated from nontaxable and nondeductible items without that characteristic.

Given the inherent judgment called for in identifying reconciling items for inclusion in a category that lacks a specific definition, entities must keep in mind the requirement to disclose supplemental explanation of the judgment exercised in including reconciling items in this category if not otherwise evident in the rate reconciliation. [740-10-50-12C]

KPMG observations on the nontaxable or nondeductible items category

Definition of nontaxable or nondeductible items

In our experience, entities generally define nontaxable and nondeductible items as federal items included in pretax income with no tax effect due to the provisions of the tax law. Examples include nondeductible penalties, nondeductible meals and tax-exempt interest.

In addition, we believe the nontaxable or nondeductible items category may include those reconciling items that arise due to exceptions in the accounting guidance – i.e. items in pretax income with no tax effect due to an exception in Topic 740. For example, the impairment or amortization of second component financial statement goodwill may be included in the nontaxable or nondeductible items category (see paragraph 10.019 of KPMG Handbook, Accounting for income taxes, for additional information about the income tax effects from the impairment of financial statement goodwill). [740-10-55-231]

Nondeductible or nontaxable items by nature

The Board acknowledged that judgment may be necessary when assessing the nature of reconciling items to determine whether they are subject to the 5% threshold. Entities should evaluate whether certain individual nondeductible and nontaxable items should be aggregated by nature to determine whether they meet the 5% threshold. [BC29 of ASU 2023-09]

An entity may determine that nondeductible expenses caused by separate events (which is often the case) should be disaggregated when evaluating whether the reconciling items meet the 5% threshold. For example, an entity may conclude that a nondeductible penalty is of a different nature than a nondeductible meal.

Similarly, an entity may determine that certain nontaxable items should be disaggregated from other nontaxable items because they are of a different nature.

An entity may also determine that nondeductible items should be disaggregated from nontaxable items because they have different essential characteristics.

Tax effects of share-based payment awards

The Board stated that an entity may decide to include the tax effects of share-based payment awards (including nondeductible expenses, tax deficiencies and excess tax benefits) in the nontaxable or nondeductible items category even though all of the tax effects of share-based payment awards might not be viewed as relating exclusively to this category. Accordingly, an entity may present the domestic federal tax effect of deficiencies and excess tax benefits either in the nontaxable or nondeductible items category or as an other reconciling item in domestic federal. Either approach would be subject to further disaggregation by nature if the 5% threshold is met. [BC29 of ASU 2023-09]

If the judgment exercised in categorizing the tax effects of share-based payment awards is not evident in the rate reconciliation, supplemental explanation about the categorization is required to be disclosed. [740-10-50-12C]

Domestic federal: Cross-border tax laws

Reconciling items in the cross-border tax laws category include income taxes with the following characteristics: [740-10-50-12A(c)(3)]

- imposed at the federal level in the country of domicile;
- related to income earned in foreign jurisdictions; and
- is an incremental income tax.

Items in this category are further disaggregated by nature if they meet the 5% threshold. [740-10-50-12A(b)(1)]

Reconciling items excluded from the cross-border tax laws category include those related to the following.

- *Income taxes on foreign income imposed by state taxing authorities in the reporting entity's country of domicile.* Instead, these taxes are included in the domestic state income taxes, net of federal effect category.
- *Income taxes imposed by countries other than the reporting entity's country of domicile.* Instead, these taxes are included in the foreign tax effects category and disaggregated by nature under the country imposing the tax if they meet the 5% threshold.

As discussed in Rate reconciliation categories and further disaggregation, reconciling items are presented on a gross basis with limited exceptions. One exception permits the tax effects of a cross-border tax and related tax credit to be presented net in the cross-border tax laws category. However, this exception can

only be applied when the country of domicile both taxes cross-border income and provides a tax credit for the tax on the same income during the same reporting period. It is not appropriate to include in the cross-border tax laws category a tax credit that prevents double taxation when the tax it is intended to offset is not also in the cross-border tax laws category. [740-10-50-12A(c)(3)]

One example is the tax effect related to global intangible low-taxed income (GILTI) and its related foreign tax credits, which may be presented on a net basis as a single reconciling item in the cross-border tax laws category for a US-domiciled entity. [740-10-50-12A(c)(3)]

KPMG observations on the cross-border tax laws category

Reconciling items in the cross-border tax laws category for US-domiciled reporting entities

Based on the characteristics of the cross-border tax laws category, we believe it is appropriate to include income tax expense (benefit) related to the following for US-domiciled reporting entities:

- GILTI;
- Subpart F income;
- other income derived from controlled foreign corporation (CFC) regimes; and
- income from branches, disregarded entities and partnerships located in another jurisdiction.

In addition, the example rate reconciliation in the ASU includes both foreign-derived intangible income (FDII) and base erosion and anti-abuse tax (BEAT) in the cross-border tax laws category. However, the Board acknowledged that judgment may be necessary in determining what is categorized in the cross-border tax laws category and specifically cited FDII. Alternative presentations may be appropriate as long as the presentation is consistently applied. [740-10-55-231, BC30 of ASU 2023-09]

*H.R. 1 (referred to as the 'One Big Beautiful Bill' or the bill)***

The bill replaces GILTI with net CFC tested income (NCTI) and replaces the FDII deduction with a foreign-derived deduction eligible income (FDDEI) deduction. We believe it is appropriate to include NCTI in the cross-border tax laws category, consistent with GILTI, when it is imposed at the federal level in the country of domicile. Further, similar to the assessment of FDII, we believe FDDEI may be categorized in the cross-border tax laws category, but alternative presentations may be appropriate as long as the presentation is consistently applied.

Foreign tax credit carryforwards subject to a valuation allowance

In some instances (e.g. branch, Subpart F), the foreign tax credit generated by a cross-border tax may exceed the amount the entity can utilize. This may then result in a foreign tax credit carryforward where the related deferred tax asset is offset by a valuation allowance. We believe the reconciling item included in the cross-border tax laws category should include the full amount of the foreign tax credit generated, while any related domestic federal valuation allowance should be included in the changes in valuation allowances category. This may result in a net benefit reconciling item included in the cross-border tax laws category and an expense reconciling item included in the changes in valuation allowances category.

Withholding taxes

Governments may require taxes to be withheld at the source of payment, such as dividends, interest or royalties, when the payment is made to the recipient. In our experience, these taxes are frequently determined to be income taxes in the scope of Topic 740 and attributed to the entity receiving the payment.

We believe withholding taxes in the scope of Topic 740 should be associated with the jurisdiction imposing the tax for purposes of categorization in the rate reconciliation. When withholding taxes are imposed by the country of domicile (e.g. a US parent pays a foreign subsidiary for a royalty, interest, rent,

service, etc. that is subject to US withholding), one approach would be to include them in the cross-border tax laws category. However, when taxes are withheld by a subsidiary located in a foreign jurisdiction and imposed by the taxing authority in that jurisdiction, we believe the withholding taxes imposed by the foreign jurisdiction should be presented in the foreign tax effects category.

Pillar Two top-up taxes

Under the Organisation for Economic Co-operation and Development (OECD) Pillar Two model rules, entities meeting certain criteria would be required to pay a top-up tax on excess profits in any jurisdiction in which the global anti-base erosion (GloBE) effective tax rate for the jurisdiction is below a 15% minimum rate. Top-up tax would arise only if a group pays an insufficient amount of income taxes at the jurisdiction level. The top-up tax may be implemented through the following.

Collection mechanism	Jurisdiction
Qualified domestic minimum top-up tax (QDMTT)	Allows the entity's jurisdiction to collect the top-up tax.
Income inclusion rule (IIR)	Allows the jurisdiction of a parent to collect the top-up tax.
Undertaxed profits rule (UTPR)	Allows the jurisdictions of 'brother/sister' and subsidiary entities to collect the top-up tax.

For additional information on the Pillar Two rules, see KPMG Hot Topic, Checking in on Pillar Two, and Pillar Two Gameplan.

We believe that taxes imposed under the IIR should be included in the cross-border tax laws category when it is imposed at the federal level in the country of domicile on GloBE income earned outside that country. If an IIR is imposed by a different country (e.g. on an intermediate parent entity within the consolidated group), we believe it should be included in the foreign tax effects category, in the country imposing the top-up tax.

We believe a QDMTT is an alternative minimum tax (AMT) and, therefore, entities will include it as an other reconciling item in domestic federal when imposed at the federal level in the country of domicile, or the foreign tax effects category (and attributed to the country imposing the tax) when imposed by a foreign taxing authority.

Multiple adjustments to taxes on the same taxable item

Certain cross-border tax laws combine different types of adjustments on the same taxable item to determine income taxes payable. These adjustments include:

- types of nondeductible expenses or tax-exempt income;
- other deductions;
- rate differences; and
- tax credits.

If a taxing authority taxes a class of income and provides an adjustment to the income or the income tax on that income, then we believe the underlying tax and adjustment are part of the same reconciling item – i.e. they are a single reconciling item and are not required to be presented separately in the rate reconciliation.

For example, under the GILTI taw laws, a US shareholder of a CFC must include in taxable income its pro rata share of GILTI. GILTI is considered the excess of the shareholder's net CFC tested income over the shareholder's net deemed tangible income return. Additionally, a US shareholder generally can deduct a portion of its GILTI and apply a limited deemed paid credit for foreign taxes. A taxpayer's GILTI is based on its aggregate net tested income from its CFCs. Therefore, we believe the GILTI inclusion along with

any related section 250 deduction, net deemed tangible income return adjustment and any foreign tax credits related to GILTI are all part of a single reconciling item and are not required to be presented separately in the rate reconciliation.

US income taxes on non-US insurance corporations

Certain non-US insurance corporations with US shareholders may make an election under section 953(d) of the Internal Revenue Code to be taxed as a US corporation. Under this election, the foreign insurance company is subject to US federal income tax on its worldwide income. These taxes meet the characteristics of cross-border taxes when the US is the country of domicile; therefore, we believe such taxes should be included in that category.

Domestic federal: Changes in tax laws or rates enacted in the current period#

The changes in tax laws or rates enacted in the current period category is limited to the cumulative tax effects of a change in enacted domestic federal tax laws or rates on current or deferred tax assets and liabilities at the date of enactment. Accordingly, this category includes both the impact of remeasuring deferred taxes and the adjustment to the balance of income taxes payable (refundable) at the date of enactment. There is no requirement to further disaggregate this category. [740-10-50-12A(a)(3) and 50-12A(c)(4)]

KPMG observation on the changes in tax laws or rates enacted in the current period category

Remeasurements of deferred taxes not related to changes in tax laws or rates enacted in the current period

A remeasurement of deferred taxes could occur due to something other than a change in tax laws or rates enacted in the current period (see paragraph 5.001 of KPMG Handbook, Accounting for income taxes). One such remeasurement could be due to a change in the expected year or manner of recovery/settlement of assets/liabilities that then results in a change in the already enacted tax rate expected to apply to the recovery/settlement (for example, when an entity is subject to graduated income tax rates or phased-in income tax rates). We believe this remeasurement of deferred taxes was not caused by changes in tax laws or rates *enacted in the current year* and should be included as an other reconciling item in domestic federal if it relates to a domestic federal income tax and disaggregated by its nature if it meets the 5% threshold.

For example, in 20X0, the domestic federal jurisdiction enacted a law that provided for a 19% income tax rate in 20X2 and a 25% income tax rate in 20X3. In 20X0, the entity determined that a temporary difference originating in the current period was scheduled to reverse in 20X2 at the 19% rate. However, in 20X1, the entity determined that the temporary difference would reverse in 20X3 at the 25% rate. In 20X1, the change in rate would not be included in the changes in tax laws or rates enacted in the current period category because neither the tax nor rate giving rise to the change was enacted in the current period. Instead, we believe this reconciling item should be included as an other reconciling item in domestic federal and separately disclosed by its nature if it meets the 5% threshold.

Domestic federal: Changes in valuation allowances

The changes in valuation allowances category includes valuation allowances on deferred tax assets related to federal income taxes in the country of domicile that were initially recognized or changed in the reporting period. There is no requirement to further disaggregate this category. [740-10-50-12A]

KPMG observation on the changes in valuation allowances category

Symmetry between disclosures related to changes in valuation allowances#

In our experience, before the adoption of ASU 2023-09, entities typically disclosed the change in the total valuation allowance as a reconciling item in the rate reconciliation, which was generally able to be correlated to the amounts disclosed in the table of deferred taxes or rollforward of the valuation allowance because both were often presented on a worldwide consolidated basis. This symmetry will likely no longer exist after the adoption of the ASU for the following reasons.

Changes in valuation allowances related to…	…are required to be…
domestic federal income taxes	presented as a separate category.
domestic state income taxes	aggregated with all other reconciling items in the domestic state income taxes, net of federal effect category.
foreign federal income taxes	presented in the foreign tax effects category, attributed to the country to which they relate and disaggregated by nature if they meet the 5% threshold.
foreign state income taxes	presented in the foreign tax effects category, attributed to the country to which they relate, and aggregated with all other foreign state reconciling items by country when the foreign state income taxes for a country meet the 5% threshold.

Given the approach to presenting changes in valuation allowances in the rate reconciliation after adoption of the ASU, it may no longer be possible to reconcile the net change in the total valuation allowance disclosed by an entity with the related amount(s) in the rate reconciliation.

Deferred tax asset remeasurement events resulting in a change in valuation allowance

The remeasurement of a deferred tax asset could result in a change in the related valuation allowance. In our experience, before the adoption of ASU 2023-09, some entities presented certain changes in the valuation allowance and the related remeasurement of the deferred tax asset, such as a rate change, net in the rate reconciliation. However, after the adoption of the ASU, we believe the reconciling item for any change in the domestic federal valuation allowance caused by the remeasurement should be included in the changes in valuation allowances category.

*Expiration of a carryforward with a valuation allowance**

In certain situations, the expiration of a carryforward may result in the elimination of a deferred tax asset and an offsetting elimination of a related valuation allowance. In these situations, we believe the elimination of the deferred tax asset and related valuation allowance do not result in reconciling items and, therefore, are excluded from the rate reconciliation.

Domestic federal: Other reconciling items

Domestic federal other reconciling items capture reconciling items related to federal income taxes in the country of domicile that do not fall in any of the other domestic federal categories (e.g. a special deduction). An other reconciling item is separately disclosed by nature if it meets the 5% threshold. [740-10-50-12A]

Other domestic federal reconciling items that do not meet the 5% threshold may be aggregated into an ‘other’ line item presented for domestic federal income taxes.

For additional information about other reconciling items, see the related KPMG observation.

KPMG observations on other reconciling items

*AMTs***

An AMT is designed to ensure that all corporations pay a minimum amount of tax, which is incremental to the regular tax system. Because the expected income tax expense in the rate reconciliation is calculated using the statutory income tax rate, entities may have a reconciling item for an AMT when an offsetting tax credit is not available (e.g. QDMTTs). When the AMT is imposed at the federal level in the country of domicile, we believe that entities will include it as an other reconciling item in domestic federal. For additional information on Pillar Two top-up taxes, see the related KPMG observation.

*AMTs with a corresponding tax credit***

Certain AMTs, such as the US federal Corporate AMT (CAMT), provide a credit for AMT paid in excess of the regular tax that would have otherwise been paid. In these situations, the AMT expense is offset by an equal amount of credit generated. We believe both the AMT expense and credit generated with the same taxing authority are part of the same reconciling item – i.e. they are a single reconciling item and are not required to be presented separately in the rate reconciliation. However, to the extent the credit is not more likely than not to be realized, any adjustment to the valuation allowance would be included in the changes in valuation allowance category.

Domestic state: State income taxes, net of federal effect

The domestic state income taxes, net of federal effect category represents income taxes imposed at the state level in the country of domicile, net of the related federal income tax effect. This category includes the entire amount of income tax expense for domestic state jurisdictions because an entity reconciles to a federal rate – i.e. the rate reconciled to excludes income tax rates imposed by domestic state jurisdictions. As a result, this category includes all of the following related to domestic state income taxes: [740-10-50-12A(c)(1)]

- tax credits;
- nontaxable and nondeductible items;
- changes in valuation allowances; and
- changes in tax laws and rates.

Domestic state income taxes related to changes in *current year* unrecognized tax benefits may either be presented in this category or the changes in unrecognized tax benefits category. However, changes in *prior year* unrecognized tax benefits are presented in the changes in unrecognized tax benefits category (see Changes in unrecognized tax benefits for additional discussion).

Unlike the category for foreign tax effects, there is no requirement to disaggregate the reconciling items in this category quantitatively. However, PBEs must qualitatively describe the domestic state jurisdictions that make up greater than 50% (i.e. a simple majority) of the total effect of this category. The names of the individual jurisdictions that make up the majority are listed in the disclosure. To identify these jurisdictions, an entity starts with the domestic state jurisdiction that has the largest effect on the category and then adds the jurisdiction with the next largest effect continuing to do so until the cumulative effect reaches greater than 50% of the total. [740-10-50-12B]

KPMG observations on the domestic state income taxes, net of federal effect category

Determining what constitutes domestic state income taxes

As discussed in 'Jurisdiction' terminology and a related KPMG observation, we believe what constitutes domestic state income taxes should be based on those state jurisdictions in the country whose federal statutory income tax rate is used in the rate reconciliation.

Determining the state jurisdictions making up the 'majority' of the domestic state income taxes, net of federal effect category

As discussed above, one approach to identifying the jurisdictions that make up a majority of the domestic state income taxes, net of federal effect category is to:

- determine the income tax expense (benefit) by individual domestic state jurisdiction, including all elements (such as changes in valuation allowances, tax credits, changes in tax rates, etc.); and
- accumulate the jurisdictions (starting with the one having the largest effect) until greater than 50% of the total is reached.

The Board noted that another acceptable approach to determining the majority may be based on the composite state tax rate information used to compute domestic state income tax expense (benefit) without considering other items, such as changes in valuation allowances, tax credits, changes in tax rates, etc. [BC40 of ASU 2023-09]

Foreign tax effects

With one exception, the foreign tax effects category includes all of the reconciling items associated with the difference between foreign income tax expense (or benefit) calculated using the domestic federal statutory income tax rate and the reported income tax in the foreign jurisdictions. The one exception is for reconciling items presented in the changes in unrecognized tax benefits category. [740-10-50-12A(b)(2) and 50-12A(c)(1)]

In the foreign tax effects category, individual countries are disaggregated:

- if the country meets the 5% threshold in total; or
- if any individual reconciling item by nature in a country meets the 5% threshold, both the individual country and reconciling items meeting the 5% threshold are disaggregated.

This could result in disclosing a reconciling item for a foreign country regardless of whether the foreign country itself meets the 5% threshold. When disaggregating reconciling items by nature, an entity should consider the reconciling item's fundamental or essential characteristics. Disaggregation by nature is based on the reconciling item's gross amount (positive or negative). [740-10-50-12A(b)(2)]

KPMG observations on the foreign tax effects category

What should be considered foreign jurisdictions

As discussed in 'Jurisdiction' terminology and a related KPMG observation, we believe foreign jurisdictions include those federal and state jurisdictions outside the country whose rate is used in the rate reconciliation.

Determining the disaggregation threshold for the foreign tax effects category

The determination as to whether an individual foreign country meets the 5% threshold is based on the reconciling items included in the respective country. Therefore, because an entity may include the effect of changes in unrecognized tax benefits in a **worldwide** changes in unrecognized tax benefits category,

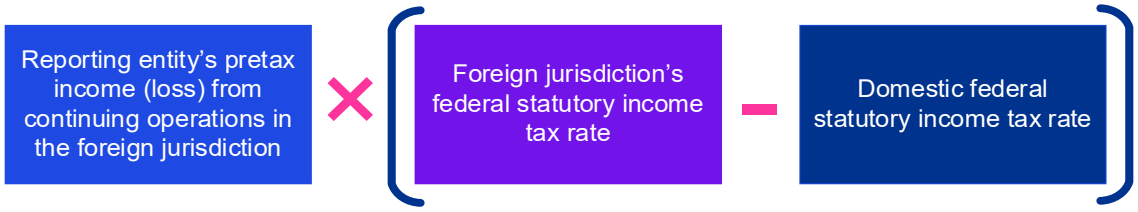
reconciling items included in the changes in unrecognized tax benefits category are removed from the total tax effects for that country before comparing the remaining tax effects for that country to the 5% threshold.

Disaggregation of foreign tax effect by nature

In the foreign tax effects category, reconciling items that meet the 5% threshold must be disaggregated by nature (i.e. the item's fundamental or essential characteristics) in the respective country. Therefore, entities need to apply judgment to determine whether an item is of a separate nature and, if so, the appropriate label, which may need to be more descriptive than a category label. For example, neither 'nondeductible items' nor 'nontaxable items' is generally an appropriate label for reconciling items in the foreign tax effects category that are required to be disaggregated by nature. Further, when disaggregating by nature, all items of a similar nature for the country are aggregated, even if they are in different legal entities in that country. [BC29 of ASU 2023-09]

Determination of the statutory income tax rate differential

We would expect a statutory income tax rate differential to be a common reconciling item for each country broken out in the foreign tax effects category. As a result, a separate rate differential should be calculated for each country that has a federal statutory income tax rate that is different from the domestic federal statutory income tax rate. This rate differential is typically calculated as follows.



In addition, we would expect the rate differential to exclude AMTs; outside level taxes imposed by another jurisdiction, such as CFC taxes, IIRs and UTPRs; and any withholding taxes. For considerations in determining the pretax income (loss) from continuing operations in the foreign jurisdiction, see the related KPMG observation.

The rate differential for a specific foreign jurisdiction is only shown as a separate reconciling item if it meets the 5% threshold. The nature and extent of an entity's foreign operations may result in the rate differential for many countries not meeting the 5% threshold, in which case separate disclosure of that reconciling item is not required. For additional discussion of the foreign federal jurisdiction's statutory income tax rate, see the related KPMG observation. [BC37 of ASU 2023-09]

State income taxes in the foreign tax effects category

The Board indicated that state income taxes in a foreign jurisdiction are included in the foreign tax effects category, but did not address how to disaggregate the foreign tax effects category other than by nature. [BC28 of ASU 2023-09]

We believe entities should measure the rate differential based on the foreign federal statutory income tax rate only, without the effect of foreign state reconciling items. If the foreign state reconciling items for the foreign jurisdiction meet the 5% threshold, they are presented as a single reconciling item for the foreign jurisdiction, similar to the domestic state presentation. Other reconciling items for the foreign country should also be measured based on the foreign federal statutory income tax rate only.

Determining the foreign tax effect of nontaxable and nondeductible items

The foreign tax effect of a reconciling item arising from pretax income (loss) without a tax effect, such as nontaxable or nondeductible items, is measured based on the income tax rate of the foreign jurisdiction where the item occurs, not the domestic federal statutory income tax rate.

Gross versus net presentation of reconciling items in the foreign tax effects category

As discussed in Rate reconciliation categories and further disaggregation, reconciling items are presented gross unless there is specific guidance requiring or permitting net presentation. As discussed in the cross-border tax laws category, the tax effects of both a domestic cross-border tax and any related tax credit may be presented on a net basis in the domestic cross-border tax laws category when the domestic federal jurisdiction both taxes cross-border income and provides a tax credit for a tax imposed on the same income during the same reporting period. However, the ASU does not provide guidance for similar taxes assessed by a foreign jurisdiction and the related tax credits.

We believe the tax effects of both a cross-border tax assessed by the foreign jurisdiction and any related tax credit granted by the same jurisdiction for a tax imposed on the same income for the same reporting period may be presented on a net basis because the credit is considered an inherent part of the cross-border tax. If presented on a net basis, the net effect is only broken out in the foreign jurisdiction as a separate reconciling item if the net amount meets the 5% threshold. If presented on a gross basis, the cross-border tax and tax credit are broken out as separate reconciling items in the foreign jurisdiction if the 5% threshold is met. We believe an entity must apply judgment in considering whether a foreign cross-border tax and related tax credit should be treated as gross or net for purposes of identifying reconciling items that meet the 5% threshold. [BC33 of ASU 2023-09]

Attribution of withholding taxes

Governments may require taxes to be withheld at the source of payment, such as dividends, interest or royalties, when the payment is made to the recipient. In our experience, these taxes are frequently determined to be income taxes in the scope of Topic 740 and attributed to the entity receiving the payment.

We believe that the category in which withholding taxes in the scope of Topic 740 should be presented in the rate reconciliation is based on the jurisdiction that imposes the tax. In addition, we believe withholding taxes assessed by a foreign jurisdiction should not be included in the reconciling item for the rate differential. Instead, we believe withholding taxes is its own reconciling item to be presented separately if it meets the 5% threshold.

For example, Subsidiary A in Country X is owned by US Company, a US-domiciled reporting entity. Subsidiary A remits a payment to US Company that incurs a withholding tax in the scope of Topic 740. Subsidiary A remits the withholding tax to Country X when the payment is made, but the withholding tax is attributed to US Company as an income tax of US Company for accounting purposes. In this case, we believe the withholding tax should be disclosed in the foreign tax effects category and attributed to Country X. Country X is disaggregated if it meets the 5% threshold, and the withholding tax is disaggregated by nature if it meets the 5% threshold (even if Country X does not meet that threshold in its entirety). See the related discussion on foreign tax credits in Domestic federal: Cross-border tax laws and Domestic federal: Tax credits.

Pillar Two top-up taxes

As discussed in Domestic federal: Cross-border tax laws, Pillar Two top-up taxes may be implemented through multiple mechanisms including UTPR, which allows the jurisdictions of ‘brother/sister’ and subsidiary entities to collect the top-up tax. If a UTPR is assessed on a foreign subsidiary, we believe it should be disclosed in the consolidated financial statements in the foreign tax effects category under the

country imposing the income tax. This is the case whether the UTPR is assessed as a separate tax or through a denial of deductions.

Intra-entity transfers of assets other than inventory

A common reconciling item in the foreign tax effects category may be the tax effects of intra-entity transfers of assets other than inventory. The income tax effects of such an intra-entity transfer between foreign jurisdictions may create a reconciling item for both the seller/transferor and buyer/transferee that is separately presented if it meets the 5% threshold.

Changes in unrecognized tax benefits related to current year transfer pricing matters

If an entity presents the changes in unrecognized tax benefits related to the current year on a net basis in the category where the tax position is presented, the changes related to the current year will effectively carry the same description as the related tax position. Judgment may be required to determine the appropriate categorization and description for current year transfer pricing matters. If an entity presents current year additions to unrecognized tax benefits related to transfer pricing matters in the country of the unrecognized tax benefit (whether presented net or gross), any indirect effects in another jurisdiction should be included with the correlative country's tax effects.

Refer to the additional discussion on the presentation of changes in unrecognized tax benefits and the additional discussion in a related KPMG observation.

Reconciling items in jurisdictions without group taxation

In jurisdictions where consolidated or group returns are not permitted and each legal entity files a separate return, we believe the reconciling items should be aggregated by country.

For example, in its financial statements, Reporting Entity consolidates five legal entities in a foreign jurisdiction, Country X, which does not permit a consolidated income tax return for those entities. However, for the purpose of the rate reconciliation, we believe Reporting Entity should aggregate the reconciling items for all five legal entities in Country X to determine whether:

- Country X meets the 5% threshold; and
- any of the reconciling items in Country X require further disaggregation by nature based on the 5% threshold.

Changes in unrecognized tax benefits

A change in unrecognized tax benefits from one annual period to the next could result from: [740-10-50-12A(c)(2)]

- the initial recognition of an unrecognized tax benefit related to a tax position taken in the **current** annual reporting period; or
- a change in judgment about an unrecognized tax benefit related to a tax position taken in a **prior** annual reporting period, including initial recognition, derecognition or change in measurement.

The following table summarizes the categorization of these changes in the rate reconciliation.

Tax position taken in the…	Change in unrecognized tax benefit in the current annual reporting period…
Current annual reporting period	May be presented: [740-10-50-12A(c)(2)(ii)] • on a net basis with (and in the same category as) the related tax position (see the related KPMG observation);

Tax position taken in the…	Change in unrecognized tax benefit in the current annual reporting period…
	• on a gross basis in the same jurisdiction as the related tax position; or • in the changes in unrecognized tax benefits category.
Prior annual reporting period	Is presented in the changes in unrecognized tax benefits category. [740-10-50-12A(c)(2)(i) and (iii)]

The changes in unrecognized tax benefits category is permitted to be presented on an aggregate basis for all jurisdictions worldwide. [740-10-50-12A(c)(2)(iii)]

KPMG observations on changes in unrecognized tax benefits

Changes in unrecognized tax benefits related to current year tax positions

As discussed above, entities may present the changes in unrecognized tax benefits related to current year tax positions on a net basis with the related tax position. That means the unrecognized tax benefit effectively may be in the same category with the same description as the related tax position. For example, an unrecognized tax benefit related to a current year domestic federal research credit may be included in a corresponding research credit reconciling item in the tax credits category, which would be disaggregated if the net amount meets the 5% threshold. [BC34 of ASU 2023-09]

Treatment of indirect effects and related interest and penalties

In some situations, an unrecognized tax benefit will result in indirect effects (e.g. benefits generated in the same or another jurisdiction that would arise if the unrecognized tax benefit were settled as reserved). Common examples include the deferred tax effects of tax positions related to timing, the correlative impact of transfer pricing related tax positions and the federal effect of state tax positions. In addition, entities have an accounting policy choice on where to classify any related interest and penalties, including classification in income tax expense (benefit).

We believe the changes in unrecognized tax benefits category may also include the indirect effects of unrecognized tax benefits and related interest and penalties (provided the entity has an accounting policy to present interest and penalties related to income taxes in income tax expense (benefit)). However, if the entity elects to not present unrecognized tax benefits related to tax positions taken in the current annual reporting period in the unrecognized tax benefits category (e.g. the entity elects presentation on a net basis with the related tax position), we believe any indirect effects, such as the effect of transfer pricing matters, should be presented in the jurisdiction to which the indirect effect relates.

For indirect effects arising from tax positions related to timing, we believe the expense associated with the unrecognized tax benefit may be presented with the related deferred tax benefit in the rate reconciliation. When the amounts relate to the same underlying tax position, we believe they are a single reconciling item that is not subject to the gross presentation requirement. For example, in Year 1, an entity deducted an expense that the measurement analysis indicated should be deducted in Year 2. Therefore, in Year 1, the entity established an unrecognized tax benefit, with a related indirect effect deferred tax asset. Because the current tax expense related to the unrecognized tax benefit is offset by the deferred tax benefit from the indirect effect, there is no net impact to income tax expense (benefit) without considering interest and penalties. Therefore, these items are integrally linked, and no reconciling item exists.

We believe it is appropriate to include interest and penalties related to prior year unrecognized tax benefits in the changes in unrecognized tax benefits category even if the balance of the unrecognized tax benefits did not change period over period.

Example: Rate reconciliation

This example illustrates one approach to preparing a rate reconciliation after adopting the ASU. It 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.

The example assumes the country of domicile is the US, and so the US federal statutory income tax rate is reconciled to Entity's effective tax rate. As a result, amounts meet the 5% threshold if they are greater than 1.05% (21% statutory income tax rate × 5% threshold) of pretax income (loss) from continuing operations. The pretax income (loss) from continuing operations for each year and the dollar amount of the reconciling item threshold is shown in the following table.

Year	Pretax income (loss) from continuing operations	×	Statutory income tax rate	=	Expected income tax expense (benefit)	×5%	Reconciling item threshold
3	12,000	×	21%	=	2,520	× 5%	126
2	10,000	×	21%	=	2,100	× 5%	105
1	8,000	×	21%	=	1,680	× 5%	84

The example assumes Entity is required to present three periods in its financial statements.

For purposes of preparing its rate reconciliation, Entity takes the following steps.

Step 1

Identifies the first layer of reconciling items, which include the following.

- Domestic federal reconciling items in the following categories and other reconciling items:
  - Tax credits
  - Nontaxable or nondeductible items
  - Cross-border tax laws
  - Changes in tax laws or rates enacted in the current period
  - Changes in valuation allowances
- Domestic state income taxes, net of federal effect
- Foreign tax effects
- Worldwide changes in unrecognized tax benefits

Step 2

Identifies the second layer of reconciling items, which include the following.

- Domestic federal reconciling items in the following categories and other reconciling items of the same nature that meet the 5% threshold:
  - Tax credits
  - Nontaxable or nondeductible items
  - Cross-border tax laws
- Foreign tax effects reconciling items for:
  - Individual countries that meet the 5% threshold
  - Reconciling items of the same nature that meet the 5% threshold

Step 3
Uses the reconciling items identified in steps 1 and 2 and compares the reconciling items to prior year reconciling items to prepare the rate reconciliation. As discussed in a related KPMG observation, if a reconciling item meets the 5% threshold in one of the years presented, we believe comparative amounts and percentages should be disclosed for all years presented regardless of whether the item meets the 5% threshold in all years presented.

Results of step 1

	Year 3	
	Amount	Percent
US federal statutory income tax rate	2,520	21.0%
Domestic federal		
Tax credits	(270)	-2.3%
Nontaxable and nondeductible items	60	0.5%
Cross-border tax laws	190	1.6%
Other	(350)	-2.9%
Domestic state and local income taxes, net of federal effect	400	3.3%
Foreign tax effects	(580)	-4.8%
Worldwide changes in unrecognized tax benefits	70	0.6%
Total	**2,040**	**17.0%**

Entity did not identify any domestic federal reconciling items related to changes in tax laws or rates enacted in the current period or changes in valuation allowances.

Results of steps 2 and 3

For simplicity, this example combines steps 2 and 3.

	Year 3		Year 2		Year 1	
	Amount	Percent	Amount	Percent	Amount	Percent
US federal statutory income tax rate	**2,520**	**21.0%**	**2,100**	**21.0%**	**1,680**	**21.0%**
Domestic federal						
Tax credits[1]						
• Research credits	**(250)**	**-2.1%**	**(240)**	**-2.4%**	**(130)**	**-1.6%**
• Other	(20)	-0.2%	(20)	-0.2%	(10)	-0.1%
Nontaxable and nondeductible items	60	0.5%	(20)	-0.2%	30	0.4%
Cross-border tax laws[2]						
• Global intangible low-taxed income	**180**	**1.5%**	**180**	**1.8%**	**90**	**1.1%**
• Other	10	0.1%	20	0.2%	10	0.1%
Excess tax benefits on share-based payments[3]	**(400)**	**-3.3%**	(90)	-0.9%	(50)	-0.6%
Other[3]	50	0.4%	(40)	-0.4%	(30)	-0.4%
Domestic state and local income taxes, net of federal effect	400	3.3%	350	3.5%	290	3.6%

	Year 3		Year 2		Year 1	
	Amount	Percent	Amount	Percent	Amount	Percent
Foreign tax effects						
United Kingdom[4]						
• Enactment of new tax laws	-	0.0%	**(200)**	**-2.0%**	-	0.0%
• Nondeductible legal expenses	**150**	**1.3%**	**120**	**1.2%**	**90**	**1.1%**
• Other	(100)	-0.9%	90	0.9%	(80)	-1.0%
Ireland[5]						
• Statutory income tax rate differential	**(350)**	**-2.9%**	**(280)**	**-2.8%**	**(160)**	**-2.0%**
• Other	10	0.1%	20	0.2%	-	0.0%
Germany[6]						
• Changes in valuation allowances	-	0.0%	**(300)**	**-3.0%**	(30)	-0.4%
• Trade taxes	**140**	**1.2%**	**110**	**1.1%**	**100**	**1.3%**
• Other	20	0.2%	20	0.2%	(20)	-0.2%
Singapore[7]	**(150)**	**-1.3%**	**(120)**	**-1.2%**	(80)	-1.0%
Other foreign jurisdictions[8]	(300)	-2.5%	(20)	-0.2%	(200)	-2.5%
Worldwide changes in unrecognized tax benefits	70	0.6%	(230)	-2.3%	10	0.1%
Total	**2,040**	**17.0%**	**1,450**	**14.5%**	**1,510**	**18.9%**

Notes:

1. Entity determines that there is one reconciling item by nature in the tax credits category that meets the 5% threshold in at least one of the years presented – research credits. As a result, Entity concludes it must show that reconciling item for all three years presented. Entity aggregates the remaining reconciling items below the 5% threshold in each year into an other reconciling item in the category.
2. Entity determines that there is one reconciling item by nature in the cross-border tax laws category that meets the 5% threshold in at least one of the years presented – global intangible low-taxed income. As a result, Entity concludes it must show that reconciling item for all three years presented. Entity aggregates the remaining reconciling items below the 5% threshold in each year into an other reconciling item in the category.
3. Entity determines that there is one other domestic federal reconciling item that meets the 5% threshold in at least one of the years presented – excess tax benefits on share-based payments. As a result, Entity concludes it must show that reconciling item for all three years presented. Entity aggregates the remaining other domestic federal reconciling items below the 5% threshold in each year into the other reconciling item.
4. While the total foreign tax effects reconciling item for the UK does not meet the 5% threshold in any year presented, Entity determines that there are two reconciling items by nature – enactment of new tax laws and nondeductible legal expenses – that do meet the 5% threshold in at least one of the years presented. As a result, Entity concludes it must show those reconciling items for all three years presented. Entity aggregates the remaining reconciling items by nature below the 5% threshold in each year into an other reconciling item in the UK.
5. Because the total foreign tax effects reconciling item for Ireland meets the 5% threshold in at least one of the years presented, Entity determines Ireland must be presented as a reconciling item for all three years. Entity then determines that there is one reconciling item by nature – statutory income tax rate differential – that meets the 5% threshold in at least one of the years presented. As a result, Entity concludes it must show that reconciling item for all three years presented. Entity aggregates the remaining reconciling items by nature below the 5% threshold in each year into an other reconciling item in Ireland.
6. Because the total foreign tax effects reconciling item for Germany meets the 5% threshold in at least one of the years presented, Entity determines Germany must be presented as a reconciling item for all three years. Entity then determines that there are two reconciling items by nature – changes in valuation allowances and trade taxes – that meet the 5% threshold in at least one of the years presented. As a result, Entity concludes it must show those reconciling items for all three years presented. Entity aggregates the remaining reconciling items by nature below the 5% threshold in each year into an other reconciling item in Germany.

7. Because the total foreign tax effects reconciling item for Singapore meets the 5% threshold in at least one of the years presented, Entity determines Singapore must be presented as a reconciling item for all three years. Entity then determines that there are no reconciling items by nature in the Singapore jurisdiction that meet the 5% threshold in any of the years presented. As a result, no further disaggregation of the Singapore reconciling item is required.
8. Entity determines that none of the remaining foreign jurisdictions for which there are foreign tax effects reconciling items meet the 5% threshold in any of the years presented. Entity also determines that there are no additional reconciling items by nature in any of the remaining foreign jurisdictions that meet the 5% threshold in any of the years presented. As a result, Entity aggregates the remaining reconciling items in those foreign jurisdictions into an other foreign jurisdictions reconciling item.

Example: Disclosure of jurisdictions that make up the majority of the domestic state income taxes, net of federal effect category

Provided below is an example of one approach that a US-domiciled reporting entity could use to disclose the jurisdictions that make up the majority of the domestic state income taxes, net of federal effect category.

> In Year 3, state and local income taxes in California, Illinois, Minnesota, New Jersey, New York state, Pennsylvania and New York City comprise the majority of the domestic state and local income taxes, net of federal effect category. In Year 2, state and local income taxes in California, Illinois, Minnesota, New Jersey, New York state, Pennsylvania, Texas and New York City comprise the majority of the domestic state and local income taxes, net of federal effect category. In Year 1, state and local income taxes in California, Illinois, Maryland, Minnesota, New Jersey, New York state, Texas, the District of Columbia and New York City comprise the majority of the domestic state and local income taxes, net of federal effect category.

Non-PBEs: Qualitative disclosures about the difference between the statutory income tax rate and effective tax rate

Non-PBEs are not required to disclose a tabular rate reconciliation. Instead, they are required to qualitatively disclose the nature and effect of specific categories and individual jurisdictions that result in significant reconciling items for each year for which an income statement is presented. For purposes of categorizing reconciling items, an entity uses the rate reconciliation categories used by PBEs in the tabular reconciliation. [740-10-50-13, 205-10-45-4]

KPMG observations on the qualitative disclosures by non-PBEs about the difference between the statutory income tax rate and effective tax rate

Statutory income tax rate

While the objective of the rate reconciliation is the same for PBEs and non-PBEs (i.e. to provide information about what causes the difference between expected income tax at the statutory income tax rate and the reported income tax), the ASU does not provide guidance for non-PBEs on the determination and disclosure of the statutory income tax rate. As a best practice, we believe that non-PBEs should consider:

- the PBE guidance on determining the statutory income tax rate (see Statutory income tax rate); and
- disclosing the statutory income tax rate used to determine the effect of significant reconciling items.

How the effect of significant reconciling items is discussed

We believe qualitative discussion about the effect of a specific category or individual jurisdiction may simply indicate whether that item increases or decreases the effective tax rate (i.e. specific amounts do not need to be disclosed). [740-10-55-233]

Qualitative disclosures of domestic and foreign reconciling items

Non-PBEs need to understand whether significant reconciling items are domestic or foreign. If domestic, non-PBEs then need to determine the specific domestic categories a significant reconciling item relates to and disclose the nature of those items. If foreign, we believe non-PBEs need to determine and disclose the country.

*Tabular rate reconciliation disclosure by non-PBEs***

While non-PBEs are not required to disclose a tabular rate reconciliation, they may elect to do so. In those situations, we expect non-PBEs to follow all of the rate reconciliation guidance for PBEs to prevent their disclosures from being misleading.

Example: Qualitative disclosures by non-PBEs about the difference between the statutory income tax rate and effective tax rate

The following is an example of the qualitative disclosures that might be provided by Entity in the rate reconciliation example if it were a non-PBE instead of a PBE.

> Entity's effective tax rate for the fiscal year ending December 31, Year 3 was 17%, which differs from the statutory income tax rate of 21%. This difference is primarily due to the decreasing effect of research tax credits, excess tax benefits on share-based payments and foreign tax effects due to lower tax rates in foreign countries, particularly operations in Ireland. These effects were partially offset by the increasing effect of state and local taxes, net of federal effect, and cross-border taxes in the US for global intangible low-taxed income.

Income taxes paid

All entities are required to disclose income taxes paid (net of refunds) for each annual period presented, disaggregated by domestic federal, domestic state and foreign. For this purpose, refunds include only those where cash is received by the entity. [740-10-50-22, BC68 of ASU 2023-09]

Identifying jurisdictions as domestic federal, domestic state and foreign is discussed in 'Jurisdiction' terminology and a related KPMG observation.

Further disaggregation is required when the income taxes paid (net of refunds) to an individual jurisdiction is 5% or more of the total income taxes paid (net of refunds). [740-10-50-23]

For this purpose, each domestic or foreign federal or state jurisdiction is considered an individual jurisdiction. If an entity has separate tax-paying components filing separate tax returns with an individual taxing authority, then all amounts paid by the various tax-paying components to each individual taxing authority is combined when determining:

- the amount paid to an individual jurisdiction; and
- whether that amount meets the disclosure threshold.

KPMG observations on income taxes paid

*Location of the income taxes paid disclosures***

The ASU does not specify whether the income taxes paid disclosures should be presented with the statement of cash flows or in the notes to the financial statements. We believe an entity may present the disclosures in either location. Further, if presented in the notes to the financial statements, there is no prescribed note in which the disclosures must be located; however, we expect the income taxes or statement of cash flows notes will be the most common.

Withholding taxes

Governments may require taxes to be withheld at the source of payment, such as dividends, interest or royalties, when the payment is made to the recipient. In our experience, these taxes are frequently determined to be income taxes in the scope of Topic 740 and attributed to the entity receiving the payment.

When withholding taxes in the scope of Topic 740 are incurred as a result of a transaction among entities in the consolidated financial statements, the income taxes paid are attributed to the jurisdiction imposing the tax.

When the entity earns income from a third party that withholds taxes in the scope of Topic 740 and the third party remits those taxes directly to the taxing authority on the entity's behalf, we believe it is acceptable for the entity to exclude the withholding taxes from its income taxes paid because it did not remit the payment to the taxing authority.

Refundable credits

Certain jurisdictions, including the US, provide refundable credits that are not dependent on the existence of an entity's taxable income or income tax liability (e.g. an entity may receive a refund from the taxing authority despite being in a taxable loss position). The benefit from the refundable credit may be monetized using one of two methods. Those methods and how we believe they should be treated in the income taxes paid disclosure are summarized in the following table.

Method of monetization	Treatment in the income taxes paid disclosure
Entity receives a refund from the government	Cash received for the credit does not reduce the disclosed amount of income taxes paid.
Reduction to the income taxes paid to the government	The credit reduces the disclosed amount of income taxes paid for the individual jurisdiction to which the credit relates.

For additional information about the accounting for refundable credits and whether additional disclosure of a noncash investing activity may be required, see chapter 3 of KPMG Handbook, Tax credits.

Amounts paid or received for transferable tax credits

Certain jurisdictions, including the US, allow an entity to transfer an income tax credit (or portions of the credit) to another unrelated taxpayer (the buyer) in exchange for cash. We believe that if an entity sells a transferable credit that it accounted for under Topic 740, it is acceptable to include the proceeds to reduce income taxes paid for the individual jurisdiction to which the credit relates. Likewise, if an entity purchases a tax credit that is accounted for under Topic 740, we believe it is acceptable to include

amounts paid to third parties in its income taxes paid disclosure for the individual jurisdiction to which the credit relates. Entities should clearly disclose if they choose to include such cash flows and the related amounts.

We do not believe amounts paid for an interest in a pass-through entity that generates tax credits, such as a tax equity investment, should be included in the investor's income taxes paid disclosure.

For additional information about the accounting for transferable tax credits, see chapter 5 of KPMG Handbook, Tax credits.

Comparative income taxes paid to an individual jurisdiction when some years meet the 5% threshold and others do not

An entity is required to disclose domestic federal, domestic state and foreign income taxes paid (net of refunds) for each annual period presented. Further disaggregation is required when the income taxes paid (net of refunds) to an individual jurisdiction is 5% or more of the total income taxes paid (net of refunds). For this purpose, an entity is only required to disclose income taxes paid to an individual jurisdiction in those annual periods presented for which the disclosure threshold has been met. In addition, unlike the rate reconciliation, tabular presentation and jurisdictional comparative amounts are not required for the income taxes paid disclosure. [BC74 of ASU 2023-09]

While an entity is not required to disclose the amount of income taxes paid (net of refunds) in an individual jurisdiction for a comparative period when that amount does not meet the disclosure threshold, it may elect to do so.

We illustrate in the example that follows how an entity may choose to present the comparative period when it does not disclose the income taxes paid (net of refunds) in an individual jurisdiction for that period because it does not meet the disclosure threshold. Note that the entity should not indicate that zero income taxes were paid or received in that period (except when no income taxes were actually paid or received).

Separate financial statements of a subsidiary

In practice, a subsidiary may not pay income taxes directly to the taxing authority because the subsidiary is part of a consolidated return. Instead, the subsidiary pays an affiliate for their portion of income taxes. In the separate financial statements of the subsidiary, we believe the payment to the affiliate for their portion of income taxes may be included in income taxes paid and attributed to the underlying jurisdiction(s) imposing the tax.

Example: Income taxes paid

Provided below is an example of one approach that a US-domiciled reporting entity could use to present the income taxes paid disclosure after adopting the ASU.

	Year 3	Year 2	Year 1
US federal	1,355	1,500	2,000
US state and local			
California	215	250	300
Minnesota	180	*	245
New York state	*	180	*
New York City	*	200	275

	Year 3	Year 2	Year 1
Other	65	85	110
	460	715	930
Foreign			
United Kingdom	750	1,000	1,300
India	*	(200)	300
Germany – federal	200	170	*
Germany – Berlin	155	*	*
Other	80	130	265
	1,185	1,100	1,865
Total	**3,000**	**3,315**	**4,795**

* The amount of income taxes paid during the year does not meet the 5% disaggregation threshold.

Pretax income (loss) and income tax expense (benefit), both from continuing operations

All entities are required under the ASU to disclose the following amounts for each annual reporting period presented: [740-10-50-10A and 50-10B]

- pretax income (loss) from continuing operations, broken out between domestic and foreign; and
- income tax expense (benefit) from continuing operations, broken out between domestic federal, domestic state and foreign.

This disclosure provides similar information to that already required by SEC regulations and, therefore, entities may have already developed policies related to the disclosure of certain transactions. [SEC Regulation S-X Section 210.4-08(h)(1)]

Income taxes on foreign earnings imposed by domestic jurisdictions are presented as domestic federal or domestic state income tax expense (benefit), as appropriate. Identifying jurisdictions as domestic federal, domestic state and foreign is discussed in 'Jurisdiction' terminology and a related KPMG observation.

KPMG observations on pretax income (loss) and income tax expense (benefit), both from continuing operations

Pretax income (loss) and income tax expense (benefit) wholly associated with one country

When all of an entity's pretax income (loss) from continuing operations is from one country, no disaggregation of the income (loss) is necessary. However, if it is not otherwise evident in the financial statement disclosures, we believe the entity should consider disclosing that all of its pretax income (loss) from continuing operations is from a single country and to name that country.

Similarly, if all of an entity's income tax expense (benefit) from continuing operations is domestic federal, domestic state or foreign, no disaggregation is necessary; however, we believe the entity should consider disclosing the applicable grouping (i.e. domestic federal, domestic state or foreign).

Common items of income and expense and the related country of attribution (if necessary)#

In addition to the disaggregation of pretax income (loss) from continuing operations between domestic and foreign, entities will need to calculate pretax income by country (i.e. by the foreign federal jurisdiction) to determine the rate differential by country as noted in a related KPMG observation. Provided below is a list of common items of income and expense, whether they generate consolidated pretax income (loss) and, if so, what country entities typically attribute each to.

Items that do not generate pretax income (loss)
Dividends from consolidated subsidiaries and equity method investees (they instead reduce the investor's carrying amount of the investment)
Income (loss) from intra-entity transfers of assets other than inventory when no income (loss) is reported as a result of the transfer (which is typically the case because the seller accounts for the transfer as one between entities under common control, and the buyer generally records the asset at carryover basis) (see the following table when income (loss) is reported as a result of this item)
Typically, in our experience, payments under intercompany recharge agreements for share-based payment awards (they instead are treated as an equity transaction by the investee making the payment and as a reduction of the investor's carrying amount of the investment)

Items that generate pretax income (loss)	Country(ies) to which the pretax income (loss) should be attributed
Income (loss) from consolidated subsidiaries in internal reporting for consolidation purposes	In internal reporting for consolidation purposes, the parent entity may use one-line consolidation for their portion of net income (loss) of a consolidated subsidiary. However, to determine pretax income (loss) by country, pretax income (loss) from foreign subsidiaries, including subsidiaries of subsidiaries, should be attributed to the underlying country that generated the pretax income (loss). Entities should ensure that pretax income (loss) is not duplicated.
Income (loss) from consolidated branches and disregarded entities that are taxed in both the branch's country and the head office country	In our experience, entities typically attribute this item to the lowest level country that has the first right to tax the income, even if that country does not assess an income tax. Accordingly, entities typically attribute this item to the country of the branch or the disregarded entity's tax domicile. For example, if a US-domiciled entity owns a branch in Country X that is not taxed in Country X, the income (loss) from the branch is typically attributed to Country X.
Income (loss) from intra-entity transfers of inventory	We believe an entity may elect a policy on whether or not to eliminate the pretax income (loss) from the seller's country. Similarly, upon sale of the inventory outside the group to an unrelated third party, we believe an entity may elect a policy to either: • allocate the income to each country in proportion to the pretax income (loss) that would have otherwise been recognized had it not been an intra-entity transfer or sale; or • allocate the income entirely to the country selling the inventory to the unrelated third party. Additionally, in our experience, entities attribute income taxes incurred related to the sale of inventory outside of the group to the country that imposes the tax. We believe this is consistent with how the transfer

Items that generate pretax income (loss)	Country(ies) to which the pretax income (loss) should be attributed
	should be treated in the rate reconciliation, in disaggregating income tax expense (benefit) and in disaggregating income taxes paid.
Income and expense from intra-entity transactions not involving assets (e.g. intra-entity services, management fees, interest, royalties) that generate offsetting income and expense in the consolidated financial statements	In our experience, entities typically allocate pretax income (loss) to the country of the entity that generates it, and the pretax expense to the entity incurring it. In other words, the pretax income (loss) and expense remains with the entities and is not eliminated for purposes of determining pretax income (loss) by country.
Transfer pricing adjustments	In some cases, one subsidiary may make a payment to another subsidiary as part of a conforming adjustment related to the settlement of a transfer pricing related unrecognized tax benefit. In our experience, entities typically present such payments in the country(ies) of the subsidiaries involved when the amounts would have been recognized in the separate financial statements of both the subsidiaries.
Share-based payment awards	In our experience, entities typically present this item in the country of the service recipient.
Acquisition accounting adjustment	In our experience, entities typically attribute this item to the target's country(ies) regardless of whether or not it is pushed down to the target in its separate financial statements.
Adjustments recorded centrally	Many consolidated entities may record certain items associated with foreign subsidiaries centrally for administrative convenience or due to the sensitivity of the nature of the item. Examples may include bonus amounts that typically are finalized after the foreign subsidiaries' books are closed and certain transfer pricing adjustments. In our experience, entities typically attribute pretax income (loss) and income tax expense (benefit) to countries as if such adjustments were pushed down to the entities to which they relate.
Non-dividend income subject to withholding	In our experience, entities typically present interest, rent, royalty and other non-dividend income in the country of the income recipient. This is the case even when the related income taxes withheld, if in the scope of Topic 740, have been attributed to the country that imposed the withholding taxes for the disclosures in the rate reconciliation, the disaggregation of income tax expense (benefit) and the disaggregation of income taxes paid.

Disaggregation of income tax expense (benefit) under Regulation S-X

SEC Regulation S-X requires disclosure of income tax expense disaggregated between federal, foreign, and other amounts by component. In our experience, entities provide this disaggregation separately for current and deferred income tax expense (benefit) from continuing operations. This is different from the ASU, which requires disaggregation of *total* income tax expense (benefit) from continuing operations (i.e. it does not require segregation between current and deferred income tax expense (benefit)). Accordingly,

to satisfy both disclosure requirements, some entities may restructure the format of the table used to disclose current and deferred tax expense (benefit). [SEC Regulation S-X Section 210.4-08(h)(1), 740-10-50-10B]

Disaggregation of income tax expense (benefit) for non-US domiciled entities

As discussed in a related KPMG observation, when the federal income tax rate in the reporting entity's actual country of domicile is not the rate used in the rate reconciliation, we believe the country whose rate is used in the reconciliation should be used as the country of domicile for purposes of disclosing:

- income (loss) from continuing operations before income taxes identified as domestic and foreign; and
- income tax expense (benefit) from continuing operations identified as domestic federal, domestic state and foreign.

Income taxes imposed on domestic vs foreign earnings

When the country of domicile imposes income taxes on foreign earnings, the income tax expense (benefit) is included in domestic (federal or state) income tax expense (benefit). Similarly, we believe income taxes imposed by foreign jurisdictions on domestic earnings should be included in foreign income tax expense (benefit). [740-10-50-10B]

Example: Disaggregation of pretax income (loss) and income tax expense (benefit), both from continuing operations

Provided below is an example of one approach that a US-domiciled reporting entity could use to present pretax income (loss) and income tax expense (benefit), both from continuing operations, under the ASU and Regulation S-X.

	Year 3	Year 2	Year 1
Income (loss) from continuing operations before income tax expense (benefit)			
US	4,500	3,500	2,785
Foreign	7,500	6,500	5,215
Total	**12,000**	**10,000**	**8,000**
Income tax expense (benefit) from continuing operations			
Current tax expense (benefit)			
US federal	669	332	518
US state and local	417	394	375
Foreign	917	299	657
Total current tax expense (benefit)	**2,003**	**1,025**	**1,550**
Deferred tax expense (benefit)			
US federal	(50)	200	(20)
US state and local	89	49	(8)
Foreign	(2)	176	(12)
Total deferred tax expense (benefit)	**37**	**425**	**(40)**

	Year 3	Year 2	Year 1
Total income tax expense (benefit)			
US federal	619	532	498
US state and local	506	443	367
Foreign	915	475	645
Total income tax expense (benefit)	**2,040**	**1,450**	**1,510**

Change in scope of certain preexisting disclosure requirements

The ASU replaces the term 'public entity' used in the current income tax disclosure requirements with the term 'public business entity' as defined in the Master Glossary of the Codification. An entity that is not considered a public entity but meets the definition of a PBE is subject to the following upon adoption of the ASU: [BC84 – BC87 of ASU 2023-09]

- the enhancements and other changes in the ASU applicable to PBEs; and
- other income tax disclosure requirements not affected by the ASU that are only applicable to a public entity before adoption of the ASU, such as the requirements to disclose: [740-10-50-6 and 50-15A]
  - temporary differences and carryforwards that give rise to a significant portion of deferred tax liabilities and assets; and
  - a tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period.

KPMG observation on the change in scope of certain preexisting disclosure requirements

Definition of PBE

The definition of a PBE is broader than the definition of a public entity; accordingly, more entities may be in the scope of more disclosures as a result of the ASU. For example, because they file financial statements with the SEC, the following entities may meet the definition of a PBE, but not the definition of a public entity: [ASC Master Glossary: Public Business Entity]

- an entity whose financial statements are filed as a significant equity method investee pursuant to Rule 3-09 of SEC Regulation S-X; and
- an entity whose financial statements are filed as a significant acquiree in a business combination pursuant to Rule 3-05 of Regulation S-X.

The broader definition of PBE may also include certain community banks and broker-dealers that file or furnish financial statements with the SEC.

Eliminated disclosures

The ASU removes disclosure requirements for all entities related to:

- 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); and [740-30-50-2(b)]
- the nature and estimate of the range of reasonably possible changes in the total amount of unrecognized tax benefits for tax positions for which it is reasonably possible that the total amount of

such benefits will significantly increase or decrease within 12 months of the reporting date, or making a statement that an estimate of the range cannot be made. [740-10-50-15(d)]

KPMG observations on the eliminated disclosures

Elimination of disclosing the cumulative temporary difference related to investments in subsidiaries

While the ASU removes the disclosure requirement in paragraph 740-30-50-2(b), the other requirements in that paragraph remain in place, which includes disclosing:

- a description of the types of temporary differences for which a deferred tax liability has not been recognized;
- the types of events that would cause those temporary differences to become taxable; and
- the amount of the unrecognized deferred tax liability or a statement that the determination is not practicable.

Elimination of disclosing reasonably possible changes in unrecognized tax benefits

Although Topic 740 no longer has a specific requirement to disclose reasonably possible changes in unrecognized tax benefits for certain tax positions, similar disclosures may continue to be required in accordance with Topic 275 (risks and uncertainties). That Topic requires disclosure about an estimate when information available before the financial statements are issued (or are available to be issued) indicates it is at least reasonably possible that the financial statements will change in the near term and the effect would be material. For additional information about disclosing risks and uncertainties, see chapter 7 of KPMG Handbook, Financial statement presentation. [275-10-50-8]

Effective date

For PBEs, the ASU is effective for annual periods beginning after December 15, 2024. For all other entities (i.e. non-PBEs), the ASU is effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements not yet issued or made available for issuance. [740-10-65-9]

KPMG observation on the effective date

Adoption dates for EGCs

An SEC issuer that qualifies as an emerging growth company (EGC) may use the adoption dates available to non-PBEs in its financial statements included in registration statements and periodic reports if the EGC has made that election for all new or revised accounting standards. [FRM 10230.1]

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. [740-10-65-9]

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 either 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
- **retrospectively** by providing the revised disclosures for all periods presented.

During the annual period of initial adoption, an entity should also consider the disclosure requirements in Topic 250 regarding a change in accounting principle, including a statement that the ASU has been adopted and the method of transition. [250-10-50-1]

KPMG observation on transition

Transition method considerations

The Board noted that if an entity elects retrospective adoption, it should apply that method to all amendments. In addition, if an entity early adopts the ASU, it must apply all of the changes at the date of adoption. However, the SEC staff has commented that nothing precludes entities from providing disaggregated disclosures now (see KPMG report on the 2022 AICPA & CIMA Conference). An entity that applies only certain disaggregated disclosures before the date of adoption should clearly disclose its adoption status. [BC118 of ASU 2023-09]

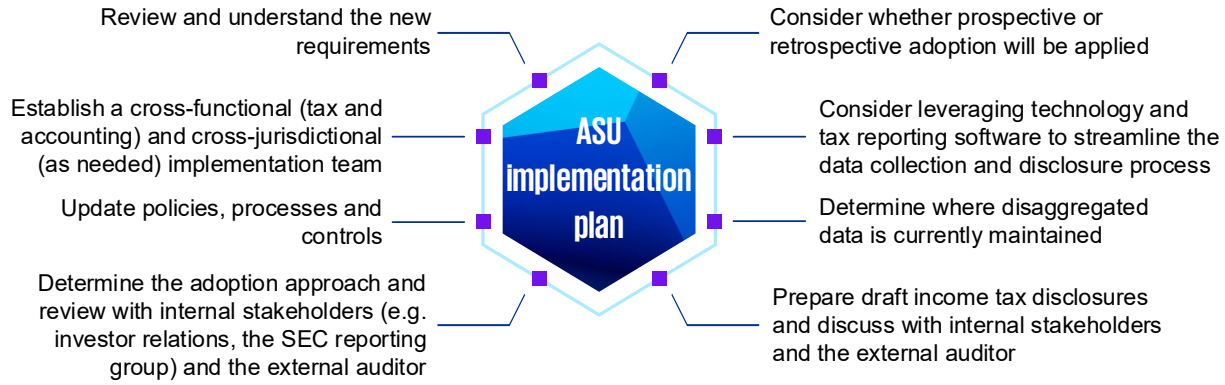
Disclosures about standards not yet adopted (i.e. SAB 74)

Staff Accounting Bulletin (SAB) 74 requires public companies to disclose the potential material effects of issued accounting standards that have not yet been adopted, including disclosure-only standards. When assessing whether the effect of a new or updated standard is material, entities must consider the full scope of the standard, including disclosure requirements. Accordingly, a disclosure-only standard, to the extent it will have a material effect, is in the scope of SAB 74. See KPMG Hot Topic, SAB 74 reminders, for additional information. [SAB Topic 11M (Q1)]

Implementation next steps**

Entities should not underestimate the time and coordinated effort it will take to implement the detailed disaggregation required by the ASU.

To implement the changes required by the ASU, we recommend management:



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