KPMG

US tax legislation: IRA and CHIPS

US GAAP and IFRS® Accounting Standards

March 7, 2025

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Tax changes are here

The Inflation Reduction Act (IRA), enacted in August 2022, introduced a new 15% corporate alternative minimum tax (AMT) and included a substantial package of energy and climate-related provisions, among other revenue raisers and incentives. The CHIPS and Science Act of 2022 (CHIPS), also enacted in August 2022, added a one-time investment tax credit equal to 25% of a company's investment in facilities that manufacture semiconductors or semiconductor manufacturing equipment.

Although no changes have been made to US federal corporate statutory tax rates, a number of provisions in the new laws may affect companies' forecasts of future income tax liabilities and the realizability of deferred tax assets.

These laws also introduced mechanisms for monetizing some credits that are novel to US federal tax law – including elections for 'direct pay' and third-party transfer. The IRA also allows for increased and bonus credits if a company meets certain criteria.

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KPMG resources

Acknowledgments

'Insights' paragraph numbers indicated throughout refer to KPMG Insights into IFRS.

March 2025 edition

This edition replaces the detailed guidance in the 'General Considerations under US GAAP' sections with references to the current guidance in our respective accounting publications.

1. Corporate AMT

Although the IRA does not raise the corporate statutory tax rate, it does introduce a new AMT. Corporate AMT is a 15% minimum tax levied on certain large corporations – generally, those with three-year average adjusted financial statement income ('AFSI') of $1 billion or more. Under the law, a company's minimum tax is equal to the amount by which:

- the tentative minimum tax (15% of AFSI reduced by AMT foreign tax credits) exceeds
- the company's regular tax for the year (including any Base Erosion and Anti-Abuse Tax ('BEAT') liability, but before the consideration of general business credits).

AFSI generally starts with the net income or loss of the taxpayer as reported on its applicable financial statement with certain modifications, including an add-back for certain federal and foreign taxes and the ability to use tax depreciation instead of book depreciation. An applicable financial statement includes a corporation's Form 10-K filed with the SEC, certain audited financial statements, and certain other similar financial statements filed with a federal agency.

Companies may claim a credit against regular tax in future years for Corporate AMT previously paid, but the credit cannot reduce that future year's tax liability below the computed minimum tax for that year.

The Corporate AMT is effective for tax years beginning after December 31, 2022.

General considerations under US GAAP **(updated Mar. 7, 2025)**

See KPMG Handbook, Accounting for income taxes, for detailed discussion of the accounting for the Corporate AMT under US GAAP.

General considerations under IFRS Accounting Standards

Like US GAAP, it appears that deferred taxes should be measured based on the regular statutory rate, and a company should account for the incremental tax owed under the Corporate AMT system as it is incurred. [IAS 12.47, 51, Insights 3.13.380, 3.13.390, 3.13.470, 3.13.480]

Like US GAAP, a company should consider whether Corporate AMT credit carryforwards will be realized and whether a related deferred tax asset should be recognized.

Unlike US GAAP, it appears that a company should consider whether it will be subject to the Corporate AMT when assessing to what extent deductible temporary differences and unused tax losses under the regular tax will be realized in the future. [IAS 12.47, 51]

If a company's projections of future taxable profits indicate that a certain amount of deductible temporary differences and unused tax losses will not be realized because the company expects to be subject to the Corporate AMT, it should take that into account when accounting for the deferred tax assets consistent with its expected manner of recovery. This does not imply applying the Corporate AMT rate when measuring deferred taxes. [Insights 3.13.380, 3.13.390, 3.13.470, 3.13.480]

Any changes in the amount of deductible temporary differences and unused tax losses that can be realized should be recognized in the period that includes the August 16, 2022 enactment date.

What questions should you be asking?

- Based on current forecasts, is the Corporate AMT likely to affect us? If so, is it only in certain years or regularly?
- What's the expected effect on our forecasted effective tax rate and cash taxes?
- What changes might we need to make to our internal processes and controls to properly calculate and record Corporate AMT?
- What pretax accounting policy elections have we made (or do we expect to make) that may have a significant effect on AFSI?

2. Excise tax on stock repurchases

The IRA imposes a 1% excise tax on repurchases of stock by certain publicly traded corporations. The amount on which the tax is imposed is reduced by the value of any stock issued by such corporation during the tax year. How the excise tax works in practice will likely require further interpretation from the Treasury Department.

General considerations under US GAAP **(updated Mar. 7, 2025)**

The excise tax on stock repurchases is a non-income-based tax and is therefore not accounted for as an income tax. See KPMG Hot Topic, Share repurchase tax: Q&As, for further guidance.

General considerations under IFRS Accounting Standards

Like US GAAP, taxes that are not based on taxable profits are not in the scope of IAS 12. [IAS 12.2, 5, Insights 3.13.20–40]

Like US GAAP, qualifying costs directly related to an equity transaction – e.g. issuing or buying back the company's own shares – are debited directly to equity. [IAS 32.33–35, 37, Insights 7.3.440]

Like US GAAP, costs incurred on extinguishment of a financial liability are recognized as part of the gain or loss.

Unlike US GAAP, there is no temporary equity classification under IFRS Accounting Standards. [IAS 32.11, 15–27, IFRS 9.5.1.1, 3.3.1–3.3.3]

What questions should you be asking?

- What is the total amount we have authorized under our current buyback program and the estimated costs under the new excise tax?
- Do we have flexibility in our buyback program or are there other strategies available to consider as alternatives to achieving our capital objectives?

3. New options for monetizing certain credits

One of the more fundamental changes to the energy space is the introduction of the transferability election through which companies can sell certain tax credits to third parties. Companies that make the election can transfer all or a portion of certain tax credits to unrelated parties in exchange for cash consideration that would be excluded from the selling taxpayer's taxable income.

In addition, the IRA introduces a direct pay election under which the credit is considered a direct payment of tax and is refundable. Direct pay is available to:

- credit eligible projects owned by certain tax-exempt and government entities; and
- other companies only for specific credits – i.e. carbon capture and sequestration, clean hydrogen production and the advanced manufacturing production tax credit.

CHIPS also includes a direct pay election for its semiconductor manufacturing facility investment credit.

3.1 Nonrefundable, nontransferable credits

The benefits of nonrefundable, nontransferable tax credits are realizable only if the company has an income tax liability. Until enactment of the IRA, most energy tax credits (both production tax credits, or PTCs, and investment tax credits, or ITCs), have been both nonrefundable and nontransferable.

The IRA adds new, and modifies existing, PTC and ITC programs for green energy projects. Many of the new credit regimes include a base credit and an increased credit. To claim the increased credits, a company must satisfy:

- a prevailing wage requirement for the period that extends from the beginning of construction through the end of a specified compliance period (which depends on the type of credit); and
- an apprenticeship requirement over just the construction period.

There are also PTC and ITC bonus credits available for projects that meet the domestic content requirement. This rule generally requires companies to ensure that facilities are composed of steel, iron and other products manufactured in the United States.

General considerations under US GAAP **(updated Mar. 7, 2025)**

See KPMG Handbook, Tax credits*,* for detailed discussion of the accounting for nonrefundable, nontransferable tax credits under US GAAP.

General considerations under IFRS Accounting Standards

Unlike US GAAP, IFRS Accounting Standards do not specifically address the accounting for ITCs. As a result, companies need to choose an accounting approach, to be applied consistently, that best reflects the economic substance of the credit. This determination requires judgement in light of all relevant facts and circumstances. If the substance of the credit is similar to a tax allowance (e.g. its benefits are determined or limited on the basis of the company's income tax liability), it is more appropriate to apply IAS 12, Income Taxes, by analogy. If the substance of the credit is similar to a government grant, then it is more appropriate to apply IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, under IFRS Accounting Standards by analogy.

It appears that nonrefundable, nontransferable credits are akin to tax allowances. Although the amount of the incentive is independent of taxable profit, the related benefits are limited on the basis of the taxpayer's income tax liability (i.e. they are only realizable if the company has taxable income sufficient to offset the credit amount). Therefore, we believe that generally it is appropriate to account for these credits by applying IAS 12.

What questions should you be asking?

- Is our current policy election for flow-through vs deferral recognition methods still appropriate?
- If we do not have any existing ITCs, what is the most appropriate accounting policy election for our company?
- Do these credits have any increased or bonus amounts associated with them that we need to consider separately?
- Do we expect to meet the prevailing wage, apprenticeship and domestic content requirements?
- What processes and controls would we need to implement to track compliance with the requirements to generate and retain the increased or bonus credits?
- How may the credits affect our forecasts of future income tax liabilities?

3.2 Refundable credits

Both the IRA and CHIPS introduce a direct pay mechanism for certain credits and certain taxpayers. The direct pay election allows taxpayers to elect to treat the credit as a direct payment of tax, which allows them to receive a cash payment if the taxpayer does not incur any income tax liability.

For some of these refundable credits, there are also increased and bonus credits available to companies meeting certain criteria – e.g. the prevailing wage requirement, the apprenticeship requirement and the domestic content requirement (see section 3.1). Increased and bonus credits arise in the same period as the base credits, but require companies to meet certain criteria during a specified compliance period to avoid incurring a penalty.

General considerations under US GAAP **(updated Mar. 7, 2025)**

See KPMG Handbook, Tax credits, for detailed discussion of the accounting for refundable tax credits under US GAAP.

General considerations under IFRS Accounting Standards

Unlike US GAAP, IFRS Accounting Standards specifically provide guidance on the accounting for government grants. It appears that the IRA's refundable credits meet the definition of government grants in IAS 20 and should be accounted for under that standard. [Insights 4.3.10.10–10.15]

Like a company electing to apply IAS 20 by analogy under US GAAP, a company recognizes the benefits of the credits in pre-tax income over the periods in which it recognizes the related costs. [Insights 3.13.710.20]

Unlike US GAAP, which does not have direct guidance on the accounting for government grants by for-profit businesses, IAS 20 is the authoritative guidance under IFRS Accounting Standards. Therefore, applying standards other than IAS 20 to the IRA's refundable credits would not be appropriate. [Insights 3.13.700.10]

Unlike US GAAP, if a temporary difference arises on the initial recognition of assets and liabilities (e.g. because the tax basis of construction in progress does not equal its financial statement carrying amount), companies do not recognize deferred taxes if they qualify for the initial recognition exemption. [IAS 12.15, 24]

However, recognition of deferred taxes may depend on the amount of the tax basis adjustment and a company's chosen balance sheet presentation under IAS 20 for the credits. Consider the following examples regarding the initial recognition of assets and liabilities. [IAS 12.33, IE.B.7, Insights 3.13.210.10–240.170]

- A company that reduces the financial statement carrying amount of the asset or recognizes deferred income for the full amount of the credit, but whose tax basis in the asset has been reduced for only 50% of the credit, will not recognize deferred taxes if it qualifies for the initial recognition exemption.

- A company that reduces the financial statement carrying amount of the asset for the full amount of the credit and whose tax basis in the asset has been reduced by the same amount will not recognize deferred taxes because no temporary difference will exist.
- A company that recognizes deferred income for the full amount of the credit and whose tax basis in the asset has been reduced by the same amount will recognize deferred taxes for the temporary differences associated with the asset and the deferred income. This is the case because under the recent amendments to IAS 12, the initial recognition exemption does not apply if, at initial recognition of the assets and liabilities, equal and offsetting temporary differences arise. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2023. [Insights 3.13.213.10–213.20]

What questions should you be asking?

- What do we expect the effect on our effective tax rate to be if the benefits of these credits move to pretax income?
- Have we previously established policies for accounting for government grants? If yes, have we correctly considered the cash flow statement impacts of our established policies?
- What processes and controls would we need to implement to track compliance with the requirements to qualify for bonus credits?
- How may the credits affect our forecasts of future income tax liabilities?
- Have we considered the additional disclosure requirements in Topic 832?

3.3 Transferable credits

For the first time at the federal level, certain credits are transferable. The IRA allows companies to transfer certain credits (or portions of credits) to another unrelated taxpayer in exchange for cash. The resulting payment will be excluded from the selling taxpayer's taxable income.

Each credit can only be transferred once, and the acquiring taxpayer can use the credit to offset its income taxes. We expect the buying taxpayer to generally purchase the credit at a discount to its full redeemable value.

General considerations under US GAAP (updated Mar. 7, 2025)

See KPMG Handbook, Tax credits, for detailed discussion of the accounting for transferable tax credits under US GAAP.

General considerations under IFRS Accounting Standards

Accounting for refundable, transferable credits

Unlike US GAAP, IFRS Accounting Standards specifically provide guidance on the accounting for government grants. It appears that the IRA's refundable credits are government grants and should be accounted for under IAS 20, regardless of whether the credits are transferable. [Insights 4.3.10.10–10.15]

Accounting for nonrefundable, transferable credits

Unlike US GAAP, IFRS Accounting Standards do not specifically address the accounting for ITCs. As a result, companies need to choose an accounting approach, to be applied consistently, that best reflects the economic substance of the credits. This determination requires judgement in light of all relevant facts and circumstances.

It appears that in determining the economic substance of the nonrefundable, transferable credits for purposes of developing an accounting policy, a company may consider, among other factors, whether it generally expects to realize the benefits of the credits through reducing its taxable income or by transferring the credits to a third party.

If a company concludes that the economic substance of these credits is similar to a tax allowance, then we believe that it is appropriate to account for them by applying IAS 12. If a company concludes that the economic substance of these credits is similar to a government grant, then we believe that it is appropriate to account for them by applying IAS 20. Once the accounting policy is developed, a company should apply it consistently from period to period to all nonrefundable, transferable credits, regardless of how the benefits of the credits are actually realized at subsequent reporting dates – i.e. whether they reduce taxable income or are transferred to a third party.

Because US GAAP allows several policy choices, differences may arise in practice.

What questions should you be asking?

- Should we elect to sell or use our transferable credits? Do we expect taxable income in the near future to use the tax credits or is it worth it to sell, potentially at a discount?
- How does our selection of an accounting policy affect our company's performance measures?
- What effect could our transfer decision have on our Corporate AMT status?

KPMG resources

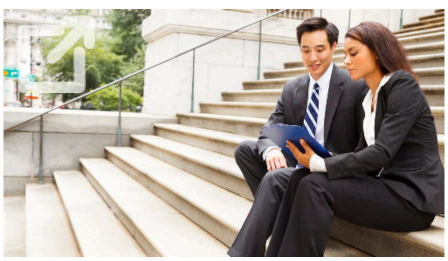
Delivering guidance and insights, KPMG Financial Reporting View is ready to inform your decision making.

Handbook: Tax credits

Our in-depth guide explains the accounting for various forms of tax credits in accordance with US GAAP.

Handbook: Accounting for income taxes

KPMG explains the accounting for income taxes in detail, providing examples and analysis.



Hot topic: Share repurchase tax

We address accounting questions related to the new 1% excise tax on repurchases of an entity's own shares.

FRV Podcasts: Transferable tax credits, by analogy

We explain why accounting for transferable tax credits is like going to an all-you-can-eat buffet of accounting policy elections.

Access our in-depth **handbook** and other **income tax accounting resources** on **frv.kpmg.us**, and **sign up** for news and insights.

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