

Policy to provision

Accounting for the One Big Beautiful Bill

July 2025



Exploring key corporate income tax provisions of the One Big Beautiful Bill and their effects on accounting for income taxes

With the expiration of many of the 2017 Tax Cuts and Jobs Act (TCJA) provisions in 2025 (commonly referred to as the tax cliff of 2025), new income tax legislation in 2025 was a matter of when, not if. Congress passed H.R. 1 – the budget reconciliation bill known as the ‘One Big Beautiful Bill’ (the bill or OBBB) – and President Trump signed the bill into law on July 4, 2025.

The bill makes many of the income tax provisions from the TCJA permanent and adjusts current tax laws. To partially offset these benefits, it includes various revenue-raising measures, including reforms to the US international income tax regime and the phase-out of certain energy tax credits. The bill preserves the corporate income tax rate of 21%.

The Bottom Line

While the bill provides sweeping tax law changes, its effects on the accounting for and reporting of income taxes may be more subtle than those experienced with the reduction of the corporate income tax rate and transition tax under TCJA. Nonetheless, the provisions within the bill are complex and may affect current and deferred taxes as well as valuation allowances. In addition to the accounting and financial reporting implications of the bill, entities also need to understand the immediate and long-term effects on both cash taxes and the effective tax rate (ETR).

Generally, we expect the domestic provisions related to bonus depreciation, research and experimental (R&E) expenditures and business interest to decrease cash taxes in the short term (depending on the entity’s elections) but have no direct effect on the ETR. On the other hand, we expect the international provisions related to global intangible low-tax income (GILTI), foreign-derived intangible income (FDII) and base erosion and anti-abuse tax (BEAT) as well as the sunseting of certain renewable energy credits to increase cash taxes and the ETR.



The effects of the tax law changes will depend heavily on entity-specific factors and not always deliver the anticipated outcome. For example, while an entity may expect an increase in the business interest deduction from the change in the limitation calculation, certain exclusions of income from the calculation could result in a smaller increase. Before jumping to conclusions, it is critical to understand the details and true effects on the entity.

In addition, with various TCJA provisions becoming permanent, many entities are reevaluating their global treasury practices, international ownership structure (e.g. location of intellectual property) and tax planning. These changes may affect accounting for income taxes, including an entity’s ongoing assertions related to the indefinite reinvestment on investments in foreign subsidiaries.

About this Hot Topic

This Hot Topic summarizes the key corporate income tax related provisions of the bill and the effects on income tax accounting. The main sections include the following.

- [Accounting for changes in income tax laws](#)
- [Provision-specific accounting considerations](#)
- [Accounting for uncertainty in income taxes](#)
- [Considerations for state income taxes](#)
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This Hot Topic is based on our current understanding of the bill's tax law provisions and our analysis to date. Certain of the tax law provisions require interpretation, which may be clarified in future guidance from the US Treasury, including regulations, or technical corrections.

Accounting for changes in income tax laws

The effects of the bill's tax law changes are recognized in income from continuing operations in the period that includes July 4, 2025 – the enactment date – even if the changes take effect in future periods. If an entity provides interim financial statements, the interim-period effects depend on whether the change relates to current year income taxes receivable (payable) or deferred taxes.

	Interim period effects
Current year income taxes receivable (payable)	Included in the estimated annual effective tax rate (AETR) for the interim period that includes the enactment date
Deferred taxes, including any related valuation allowance	Recognized as a discrete event in the interim period that includes the enactment date



For many entities, the enactment of the bill on July 4, 2025 occurred after the end of the reporting period but prior to the issuance of the related financial statements. Because the tax law's enactment date occurs after period end, its effects are not reflected in the period's financial statements.

Although deferred taxes are not typically calculated daily, reasonable efforts must be made to estimate temporary differences and related deferred taxes, including any related valuation allowances, as of July 4, 2025, to recognize the adjustment to continuing operations in the period including that date.

Entities generally calculate total income tax expense for the interim period including the enactment date using one of two approaches. These approaches determine the effects of the tax law changes accounted for discretely or included in the AETR. We believe either approach is acceptable.

Effect	Enactment date approach	Beginning-of-year approach
Discrete	Remeasure enactment date deferred taxes (including adjustments to the valuation allowance) and recognize the adjustment as a discrete item in the period including the enactment date.	Remeasure beginning of the year deferred taxes (including adjustments to the valuation allowance) and recognize the adjustment as a discrete item in the period including the enactment date.
AETR	Adjust the estimated AETR and apply that revised rate to year-to-date ordinary	Adjust the estimated AETR and apply that revised rate to year-to-date ordinary

Effect	Enactment date approach	Beginning-of-year approach
	income. The revised estimated AETR includes the change in deferred taxes occurring both before and after the date of enactment but excludes the remeasurement of deferred taxes as of the date of enactment.	income. The revised estimated AETR includes the change in deferred taxes from the remeasured beginning of the year amount through the end of the year.

Accounting for tax law changes that are effective retroactively

There are several provisions within the bill that provide tax law changes with an effective date before the enactment date, including the increased depreciation allowances, the R&E expenditures deduction and the business interest deduction. A tax law change effective retroactively in the *current* annual period (i.e. January 1, 2025) results in a catch-up adjustment for the current taxes payable or refundable recognized in earlier interim periods. A tax law change effective retroactively to a *prior* annual period results in a discrete adjustment in the period of enactment to current taxes payable or refundable for that prior annual period.

Additional guidance: Section 5 of KPMG Handbook, [Accounting for income taxes](#)

Provision-specific accounting considerations

Many of the corporate provisions in the bill are the extension or modification of existing tax provisions under the TCJA, including domestic and international tax laws. In addition, the bill also repeals and modifies clean energy tax credits from the Inflation Reduction Act of 2022 (IRA). For each of the key corporate provisions listed below, this section provides a brief summary of the tax provisions and the related accounting impact at the date of enactment and going forward.

Domestic	International	Energy tax credits	Other
<ul style="list-style-type: none"> Increased depreciation allowances R&E expenditures Business interest deduction 	<ul style="list-style-type: none"> GILTI/NCTI (net CFC (controlled foreign corporation) tested income) deduction FDII/FDDEI (foreign-derived deduction eligible income) deduction BEAT 		<ul style="list-style-type: none"> Excessive employee compensation Charitable contributions deduction Increased tax rates on investment income of certain private colleges and universities

Summary of key corporate provisions

Provided below is a brief summary of each of these key corporate provisions under prior law (including the TCJA and IRA) and the bill.

Domestic	
Prior law	OBBB
Increased depreciation allowances	
Temporarily increased the first-year bonus depreciation deduction to 100%, allowing immediate writeoff of the cost of qualified property placed in service. This 100% rate was	<i>Permanently</i> reinstates the 100% additional first-year bonus depreciation deduction for qualified property acquired after January 19, 2025. Additionally, allows first-year depreciation

Domestic	
Prior law	OBBB
<p>applied through 2022 and then started ratably phasing down over the succeeding five years.</p> <p>Provided for a maximum Internal Revenue Code (IRC) section 179¹ expensing deduction of \$1 million, reduced dollar-for-dollar for total costs exceeding \$2.5 million, with limits adjusted annually for inflation.</p>	<p>deduction for 100% of the adjusted basis of qualified production property that meets certain requirements.</p> <p>Raises the IRC section 179 expensing limit from \$1 million to \$2.5 million and the phase-out threshold from \$2.5 million to \$4 million, with annual inflation adjustments.</p>
R&E expenditures	
<p>Required capitalization and subsequent amortization over a five-year term (or 15 years for research activities performed outside the US) for certain R&E expenses paid or incurred in tax years commencing after 2021.</p>	<p><i>Permanently</i> provides optionality between expensing or capitalizing and subsequently amortizing US R&E expenditures. Taxpayers elect one of three methods:</p> <ol style="list-style-type: none"> 1. deduct the expenses immediately; 2. capitalize and recover the expenses ratably over a selected period of at least 60 months beginning in the month in which the taxpayer first realizes benefits; or 3. capitalize and recover the expenses over 10 years beginning in the tax year in which the expenditures are paid or incurred. <p>All taxpayers that made domestic R&E expenditures after December 31, 2021, and before January 1, 2025, can elect to accelerate the remaining deductions for such expenditures over a one- or a two-year period (this election is treated as a tax accounting method change). Additionally, small business taxpayers are generally permitted to apply this change retroactively to tax years beginning after December 31, 2021.</p>
Business interest deduction	
<p>Limited the deduction for business interest expense to 30% of the sum of adjusted taxable income (ATI), business interest income and floor plan financing interest. ATI was calculated similarly to earnings before interest and taxes (EBIT).</p> <p>Provided no ordering rule for coordinating the interest limitation rules with other provisions under which business interest expense may be capitalized.</p>	<p><i>Permanently</i> increases the limit on the deductibility of business interest expense for tax years beginning after December 31, 2024 by calculating ATI as a measure of earnings before interest, taxes, depreciation and amortization (EBITDA). However, an entity must exclude the following international sources of income from the calculation of ATI:</p> <ul style="list-style-type: none"> • subpart F income; • net CFC tested income; and • IRC section 78 gross-ups. <p>Introduces an ordering rule that subjects interest capitalized under provisions other than IRC</p>

Domestic	
Prior law	OBBB
	sections 263(g) or 263A(f) to the interest expense limitation. After applying this limitation, the allowable business interest expense is first applied to otherwise capitalized business interest expense before any other business interest expense.
<p>Note:</p> <ol style="list-style-type: none"> 1. Section 179 of the tax code allows business taxpayers to deduct the cost of certain property as an expense when the property is first placed in service. 	
Additional information, analysis and observations: Refer to KPMG Washington National Tax's Accounting Methods report	

International	
Prior law	OBBB
GILTI/NCTI	
Required a US shareholder of any CFC to include in taxable income its pro rata share of GILTI. Permitted a deduction for 50% of an entity's GILTI (referred to as the IRC section 250(a) deduction) – with the rate decreasing to 37.5% after December 31, 2025.	For tax years beginning after December 31, 2025, makes permanent a 40% deduction for NCTI, which replaces GILTI, and makes several changes to the determination of tested income and the amount of foreign tax credit.
FDII/FDDEI	
Allowed a US corporation a deduction equal to 37.5% of its FDII. The deduction for FDII is calculated by reference to FDDEI, which is a subset of a taxpayer's deduction eligible income (DEI). Beginning in 2026, the deduction percentage was to be reduced to 21.875%.	For tax years beginning after December 31, 2025, makes permanent a 33.34% FDDEI deduction, which replaces FDII and makes several changes to the determination of DEI.
BEAT	
Provided for the BEAT, which partially disallows deductions for certain related-party transactions, but applies a 10% tax rate to a taxpayer's modified taxable income. This rate is lower than the 21% corporate rate. The BEAT rate of 10% was to increase to 12.5% for tax years beginning after December 31, 2025. The BEAT applies only to taxpayers with annual domestic gross receipts in excess of \$500 million.	Increases the BEAT rate to 10.5% for tax years beginning after December 31, 2025.
Additional information, analysis and observations: Refer to KPMG Washington National Tax's International Tax report	

Energy tax credits	
Prior law	OBBB
<p>Provided a substantial package of energy and climate-related provisions (including modifying and extending existing tax credits), included a number of tax credits related to renewable energy and advanced manufacturing projects and provided mechanisms for monetizing tax credits through direct pay and third-party transfers.</p>	<p>Makes significant changes to energy tax credits, including repealing specific credits, adding new rules specific to certain foreign entities (described below) and introducing new phase-outs, among other changes.</p> <p>Introduces special rules for prohibited foreign entities (defined as a ‘specified foreign entity’ or a ‘foreign-influenced entity’) on a tax-credit-by-tax-credit basis. Generally disallows:</p> <ul style="list-style-type: none"> • tax credits if the taxpayer is a ‘specified foreign entity¹’ or ‘foreign influenced entity’; and • transfers of the tax credits to ‘specified foreign entities’ for tax years beginning after July 4, 2025. <p>Disallows credits for which a facility receives any ‘material assistance’ from a ‘prohibited foreign entity’ for tax years beginning after July 4, 2025.</p> <p>The major changes to the energy credits are summarized in Appendix 1 on a tax-credit-by-tax-credit basis.</p>
<p>Note:</p> <p>1. Specified foreign entities include governments and certain individuals and entities of a covered national as defined under 10 USCA 4872(f)(2) – generally China, Russia, North Korea and Iran.</p>	
<p>Additional information, analysis and observations: Refer to KPMG Washington National Tax’s Incentives and Credits report</p>	

Other provisions	
Prior law	OBBB
Excessive employee compensation	
<p>Limited the annual deduction for compensation paid to ‘covered employees’ of a publicly held corporation to \$1 million per employee.</p>	<p>Adds a rule that total compensation paid to a specified covered employee by members of the ‘controlled group’ is aggregated for tax years beginning after December 31, 2025. To the extent the total compensation exceeds the \$1 million deduction limitation, the allowable deduction is allocated among the applicable controlled group members who are paying compensation to the specified covered employee.</p>
Charitable contributions deduction	
<p>Permits a deduction made to qualified organizations, which is limited to 10% of its</p>	<p>Permits a deduction for charitable contributions only if such contributions exceed 1% of taxable income (floor) but do not exceed 10% of taxable</p>

Other provisions	
Prior law	OBBB
taxable income. Any excess is carried forward up to five years.	income (ceiling) for tax years beginning after December 31, 2025. If contributions exceed 10% of taxable income, permits carryforward of the disallowed amounts below the floor and above the ceiling for up to five years. However, if aggregate corporate contributions do not exceed 10% of taxable income, there is no carryforward of disallowed contributions.
Increased tax rates on investment income of certain private colleges and universities	
Imposed a flat 1.4% tax on the net investment income of certain private colleges and universities – applicable educational institutions (AEI) – that: <ul style="list-style-type: none"> • have at least 500 tuition-paying students; • have investment assets of \$500,000 or more per student; and • meet certain other requirements. 	Modifies the definition of an AEI, such that the AEI is only subject to the tax if it has at least 3,000 tuition-paying students in the preceding tax year. Imposes the following tiered rate structure: <ul style="list-style-type: none"> • 1.4% if the ‘student adjusted endowment’ is between \$500,000 and \$750,000; • 4% if the ‘student adjusted endowment’ is between \$750,000 and \$2 million; and • 8% if the ‘student adjusted endowment’ is more than \$2 million. Includes in net investment income certain interest income from student loans and royalty income from federally funded research.
<p>Note:</p> <p>1. The student adjusted endowment of an institution is the aggregate fair value of the assets of the institution (other than those assets that are used directly in carrying out the institution’s exempt purpose) divided by the number of students.</p>	
<p>Additional information, analysis and observations: Refer to KPMG Washington National Tax’s Compensation and Benefits and Exempt Organization reports</p>	

Accounting effects

Provided below is a brief summary of each of the accounting effects of each of the key corporate provisions presented above.

Domestic provisions

Increased depreciation allowances

If an entity elects to fully expense qualified property that is acquired and placed into service after January 19, 2025, it results in a reduction of the income taxes payable in the current year or an increase to the net operating loss (NOL) carryforwards. This accelerated depreciation results in a deferred tax liability for the difference between the financial statement carrying amount and tax basis of the property. Additionally, any increase to the NOL carryforward results in a deferred tax asset that needs to be considered when assessing the valuation allowance. Further, the accelerated depreciation

may affect the future taxable income (loss) and the timing of the reversal of existing temporary differences used to assess the realizability of deferred tax assets.

R&E expenditures

Entities may now expense or capitalize and amortize R&E expenditures under the provisions of the bill. Immediately expensing the R&E expenditure results in a reduction of the income tax payable in the current year or an increase to the NOL carryforwards.

The tax accounting method for R&E expenditures may result in temporary differences between the tax basis and the financial statement carrying amount and may require an entity to recognize or derecognize deferred taxes.

Further, the new elections to expense or capitalize/amortize R&E expenditures may require an entity to update its valuation allowance assessment to consider changes to future taxable income (loss) and the timing of the reversal of existing temporary differences used in the assessment.



As the change in tax accounting method for R&E expenditures is from a permissible method, an entity accounts for the change when it commits to making the change, which may be based on intent prior to reporting the change on a return. The accounting for the change could include (a) adjusting income taxes receivable/payable, (b) recognizing or adjusting deferred tax assets/liabilities and (c) derecognizing unrecognized tax benefits.

Business interest deduction

The change in the limitation of the business interest deduction may result in a reduction of the income tax payable in the current year or result in an increase to the NOL carryforwards. A return to basing the ATI for the business interest deduction on EBITDA (rather than EBIT) likely increases business interest deductions and reduces or eliminates future disallowed interest carryforward deferred tax assets. In addition, an entity may need to reassess and potentially release its valuation allowance for existing deferred tax assets.



The direct effects of the increased depreciation allowances, R&E expenditures and business interest deductions provisions on income tax-related accounts on the date of enactment is primarily limited to valuation allowances. However, indirect effects associated with the changes in taxable income may impact other items including, but not limited to, FDII/FDDEI, BEAT and CAMT.

Additional guidance: Sections 2, 4 and 5 of KPMG Handbook, [Accounting for income taxes](#)

International provisions

GILTI/NCTI deduction

If an entity has elected to provide deferred taxes related to GILTI, the changes introduced by the bill likely affect the measurement of its GILTI deferred taxes. These effects are reflected in the interim period that includes the enactment date and allocated to income tax expense (benefit) from continuing operations. In addition, the changes to both GILTI and FDII may require an entity to update its valuation allowance assessment to consider its reliance on future taxable income (exclusive of reversing items) as a source of income.

Although GILTI was replaced with NCTI, we believe entities should continue to apply their GILTI policy choice to either provide deferred taxes related to GILTI or account for taxes on GILTI as a period cost when incurred. If the entity has elected to treat GILTI as a period cost, the AETR reflects the changes in preferential rates in the period the laws become effective.

FDII/FDDEI deduction

Under the TCJA, the FDII deduction is akin to a special deduction and accounting for it as such was appropriate because the amount was contingent upon future deemed tangible income return. While FDDEI replaces FDII, we believe the deduction is also akin to a special deduction because it is contingent on the amount of future foreign revenue and should be accounted for in the period incurred.



As a result of the FDDEI provision within the bill, an entity may become a corporate alternative minimum tax (CAMT) payer. If the entity anticipates being a perpetual CAMT payer, it must assess its valuation allowance for existing CAMT credit carryforwards. In addition, we believe entities have a policy choice to consider the effect of the CAMT in determining the valuation allowance for deferred tax assets under the regular tax. Entities need to evaluate this in the period of enactment and reflect the impact on their ETR.

BEAT

As BEAT is similar to an alternative minimum tax, entities measure deferred taxes using the statutory rate based on the regular tax system and account for the incremental tax owed under the BEAT system as it is incurred. An entity is not required to evaluate the effect of potentially paying BEAT in future years when assessing the realizability of its deferred tax assets under the regular tax system; however, we believe it can elect to do so as an accounting policy that is consistently applied. If an entity has elected to consider its BEAT status for valuation allowance assessments on deferred tax assets under the regular tax system, the changes to the BEAT may require the entity to update its valuation allowance assessment.

Additional guidance: Sections 3 and 4 of KPMG Handbook, [Accounting for income taxes](#)

Energy tax credits

The future reduction in tax credits generated may result in an increased ability to utilize existing deferred tax assets, which could affect a company's valuation allowance assessment.

In addition, if an entity has included the generation or purchase of tax credits in its AETR calculation, the repeal of certain tax credits in 2025 could have a financial statement effect upon enactment of the bill by adjusting the AETR for the previously recorded benefit.

Refundable, transferable tax credits

The changes to the energy tax credits, specifically those credits that are refundable or transferable, could impact the accounting as of the date of enactment if an entity applies IAS 20 by analogy. An entity needs to reassess whether it meets the recognition criteria – i.e. reasonable assurance it will comply with the revised conditions of the tax credit and receive the credit. Factors to consider include uncertainties about eligibility (e.g. meeting the beginning of construction date) and the ability to avoid recapture (e.g. not making 'prohibited payments' that would result in 100% recapture of the section 48E investment tax credit (ITC)). If an entity determines it no longer meets the recognition threshold, it derecognizes the asset for the right to receive the tax credit and reverses the previously recognized benefit in the income statement or on the balance sheet.

Investments in pass-through entities

The changes to the energy tax credits may also affect the accounting for an entity's investment in a pass-through entity. The following table summarizes accounting considerations based on whether an entity applies the equity method or the proportional amortization method (PAM) to account for its investment.

Accounting method	Accounting considerations
Equity method	<p>An investor should consider whether the bill results in a decrease in the value of tax credit investments accounted for under the equity method.</p> <p>If an investor concludes that its investment is impaired at the reporting date, it determines whether the impairment is temporary or other-than-temporary. If an impairment is deemed other-than-temporary, the investor reduces the carrying amount of the investment to its fair value by recognizing a charge in its income statement. The investor generally recognizes the impairment charge in the same line in which it presents its equity in earnings (losses) of the investee; however, it may be appropriate to present it in income tax expense (benefit) from continuing operations – e.g. when the other-than-temporary impairment is due solely to a tax law change.</p>
PAM	<p>An investor should first reassess whether its investment continues to meet the PAM qualifying criteria given the revised expectation of income tax benefits and then assess the investment for impairment by determining whether it is more likely than not that the investment is not realizable.</p> <p>If the investment continues to meet the PAM qualifying criteria (and therefore continues to be within the scope of Subtopic 323-740), a revision to the PAM schedule may be necessary. We believe investors may elect to revise a PAM schedule using one of the following methods.</p> <ul style="list-style-type: none"> • <i>Cumulative effect.</i> The investor recasts the schedule as if it had known from the initial investment date that the tax law would change on the actual enactment date. • <i>Prospective.</i> The investor adjusts the future amortization of the carrying amount of the investment as of the enactment date based on the revised estimate of the remaining tax benefits. <p>In addition, the investor determines whether (1) it is more likely than not that the investment's carrying amount will not be realized and (2) the carrying amount of the investment is greater than its fair value.</p> <p>If the investor concludes the carrying amount of the investment is not more likely than not to be realized using undiscounted cash flows, an impairment loss is recognized for the excess of the investment's carrying amount over its fair value measured in accordance with Topic 820 (fair value measurements). While an impairment unrelated to a tax law change is presented as a pretax loss, we believe that an investor generally would recognize an impairment due solely to a change in tax law with the other effects of the tax law change – i.e. in income tax expense (benefit) from continuing operations.</p>

Additional guidance: KPMG Handbook, [Tax credits](#)

Other provisions

Excessive employee compensation

The changes to limits on deductible employee compensation may result in the writeoff of existing deferred tax assets related to share-based compensation if the compensation of the related individual is no longer deductible. Going forward, the changes may result in additional permanently nondeductible expenses.

Charitable contributions deduction

Disallowing the deduction of charitable contributions that are less than 1% of taxable income (to the extent charitable contributions are less than 10% of taxable income) creates a new class of permanently nondeductible expenses for an entity. To the extent charitable contributions exceed 10% of taxable income, the limitation results in carrying forward additional charitable contributions (i.e. disallowed amounts below the 1% floor and above the 10% ceiling). Any resulting deferred tax assets are assessed for realizability to determine if a valuation allowance is required.

Increased tax rates on investment income of certain private colleges and universities

The scope and tax rate changes on the investment income of certain private colleges and universities result in the remeasurement of deferred taxes using the revised tax rate at the date of enactment.

Accounting for uncertainty in income taxes

As an entity assesses the bill's effects, some aspects of it may be unclear and up to the interpretation of the taxing authority or a court. An entity considers the effects of this lack of clarity and potential for interpretation on its accounting for uncertainty in income taxes. If a tax position is expected to be reported on a tax return but is not highly certain of being upheld upon examination, it is assessed in accordance with the recognition and measurement criteria in Topic 740 to determine the appropriate amount of tax benefit to reflect in the financial statements.

Additional guidance: Section 3 of KPMG Handbook, [Accounting for income taxes](#)

Considerations for state income taxes

An entity assesses the potential effects of the bill on state and local income taxes, which will vary based on whether and how states conform with the US tax code. While some states' income tax laws automatically conform entirely to the US tax code on enactment of the federal legislation, others do not. Those states that do not automatically conform may later enact some or all of the provisions through future state legislation.

We believe an entity should prepare its state and local income tax provisions based on currently enacted state and local tax law even if there is a high likelihood that a new law will be enacted based on the state's or locality's prior practices and precedents. If there is uncertainty about what tax law is enacted at the reporting date, the guidance on accounting for uncertainty in income taxes is applied.

Additional guidance: Section 5 of KPMG Handbook, [Accounting for income taxes](#)

Disclosures

Prior to the period of enactment (Q2 for calendar year-end companies)

When the enactment of the bill on July 4, 2025 occurs after the end of the reporting period but before the release of the financial statements, entities should consider disclosing the effects of the tax law change as a nonrecognized subsequent event under Topic 855. Under that Topic, disclosure of

nonrecognized subsequent events is required if necessary to prevent the financial statements from being misleading. SEC regulations include a similar provision. The nature of the event and estimated financial effect are required to be disclosed; however, if the financial effect cannot be estimated, the disclosure includes a statement to that effect.

Additional disclosures may be necessary in management's discussion and analysis (MD&A) and risk factors. In MD&A, an entity may consider disclosing changes in expected future effective tax rates or income tax cash flows based on the provisions as enacted. Additionally, to the extent future regulatory, administrative or legislative actions could have a materially adverse effect, additional disclosure in risk factors may be necessary.

In the interim period of enactment (Q3 for calendar year-end companies)

In the period of enactment, the form and content of disclosures about the tax law changes depend on an entity's facts and circumstances.

In interim period financial statements, significant variations in the relationship between income tax expense (benefit) and pretax income (loss) are disclosed. To the extent estimated amounts have been recognized, entities may need to provide transparency around the nature of the estimates and the reasonably possible adjustments to those amounts.

In the year-end financial statements

In annual financial statements, income tax expense (or benefit) resulting from adjustments to deferred tax assets or liabilities due to enacted tax law changes are disclosed.

If an entity applies the beginning-of-year approach in the interim period of enactment (as discussed in the changes in income tax laws section), it still needs to determine the adjustment to deferred taxes as of the enactment date for the annual financial statement disclosure.

Consideration of Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures

Among other things, ASU 2023-09 requires further disaggregation of the rate reconciliation. The ASU is effective for public business entities for annual periods in fiscal years beginning after December 15, 2024 (i.e. December 31, 2025 for calendar year-end PBEs). The enhanced rate reconciliation requires disaggregation of reconciling items into specific categories, including domestic federal categories for cross-border tax laws, changes in tax laws or rates enacted in the current period and changes in valuation allowances.

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 effects of remeasuring deferred taxes and the adjustment to the balance of income taxes payable (refundable) resulting from the tax law changes.



In addition to changes in current and deferred taxes, a tax law change may require an entity to reassess its valuation allowance. We believe these valuation allowance changes are included in the changes in valuation allowances category.

The domestic federal category for cross-border tax laws includes incremental income taxes that are imposed at the federal level in the country of domicile related to income earned in foreign jurisdictions.

Under prior tax law, we believe that it is appropriate to include GILTI within the cross-border tax laws category. Under the new tax law, GILTI was replaced with NCTI. We believe that 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.

In addition, the example rate reconciliation in the ASU includes both FDII and BEAT in the cross-border tax laws category. However, the FASB acknowledged that judgment may be necessary in determining what is categorized in the cross-border tax laws category and specifically cited 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.

Additional guidance: Section 9 of KPMG Handbook, [Accounting for income taxes](#), and KPMG Hot Topic, [Income tax disclosures](#).

Internal control considerations

In addition to the accounting implications of this bill, management may need to evaluate under its internal control framework (COSO Internal Control – Integrated Framework (2013)) whether it has the necessary controls in place to address the changes in tax laws. This includes risk assessment controls and process and monitoring controls over the technical tax implications, applying Topic 740 and providing disclosure.

For further information

While this Hot Topic highlights selected items included in the bill, it is primarily focused on corporate-related provisions and their implications related to accounting for income taxes. In other words, it is not an all-inclusive discussion of the bill or its accounting implications. Additional [reports](#) published by KPMG's Washington National Tax provide further details on the provisions of the bill.

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Appendix 1 – Credit check: What’s repealed and revised?

The following table summarizes the key features for the tax credits under IRA and CHIPS, including whether they are (1) eligible for increased or bonus rates, (2) transferable and (3) direct pay. In addition, for each individual credit, we have included whether the tax credit was repealed or modified in one of the following specific ways – (1) phase-out timing, (2) special rules related to ‘foreign prohibited entities’ and (3) eligibility criteria.

Credit		Key features under IRA and CHIPS			Effects of OBBB			
Section ref.	Credit name or type	Bonus rates and/or adders?	Transferable?	Direct pay?	Repealed?	Changes to or acceleration of phase outs?	New ‘foreign prohibited entity’ rules?	Changes to eligibility criteria?
45	Renewable energy production tax credit (PTC)	Yes	Yes	No	No	No	No	No
48	Energy property ITC	Yes	Yes	No	No	Yes	No	No
45Q	Carbon capture and sequestration	Yes	Yes	Yes (5-years)	No	No	Yes	No
30C	Alternative fuel refueling	Yes	Yes	No	Yes	No	No	No
48C	Qualifying advanced energy project	Yes	Yes	No	No	No	No	No
45Y	Clean Energy PTC	Yes	Yes	No	No	Yes	Yes	Yes
48E	Clean Energy ITC	Yes	Yes	No	No	Yes	Yes	Yes
45V	Clean Hydrogen	Yes	Yes	Yes (5-years)	No	Yes	No	No
45Z	Clean Fuel PTC	Yes	Yes	No	No	Yes	Yes	Yes
45X	Advanced Manufacturing PTC	No	Yes	Yes (5-years)	No	Yes	Yes	Yes
45U	Zero-Emission Nuclear PTC	Yes	Yes	No	No	No	Yes	No
45W	Qualified Commercial Clean Vehicles	No	No	No	Yes	No	No	No
48D	Semiconductor Manufacturing ITC	No	No	Yes	No	No	No	No

This table is not intended to capture all modifications to the tax credits under IRA and CHIPS. There may be additional changes outside of the categories presented above. For information, analysis and observations regarding the bill, refer to KPMG Washington National Tax’s [Incentives and Credits report](#).

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