



Accounting for Income Taxes Quarterly Updates

July 01, 2021



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Updates on accounting & auditing matters



On the Horizon



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Featured items

Accounting considerations of the Green Book

KPMG's [report](#) was recently released on the analysis of the Biden Administration's tax proposals provided in the *General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals* (Green Book) prepared by the Department of the Treasury and released in May 2021. Included in the KPMG report are selected areas of accounting for income taxes considerations that may be impacted by the administration's proposals.

As a reminder, the tax effects of changes in tax laws and rates are generally reflected in the financial statements beginning with the date of enactment. Refer to sections 5 and 10 of the [KPMG Handbook, Accounting for income taxes](#), for additional discussion on the accounting for changes in tax laws or rates in interim and annual periods.

Expanded definition of covered employees under section 162(m)

The American Rescue Plan Act of 2021 (ARPA) was signed by President Biden in March 2021 and expands the definition of a covered employee under section 162(m) of the Internal Revenue Code to include the five highest compensated employees other than those employees already treated as covered employees. However, this additional group of covered employees are not permanently considered covered employees. This expanded definition is effective for tax years beginning after December 31, 2026.

Although these changes do not affect a company's current income taxes until periods beginning after December 31, 2026, they may affect the measurement of deferred taxes for compensation related temporary differences to the extent the compensation is expected to be reported in tax years beginning after the effective date. In that case, a company should consider the disallowed compensation deduction and reduce the related deferred tax asset to reflect the amount of income tax benefit that it expects to realize in the future (in other words, the tax effect of the amount that is anticipated to be deductible in future periods) for covered employee compensation, taking into account the expanded section 162(m) limitation.

A [What's News in Tax article](#) summarizes some of the accounting for income taxes considerations companies should think about when evaluating the impact of the ARPA and includes an example of the methods used to allocate deductible and nondeductible compensation cost for financial reporting purposes when compensation is subject to the section 162(m) limitation.



Accounting for the UK super-deduction

The United Kingdom (UK) 2021 Finance Bill (the Bill) received royal assent on June 10, 2021, which is considered the date of enactment for US generally accepted accounting principles (US GAAP) purposes and, amongst other provisions, contains tax law changes for new capital allowances reliefs, including a temporary first-year 130 percent deduction (also referred to as a super-deduction) for qualifying expenditures on new plant or machinery made between April 1, 2021, and March 31, 2023. The additional allowances are designed to promote productivity-enhancing capital investments. Further, the Bill also includes an increase in the main UK corporate tax rate to 25 percent, effective April 1, 2023.

A recent [What's News in Tax article](#) discusses certain accounting for income taxes considerations on how to determine the initial financial statement carrying amount under US GAAP for assets subject to the UK super-deduction given that the regime results in a tax basis in an acquired asset which differs from the amount paid, as well as considerations on how to reflect the impact of changes in tax laws or rates in the annual or interim period that includes the June 10, 2021 enactment for assets acquired prior to the enactment date. Additionally, refer to the KPMG UK articles for guidance on accounting for the [UK super-deduction](#) and the [corporate tax rate increase](#) under IFRS® Standards.

Accounting for income taxes effects of adopting ASU 2020-06

A [What's News in Tax article](#) was recently released on certain accounting for income taxes effects arising from the adoption of [Accounting Standards Update \(ASU\) 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity](#), which simplifies the accounting for convertible instruments. The ASU changes the accounting for convertible instruments by eliminating two of the separation accounting models that generally required separation of an equity component from a liability component (and typically resulted in different financial statement carrying amount and tax basis of the debt), which will likely result in more convertible debt instruments being accounted for as a single unit with all proceeds received upon issuance being recorded as debt. Upon adoption of the ASU, adjusting entries are reflected as if the instrument were always accounted for as a single unit, including income taxes related considerations; in other words, the conversion feature and related deferred tax consequences originally recognized are reversed through a combination of adjusting entries to the liability, retained earnings and other equity components to adjust the financial statements as if ASU 2020-06 had always been followed. The article includes an example to illustrate the accounting for income taxes consequences of adopting the ASU.

Updates to the KPMG Accounting for Income Taxes handbook

KPMG recently updated its [Handbook, Accounting for income taxes](#), to add interpretive guidance on several accounting for income taxes matters.

The April 2021 edition incorporates the following amongst other updates:

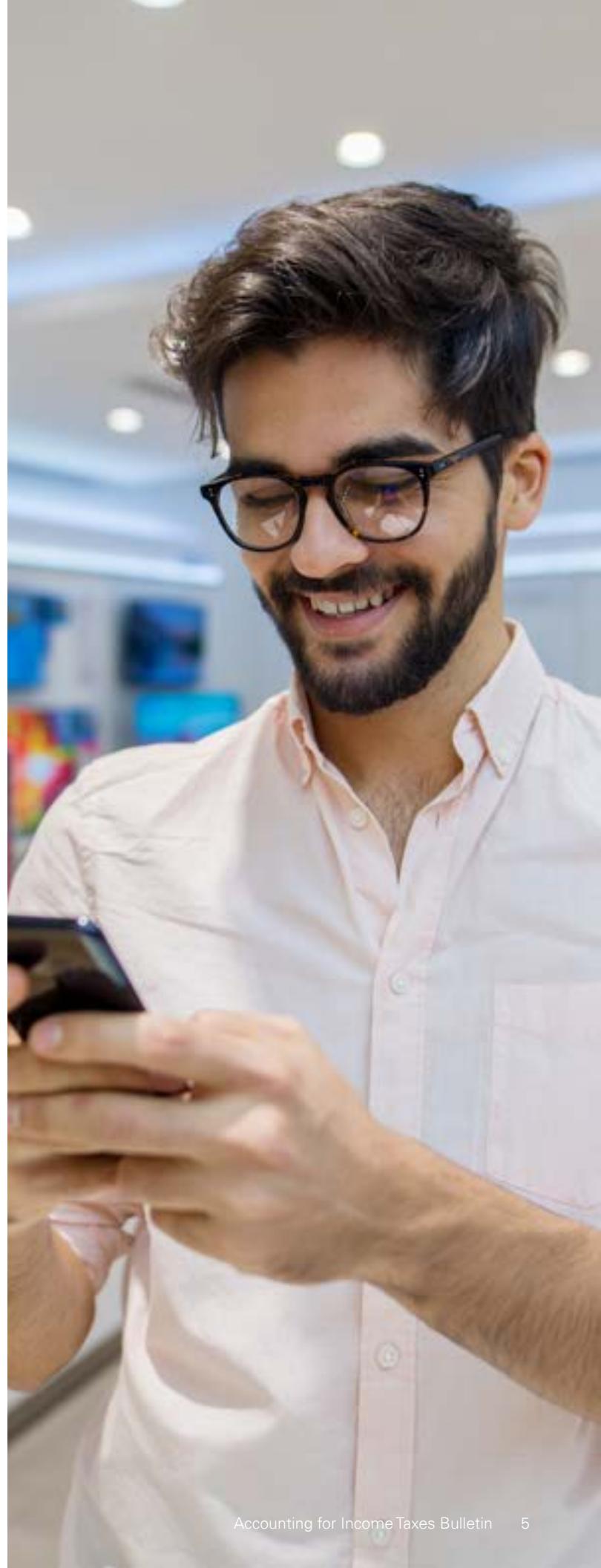
- Updated guidance on the Consolidated Appropriations Act, 2021 and the American Rescue Plan Act of 2021;
- New guidance on reliance on prior interactions with the taxing authority;
- Additional guidance on evaluating more than one source of taxable income;
- Additional guidance on valuation allowance considerations associated with the sale of a subsidiary; and
- New guidance related to bankruptcies.

A brief summary of the revisions since the October 2020 edition are reflected in the preface within the publication.

IASB clarifies accounting for deferred taxes

In May 2021, the International Accounting Standards Board (IASB) issued [Deferred Tax related to Assets and Liabilities arising from a Single Transaction](#), which amended IAS 12, Income Taxes. The amendments narrow the scope of the initial recognition exemption on certain transactions so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The targeted amendments are effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted.

Refer to the KPMG International Standards Group (ISG) [report](#) for further discussion on the recent amendment.



Updates on accounting & auditing matters

Practice aid for income tax specific team members (STMs)

The KPMG Department of Professional Practice (DPP) published a [practice aid](#) that provides links to specific sections of the KPMG Audit Execution Audit Guide (KAEG) to help income taxes STMs find relevant guidance.

Knowledge Skill and Ability (KSA) workpaper for US STMs supporting non-US KPMG member firm audit engagements

When US STMs perform procedures directly for a non-US KPMG member firm audit team as part of a group audit, the non-US audit engagement team may request the US STM provide documentation relating to the knowledge, skill and ability of the US STM to allow the non-US KPMG member firm audit engagement partner relying on the work performed centrally by the US STM to determine whether the US STM has the necessary professional qualifications, training and experience for the particular audit engagement and the extent of supervision necessary for the US STM to perform work as directed and form appropriate conclusions. When such a request is received, the US STM may use the [Knowledge, Skill and Ability—US Specific Team Members supporting non-US audit engagements](#) work paper that was recently published.

See 1.4 of Attachment 13, Specialists and Specific Team Members Practice Aid, to [PPL 20-008, Specialists and Specific Team Members – Revised Methodology](#), for additional information.

Use of Contractors Confirmation

[PPL 21-10, Use of Contractors on Audit and Attestation Engagements](#), announces a new requirement for the lead partner or managing director, each lead specific team members and each lead employed KPMG specialists to complete the Use of Audit or Attestation Contractors Confirmation for all audit and attestation engagement teams. The confirmation indicates the extent to which contractors were used and, if used, confirms compliance with the related policies and procedures as specified in the US Risk Management Manual.

KPMG DPP quarterly releases

KPMG DPP published the following accounting and financial reporting developments releases:

— [Quarterly Outlook – June 2021](#)

Watch for the following accounting and financial reporting development to be released on Alex:

— [Quarterly Reminders Practice Aid \(6/21\)](#)

Remember recent pronouncements

Professionals should be mindful of certain recently updated US GAAP standards, listed by order of required application.

Updated standard	Brief description of standard	Public business entities effective date	Other entities effective date
ASU 2018-09, Codification Improvements	Clarifies, corrects errors in, and makes improvements to several income taxes related matters	Generally, fiscal years beginning after December 15, 2018	Generally, fiscal years beginning after December 15, 2019
ASU 2017-04, Simplifying the Test for Goodwill Impairment	Provides guidance, amongst others, on the income tax effects from tax deductible goodwill when measuring goodwill impairment loss	Annual and interim impairment tests for periods beginning after December 15, 2019 for SEC filers other than smaller reporting companies	Annual and interim impairment tests for periods beginning after December 15, 2022
ASU 2019-12, Simplifying the Accounting for Income Taxes	Removes specific exceptions to the general principles of ASC 740 and improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for certain income tax items	Fiscal years beginning after December 15, 2020, and interim periods within those fiscal years	Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022

Engagement teams should be mindful of the recently updated IFRS Standards.

Updated standard	Brief description of standard	Effective date
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	Narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences (for example, leases and decommissioning provisions)	Annual reporting periods beginning on or after January 1, 2023, with earlier application permitted





On the horizon

FASB projects

The Financial Accounting Standards Board (FASB or the Board) has [instructed](#) the FASB staff to prepare a final ASU for vote by written ballot related to its [Government Assistance \(Topic 832\): Disclosures by business entities about government assistance](#) project.

The Board decided that the disclosures should apply to a business entity that has accounted for a transaction with a government by analogizing to a grant or contribution accounting model and that the amendments should be effective for fiscal years beginning after December 15, 2021 for all business entities, with early adoption permitted. The amendments would require disclosures identifying the nature of the government assistance, the accounting policy used, the line items on the balance sheet and income statement affected by the assistance, and significant terms and conditions of the assistance.

The FASB's [Disclosure Review: Income Taxes](#) project continues to be in the revised exposure draft redeliberations stage after the Board directed the staff in February 2020 to perform research and additional outreach on potential alternatives to disclose certain disaggregated income taxes information and to perform additional research on other proposed amendments. In June 2021, as part of a broader [invitation to comment](#), the FASB asked investors and other financial statement users for information about whether income taxes should be a top priority for the FASB to consider requiring greater disaggregation and asked preparers what requests or questions are received about disaggregation of income taxes.

?) Questions from the field

If an entity does not apply pushdown accounting for assets acquired in a business combination to each of its tax-paying components, is it acceptable to apply the parent's tax rate in measuring the deferred tax effects?

No. In accounting for the tax effects of a business combination, temporary differences related to identifiable assets acquired and liabilities assumed are determined by comparing the recognized amounts for financial reporting purposes of the assets and liabilities acquired with the tax bases identified. In some instances, a group may track acquisition accounting entries centrally, rather than pushing the entries down to subsidiary ledgers. This may be done because the subsidiary does not apply pushdown accounting in its separate financial statements, or simply for administrative reasons if the subsidiaries don't issue separate financial statements. The temporary differences and related deferred tax assets and liabilities are calculated for each tax-paying component of the entity in each tax jurisdiction as if pushdown accounting is applied (regardless of whether pushdown accounting is actually applied in the separate financial statements of the acquired entity) because that is the basis on which total income tax expense (benefit) will be calculated after the acquisition.

Refer to 6.011 of the KPMG Handbook, *Accounting for Income Taxes*, for additional detail.

How should deferred tax balances be measured when an entity has entered a new state?

An entity measures deferred tax assets and liabilities using the enacted tax rate(s) expected to apply to taxable income when the assets and liabilities that give rise to the future deductible and taxable temporary differences are recovered or settled. For state income tax purposes, apportionment factors are used to determine the applicable tax rate used to measure deferred tax assets and liabilities for a particular state. The apportionment factors used generally should be those that are expected to apply when the asset or liability underlying the temporary difference is recovered or settled based on existing facts and circumstances.

Actual apportionment factors for recent years may represent those that are expected to apply in the future if an entity does not expect significant changes to occur. However, if an entity expects to move its operations from one state to another state, begin operations in a new state, or transfer operations between legal entities in a carryover basis transaction, the entity should adjust the applicable tax rate based on the apportionment factors expected to exist after the changes have been implemented. An entity generally adjusts its factors in the period in which it commits to its plan and the plan is primarily within the entity's control.

Refer to 3.055 of the KPMG Handbook, *Accounting for Income Taxes*, for additional detail.





Other Items of Interest

KPMG learning—executive education

KPMG offers digital self-studies, which are mobile-friendly and easily accessible at the learner's convenience. The CPE-eligible curriculum covers current and emerging technical accounting topics, including accounting for income taxes, to build skills and confidence in a variety of areas of accounting.

Additionally, the **Accounting for Income Taxes** (virtual) classes will be offered:

— August 16–19, 2021

View the catalog of KPMG **virtual seminars** and digital **self-studies**.

Look who's talking

Jenna Summer presented on current developments in accounting for income taxes at an Arizona TEI event on April 28.

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