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Hard to Reconcile: FASB's Proposal on Tax Disclosures and Other Developments

2023 U.S. Cross-Border Tax Conference

June 5–7, 2023

Prepare for Complexity

Notices

The following information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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Agenda

01 Accounting for income taxes considerations of GloBE

02 Proposed ASU, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*

01

Accounting for income taxes considerations of GloBE

US GAAP: Accounting for GloBE minimum taxes

As the GloBE top-up taxes are based on financial statement net income with certain adjustments, the taxes are within the scope of ASC 740, *Income Taxes*

- Based on comments at a February 1, 2023 FASB Board meeting, we believe that the top-up taxes included within the Global Anti-Base Erosion (GloBE) regime, including qualified domestic minimum top-up taxes, are alternative minimum taxes as discussed in ASC 740
  - The GloBE regime is a separate but parallel system for a company to pay a minimum level of tax which results in an entity never paying less than it would under its regular tax regime
- Recognition of current taxes
  - Recognize the incremental effect of GloBE top-up taxes as incurred
- Recognition, measurement and realizability of deferred taxes
  - Existing deferred tax assets and liabilities are measured at the regular tax rate and are not adjusted for the estimated future effects of the minimum tax
  - Deferred taxes are not recognized for GloBE specific temporary differences
  - Entities are not required to consider the GloBE top-up tax in its valuation allowance assessment
- Consider disclosure related to GloBE top-up taxes in management's discussion and analysis

IFRS® Accounting Standards: Pillar Two decisions

Amendments to IAS 12, *Income Taxes*

- Mandatory application of a temporary exception to recognizing deferred taxes related to Pillar Two income taxes
  - IAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules, including tax law that implements qualified domestic minimum top-up taxes
  - The amendments provide that, as an exception to the requirements in IAS 12, an entity neither recognize nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes
- Targeted disclosure requirements
  - Entities are required to disclose that it has applied the exception along with certain other information

IFRS® Accounting Standards: Financial statement disclosures

Disclose that the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes has been applied

After enactment or substantive enactment of Pillar Two legislation and prior to the effective date

Disclose information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation

- Meet the disclosure objective by disclosing known or reasonably estimable qualitative and quantitative information about its exposure at the end of the reporting period
  - Information disclosed does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range
  - To the extent information is not known or reasonably estimable, an entity would instead be required to disclose a statement to that effect
  - To the extent information is not known or reasonably estimable, an entity discloses information about the progress the entity has made in assessing its exposure to Pillar Two income taxes

Once effective, disclose separately the current tax expense (benefit) related to Pillar Two income taxes

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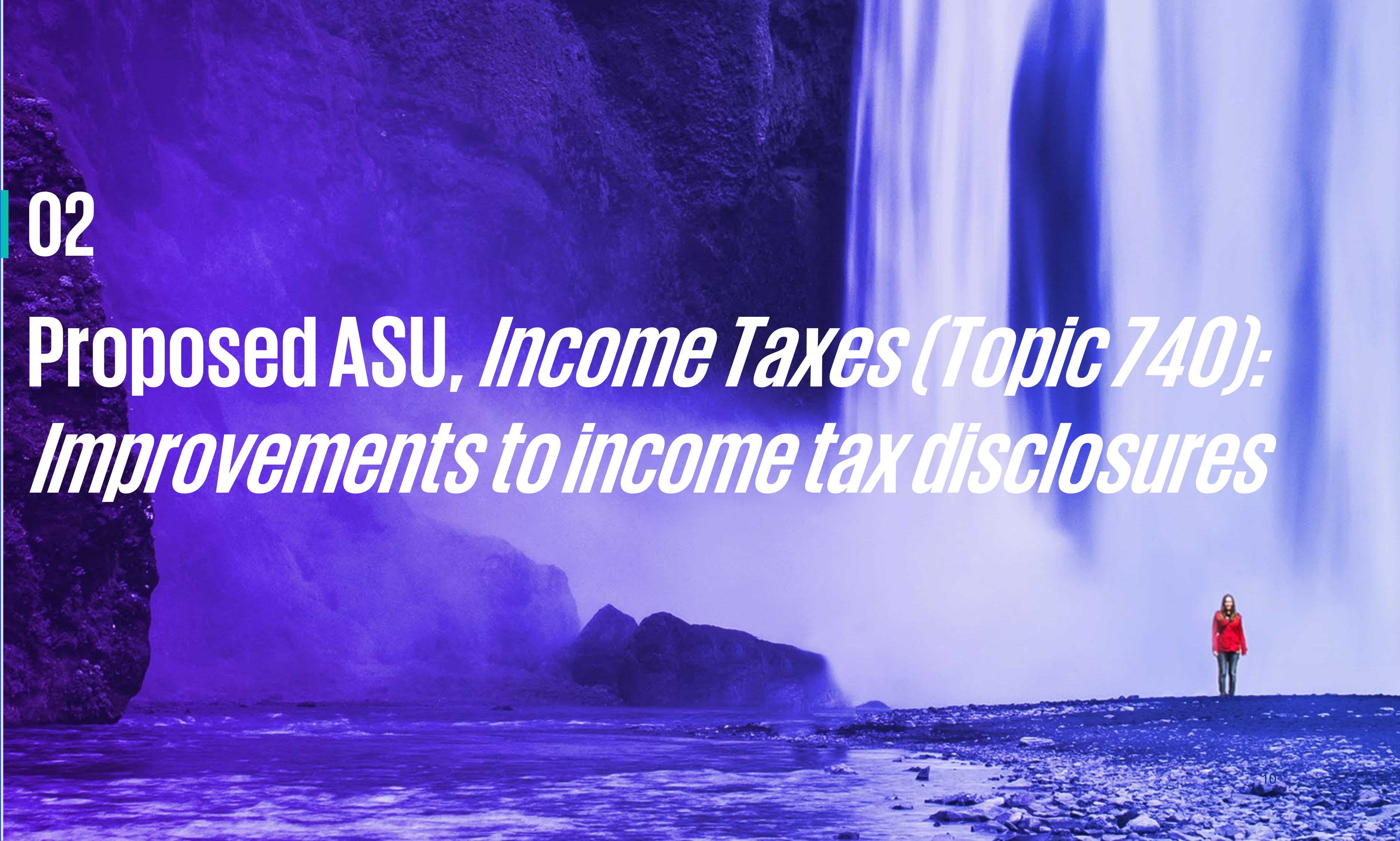
IFRS® Accounting Standards: Pillar Two decisions

Effective date and transition

- The exception and disclosure that the exception is being applied shall be immediately and retrospectively applied in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
- All other disclosure requirements are applicable for annual reporting periods beginning on or after January 1, 2023
- The disclosure requirements are not required (other than the requirement to disclose that the entity has applied the exception) in interim financial reports for interim reporting periods ending on or before December 31, 2023



02

Proposed ASU, *Income Taxes (Topic 740): Improvements to income tax disclosures*

Project timeline

March 2014

The Board added the *Disclosure Framework: Disclosure Review—Income Taxes* project to the technical agenda as one of the topics in the Disclosure Framework Project.

August 2015–June 2016

The Board discussed issues on the development of an Exposure Draft addressing disclosures related to income taxes.

July 2016

The Board issued a proposed ASU, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*.

January 2017–February 2019

The Board discussed a summary of comments received and continued redeliberations on the July 2016 proposed ASU. The Board also decided to issue a revised proposed ASU that included all the amendments from the Board decisions made since the 2016 proposed ASU.

March 2019

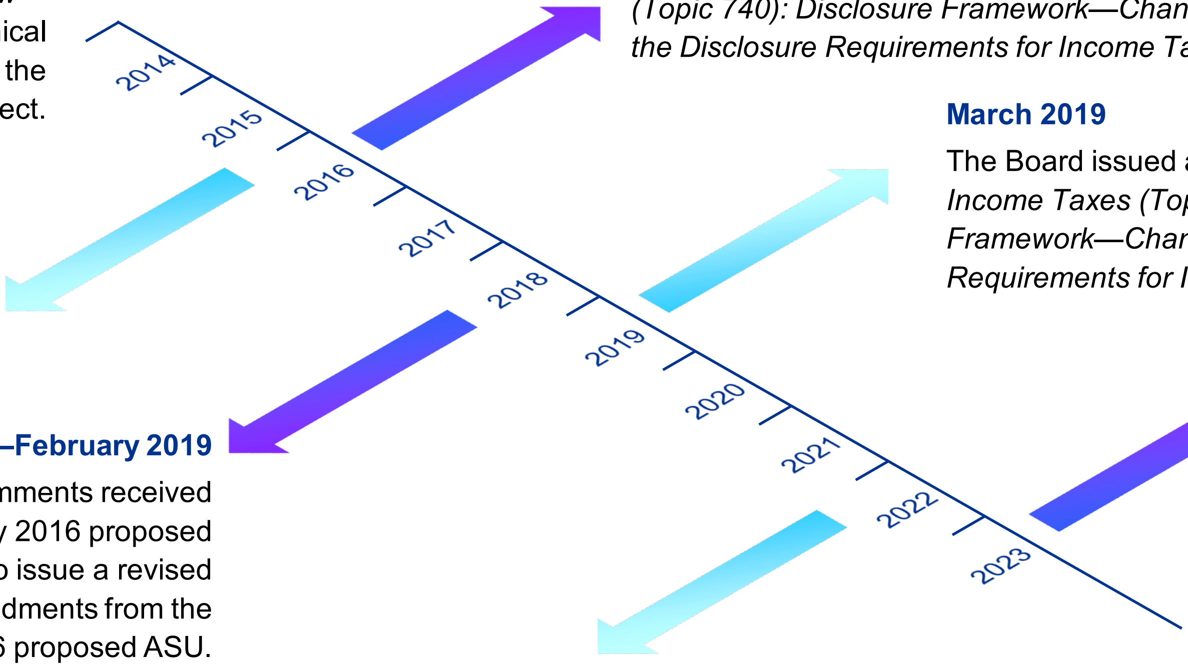
The Board issued a revised proposed ASU, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*.

February 2020–November 2022

The Board discussed comment letter feedback on the March 2019 revised proposed ASU. The Board revised the project objective and established a project scoped primarily focused on income taxes paid and the income rate reconciliation table.

March 2023

The Board issued a proposed ASU, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*.



Improvements to income tax disclosures

The objective of the Improvements to Income Tax Disclosures project (formerly the *Disclosure Framework: Disclosure Review—Income Taxes* project) is to enhance the transparency and decision usefulness of income tax disclosures.

Investors have indicated that existing income tax disclosures should be enhanced to provide information to better assess how an entity's multi-jurisdictional operations, related tax risks, tax planning and operational opportunities affect its tax rate and prospects for future cash flows.

Project focuses primarily on the following income tax information:

- Income taxes paid
- Rate reconciliation.

Project retains several generally supported amendments in the 2019 revised proposed ASU.

Income taxes paid disclosure requirements

01

The year-to-date amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes on both an interim and annual basis

02

The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than five percent of total income taxes paid (net of refunds received), on an annual basis

03

Disclosures will be required for all entities.

Income taxes paid annual disclosure example

Income taxes paid (net of refunds received) for the years ended December 31

($ in 000s)	U.S. Federal	U.S. States				Foreign				Total
		California	New York	Other	Subtotal	U.K.	India	Other	Subtotal	
20X1	2,000	300	275	110	685	1,300	300	265	1,865	**4,550**
20X2	1,500	250	200	85	535	1,000	(200)	140	940	**2,975**
20X3	1,355	215	100	65	380	750	150	80	980	**2,715**

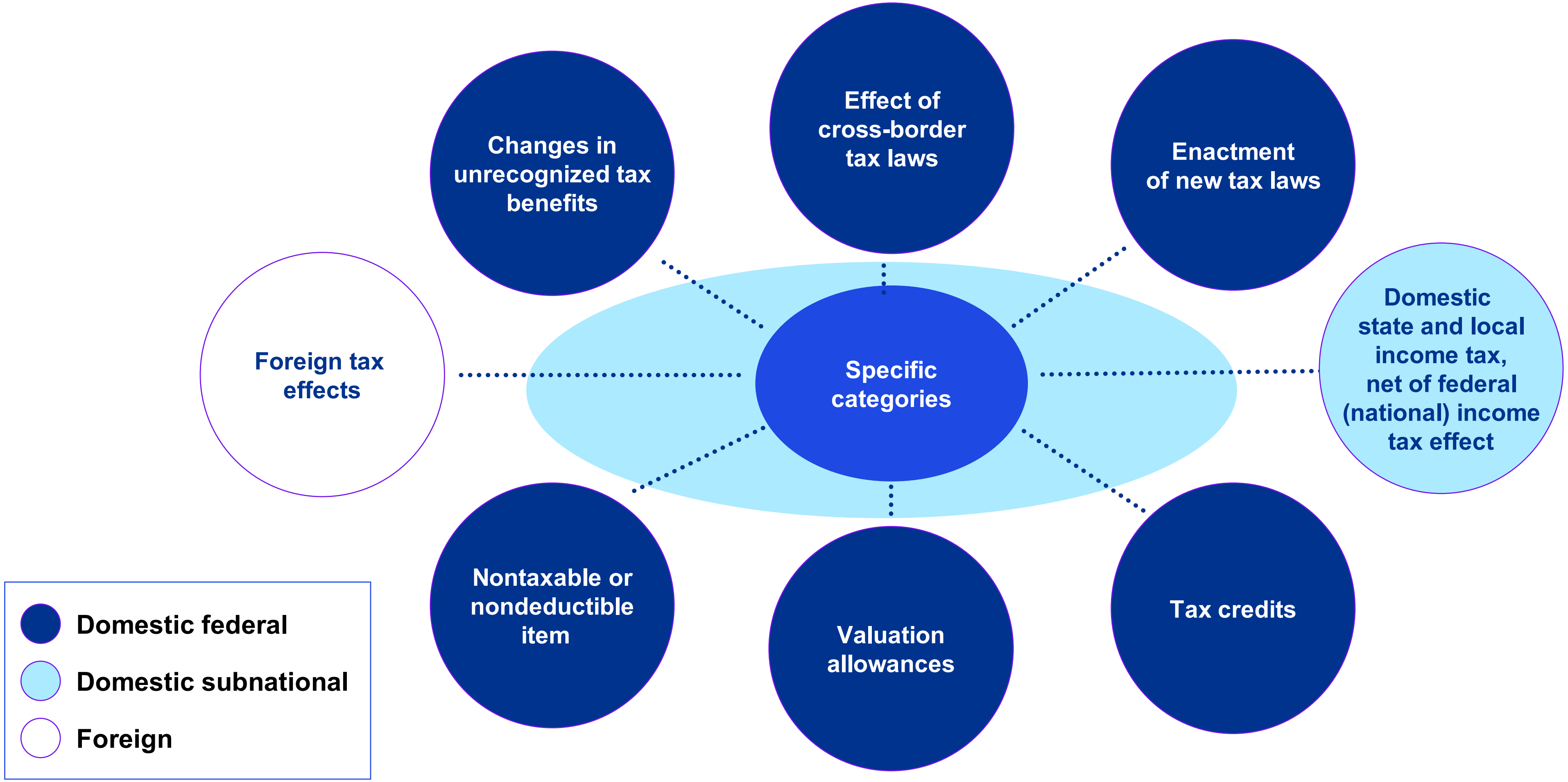
Rate reconciliation

Proposed amendments for annual disclosure requirements for public business entities

Disclose (1) specific categories in the rate reconciliation and (2) provide additional information for reconciling items meeting or exceeding a quantitative threshold

Disclose a tabular reconciliation using both percentages and reporting currency amounts

Specific categories



Further disaggregation of certain reconciling items

Separate disclosure is required for any reconciling item listed below in which the effect of the reconciling item is equal to or greater than five percent of the amount computed by multiplying the income (loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate:

01	**Domestic effects of cross-border tax laws, tax credits, and nontaxable or nondeductible items**	**Disaggregated by nature**
02	**Domestic reconciling items that do not fall within the specific categories**	**Disaggregated by nature**
03	**Foreign tax effects**	**Disaggregated by jurisdiction (country) and by nature**

Additional rate reconciliation disclosure requirements

Additional information required to be disclosed in the rate reconciliation

State and local category

A public business entity would provide a qualitative description of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category.

Qualitative explanations

A public business entity would provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, and significant year-over-year changes of the reconciling items.

Interim disclosures

On an interim basis, public business entities would be required to provide a description of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period.

Entities other than public business entities

For entities other than public business entities, the amendments in the proposed ASU would require qualitative disclosure about specific categories of items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

Rate reconciliation example

	20X3		20X2		20X1	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. federal statutory income tax rate	2,520	21.0%	2,100	21.0%	1,680	21.0%
Domestic federal						
Tax credits						
Research and experimentation tax credits	(250)	-2.1%	(240)	-2.4%	(130)	-1.6%
Other	(20)	-0.2%	(20)	-0.2%	(10)	-0.1%
Nontaxable and nondeductible items, net	60	0.5%	(20)	-0.2%	30	0.4%
Cross-border taxes						
Global intangible low-taxed income	180	1.5%	180	1.8%	90	1.1%
Other	10	0.1%	20	0.2%	10	0.1%
Changes in unrecognized tax benefits	200	1.7%	(100)	-1.0%	100	1.3%
Excess tax benefits on share-based payments	(400)	-3.3%	(90)	-0.9%	(50)	-0.6%
Other	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%

Note: This example is for illustrative purposes only and is not based on an entity's operations. The information presented would be subject to materiality considerations and based on entity-specific facts and circumstances. The example is based on a proposed ASU and therefore is subject to change based on the final ASU.

Rate reconciliation example (continued)

	20X3		20X2		20X1	
	Amount	Percent	Amount	Percent	Amount	Percent
Foreign						
United Kingdom						
Enactment of new tax laws	-	0.0%	200	2.0%	-	0.0%
Nondeductible expenses	150	1.3%	120	1.2%	90	1.1%
Changes in unrecognized tax benefits	(130)	-1.1%	(380)	-3.8%	(90)	-1.1%
Other	100	0.8%	90	0.9%	80	1.0%
Ireland						
Rate differential	(350)	-2.9%	(280)	-2.8%	(160)	-2.0%
Changes in unrecognized tax benefits	-	0.0%	250	2.5%	-	0.0%
Other	10	0.1%	20	0.2%	-	0.0%
Japan						
Changes in valuation allowance	-	0.0%	(300)	-3.0%	(30)	-0.4%
Subnational income taxes	140	1.2%	110	1.1%	100	1.3%
Other	20	0.2%	20	0.2%	(20)	-0.3%
Singapore	(150)	-1.3%	(120)	-1.2%	(80)	-1.0%
Other foreign jurisdictions	(300)	-2.5%	(20)	-0.2%	(200)	-2.5%
Total	**2,240**	**18.7%**	**1,850**	**18.5%**	**1,670**	**20.9%**

Note: This example is for illustrative purposes only and is not based on an entity's operations. The information presented would be subject to materiality considerations and based on entity-specific facts and circumstances. The example is based on a proposed ASU and therefore is subject to change based on the final ASU.

Disclosures previously exposed for comment

Scope

Replace the term *public entity*, as currently used in Topic 740, with the term *public business entity* as defined in the Master Glossary of the Codification

Unrecognized tax benefits

Eliminate the requirement to disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or make a statement that an estimate of the range cannot be made

Investments in subsidiaries

Eliminate the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures

Disaggregation by jurisdiction

Require all entities to disclose:

1. Income (loss) from continuing operations before income tax expense (benefit) disaggregated between domestic and foreign
2. Income tax expense (benefit) from continuing operations disaggregated by federal (national), state, and foreign

Effective date and transition requirements

The effective date and whether early adoption will be permitted to be determined after the Board considers stakeholder feedback.

The proposed amendments would be applied retrospectively.

Stakeholders are encouraged to review and provide feedback to the FASB.

The 75-day comment period on the proposed ASU ended on May 30, 2023.

Q&A


Thank you!

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