Accounting for Income Taxes Bulletin

June 2024

About this publication

This publication is issued by the KPMG Accounting for Income Taxes group in Washington National Tax (WNT) to highlight developments and other items of interest to professionals involved with accounting for income taxes matters. See web version and previous editions here and subscribe to receive future publications here.

FEATURED ITEMS

Improvements to income tax disclosures publication

KPMG's WNT and Department of Professional Practice (DPP) recently published *Hot Topic: Income tax disclosures* to highlight the new disclosure requirements and address common questions regarding the application of the recent disaggregation enhancements arising from the issuance of *Accounting Standards Update (ASU) 2023-09—Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The publication summarizes the guidance in the ASU on a topic-by-topic basis and provides KPMG observations based on our current understanding of the ASU. The document includes discussion and detailed examples about disaggregation of the effective tax rate reconciliation, income taxes paid, and pretax income (loss) and income tax expense (benefit), both from continuing operations.

Additionally, a webcast playback is available for further discussion on identifying the many moving parts in disaggregating income tax disclosures.

GloBE top-up taxes in financial statements

For many organizations, the income inclusion rule (IIR), undertaxed profits rule (UTPR) and qualified domestic minimum top-up taxes (QDMTTs), collectively the global anti-base erosion (GloBE) top-up taxes, are or will soon be effective which has highlighted many accounting for income taxes considerations that may arise. KPMG's WNT recently released an article that addresses accounting for income taxes considerations of GloBE top-up taxes related to valuation allowances, intra-entity transfers of assets, and financial statement presentation and disclosures, as well as the accounting for income taxes impacts in interim periods under U.S. generally accepted accounting principles (GAAP).

Additionally, the KPMG Global IFRS Institute issued a number of articles covering key issues in accounting for GloBE top-up taxes to assist entities in preparing financial statements under IFRS® Accounting Standards. The topics covered include providing relevant disclosures, assessing the impact of upcoming changes in tax laws on impairment assessments, determining the impact for interim reporting purposes, and accounting for recharge arrangements for GloBE top-up taxes that are levied on one company but triggered by another company.

Tax credits handbook

KPMG recently updated the *Tax credits* handbook to include new and updated guidance, interpretations and examples based on our recent experience in practice. The updates include additional considerations related to purchases and sales of tax credits and investments in pass-through entities that generate tax credits. Also included is a new chapter that provides an overview of U.S. federal tax credits, with a summary of the important features and links to the appropriate accounting guidance for each individual tax credit available under the Inflation Reduction Act.

Additionally, refer to the KPMG Report for a summary of certain accounting considerations entities should keep in mind when evaluating the impact of tax credits generated by pass-through entities.

UPDATES ON ACCOUNTING AND AUDITING MATTERS

Hot Topic: Deferred tax accounting for safeguarding digital assets

KPMG has updated its *Hot Topic: Digital assets* , summarizing and answering application questions about the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 121 which reflects SEC staff interpretive guidance about how entities should account for an obligation to safeguard digital assets. Question 170 in the Hot Topic provides KPMG views on how a SAB 121 digital asset safeguarding obligation liability and the corresponding asset affect an entity's deferred tax accounting.

Insurance statutory accounting updates to SSAPs 93 and 94

During the spring meeting of the National Association of Insurance Commissioners, the Statutory Accounting Principles Working Group (SAPWG) adopted revisions effective January 1, 2025, to Statements of Statutory Principles (SSAP) 93, *Investments in Tax Credit Structures*, to update guidance for tax credits investments, to SSAP 94R, *State and Federal Tax Credits*, to clarify the scope, and to SSAPs 34, *Investment Income Due and Accrued*, and 48, *Joint Ventures, Partnerships and Limited Liability Companies*, to ensure consistency with SSAPs 93 and 94. The adopted revisions include an update to example two, qualifying tax credit investment structure with non-income tax related benefit, within SSAP 93 illustrating that the residual value is excluded from the value of investments amortized under the proportional amortization method. The revisions also removed the Schedule BA reference to low-income housing tax credit investments.

Refer to KPMG's Issues & Trends for further information regarding the revisions.

IFRS 18 issuance, including amendments to IAS 12

The International Accounting Standards Board issued IFRS 18 *Presentation and Disclosure in Financial Statements* on April 9, 2024. IFRS 18 will modify how companies present results on the income statement and how information is disclosed within the notes to the financial statements. The required disclosures include certain non-GAAP management performance measures (MPMs), which now become part of the audited financial statements. The MPM disclosure also includes a reconciliation of each MPM to an amount determined under IFRS Accounting Standards which may require companies to allocate the income tax effect for each reconciling item disclosed. IFRS 18 includes guidance on methodologies that can be used to allocate income taxes to MPM reconciling items and requires disclosure of how it applies the guidance to determine the income tax effect of MPM reconciling items.

In addition, IFRS 18 amended paragraph 78 of IAS 12 *Income Taxes* and included guidance requiring any foreign exchange differences on foreign currency denominated assets and liabilities arising from income taxes to be included in the income taxes category.

IFRS 18 is effective on January 1, 2027, with retrospective application and early adoption available.

See KPMG Global IFRS Institute for more information.

KPMG DPP quarterly outlook

The June 2024 Quarterly Outlook summarizes major accounting and financial reporting developments that may affect entities in the current period or in the near term.

Remember recent pronouncements

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

Updated standard	Brief description of standard	Public business entities' effective date	Other entities' effective date
ASU 2017-04, *Simplifying the Test for Goodwill Impairment*	Provides guidance, among 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 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*	Permits reporting entities to elect to account for tax equity investments, regardless of the program from which the income tax credits are received, using the proportional amortization method if certain conditions are met	Fiscal years beginning after December 15, 2023 and interim periods within those fiscal years	Fiscal years beginning after December 15, 2024 including interim periods within those fiscal years
ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*	Requires certain annual disclosures about income taxes, primarily related to the rate reconciliation and	Annual periods beginning after December 15, 2024	Annual periods beginning after December 15, 2025

	income taxes paid information, as well as certain other amendments to improve the effectiveness of income tax disclosures		

See KPMG's Financial Reporting View (FRV) Accounting standards effective dates page for a full list of recently issued ASUs.

Additionally, see the FRV summary of new and revised insurance statutory accounting standards for 2023 and later.

Professionals should be mindful of the recently updated IFRS® Accounting 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
International Tax Reform —Pillar Two Model Rules (Amendments to IAS 12)	Provides a mandatory temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to Pillar Two top-up taxes and introduces targeted disclosure requirements for affected entities	Immediately for certain aspects and annual reporting periods beginning on or after January 1, 2023 for other aspects

Presentation and Disclosure in Financial Statements (IFRS 18)	Includes guidance on allocating income tax effects to non-GAAP management performance measures (MPMs) and requires foreign exchange differences on foreign currency denominated assets and liabilities arising from income taxes to be included in the income taxes category.	Annual reporting periods beginning on or after January 1, 2027, with retrospective application and early adoption permitted.

ON THE HORIZON

Financial Accounting Standards Board (FASB) projects

Accounting for Government Grants

The FASB's Accounting for Government Grants project is intended to create recognition, measurement and presentation requirements for government grants received by business entities. The project was recently discussed at the April 3 and June 4, 2024 Board meetings. In the April meeting, the Board decided to leverage the accounting framework within IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* . During the June meeting, the Board made tentative decisions related to disclosures (including confirmation that an entity should be required to provide annual disclosures in ASC 832 for grants within the scope of this project) and accounting for government grants in a business combination which join the prior tentative decisions reached by the Board related to scope, recognition, measurement and presentation. The Board directed the staff to proceed with drafting a proposed ASU for vote by written ballot with a 90-day comment period. It is expected that the proposed ASU will permit an entity to apply the amendments either prospectively to grants that either are not completed as of the effective date or are entered into after the effective date, or retrospectively. The FASB expects to publish a proposed ASU in the third quarter of 2024.

See KPMG's Defining Issues for more information.

Insurance statutory accounting projects

Proposed guidance on disclosures

During the NAIC 2024 Spring meeting, the SAPWG exposed revisions to SSAP 101 to adopt, with modification, ASU 2023-09. Comments were due May 31, 2024. Refer to the KPMG Report for additional detail on this meeting.

International Accounting Standards Board (IASB) projects

Deferred taxes within equity method investments under IFRS Accounting Standards

The IASB previously discussed application questions about the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures* within the scope of its Equity Method research project and tentatively decided to propose that an investor would account for and include in the carrying amount of its investment in an associate, a deferred tax asset (liability) arising from recognising its share of the associate's net identifiable assets and liabilities at fair value. The IASB expects to publish an exposure draft in the third quarter of 2024.

Potential replacement of International Financial Reporting Interpretations Committee (IFRIC) Interpretation 21 application requirements

As a part of its *Provisions – Targeted Improvements* project, the IASB met on April 25 and June 20, 2024 to discuss possible amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The Board is addressing the apparent contradictions within the principles in IAS 37 for identifying liabilities, which have resulted in inconsistent and, sometimes, unsatisfactory application requirements. The Board unanimously agreed to replace the requirements supporting the present obligation recognition criterion with new requirements based on concepts in the Conceptual Framework for Financial Reporting and then withdrawing IFRIC 21 *Levies*.

The IASB expects to publish an exposure draft in the fourth quarter of 2024.

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.

View the catalog of KPMG in-person seminars, virtual seminars, and digital self-studies.

RESOURCES

- KPMG Handbook: *Accounting for income taxes*
- KPMG Handbook: *Tax credits*
- Financial Reporting View
- TaxNewsFlash
- Chief Tax Officer Insights
- Insights into IFRS®
- KPMG Handbook: *IFRS® compared to US GAAP*

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