KPMG

Catching the disclosure wave: Adopting FASB's new disclosure requirements

June 10, 2024

Ahead of the wave

2024 U.S. Cross-Border Tax Conference

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.

With you today

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Agenda

Accounting for GloBE top-up taxes	• Accounting for GloBE top-up taxes under US GAAP • Accounting for GloBE top-up taxes under IFRS
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01

Accounting for GloBE top-up taxes

Accounting for GloBE top-up taxes

US GAAP – ASC 740

We believe the GloBE top-up taxes are alternative minimum taxes

- Incremental effect of top-up taxes are recognized as incurred
- Deferred taxes are not recognized for GloBE specific temporary differences

Accounting for income taxes issues may arise related to the following:

Valuation allowances	Intra-entity transfers
Interim	Presentation and disclosure

Consider changes in tax laws and administrative guidance

IFRS – IAS 12

Amendments to IAS 12 introduced a mandatory application of a temporary exception to recognising deferred taxes

- Incremental effect of top-up taxes are recognized as incurred
- Accounting for income taxes issues may arise related to the following

Accounting for income taxes issues may arise related to the following:

Recharge agreements	Impairment assessments
Interim	Financial statement disclosures

02

Accounting Standards Update 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures

ASU 2023-09: Improvements to income tax disclosures

The objective of the Improvements to Income Tax Disclosures 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 also contains the following other disclosure requirements including:

- Certain eliminated disclosures
- Other disaggregated amounts.

Income taxes paid disclosure requirements

01 The amount of income taxes paid (net of refunds received) disaggregated by domestic federal, domestic state, and foreign on an 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 are required for all entities.

Income taxes paid annual disclosure example

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

(in thousands)		20X3	20X2	20X1
US federal		$1,355	$1,500	$2,000
US state and local	California	215	250	300
	Minnesota	180	*	245
	New Jersey	*	180	*
	New York	*	200	275
	Other	65	85	110
	Subtotal	460	715	930
Foreign	United Kingdom	750	1,000	1,300
	India	*	(200)	300
	Ireland	155	*	*
	Japan	200	170	*
	Other	80	130	265
	Subtotal	1,185	1,100	1,865
Total		**$3,000**	**$3,315**	**$4,795**

*** The amount of income taxes paid during the year does not meet the five percent disaggregation threshold.**

Note: This example is for illustrative purposes only and reflects one potential way to meet the requirement.

Effective tax rate reconciliation

01

Annual disclosure requirements for public business entities

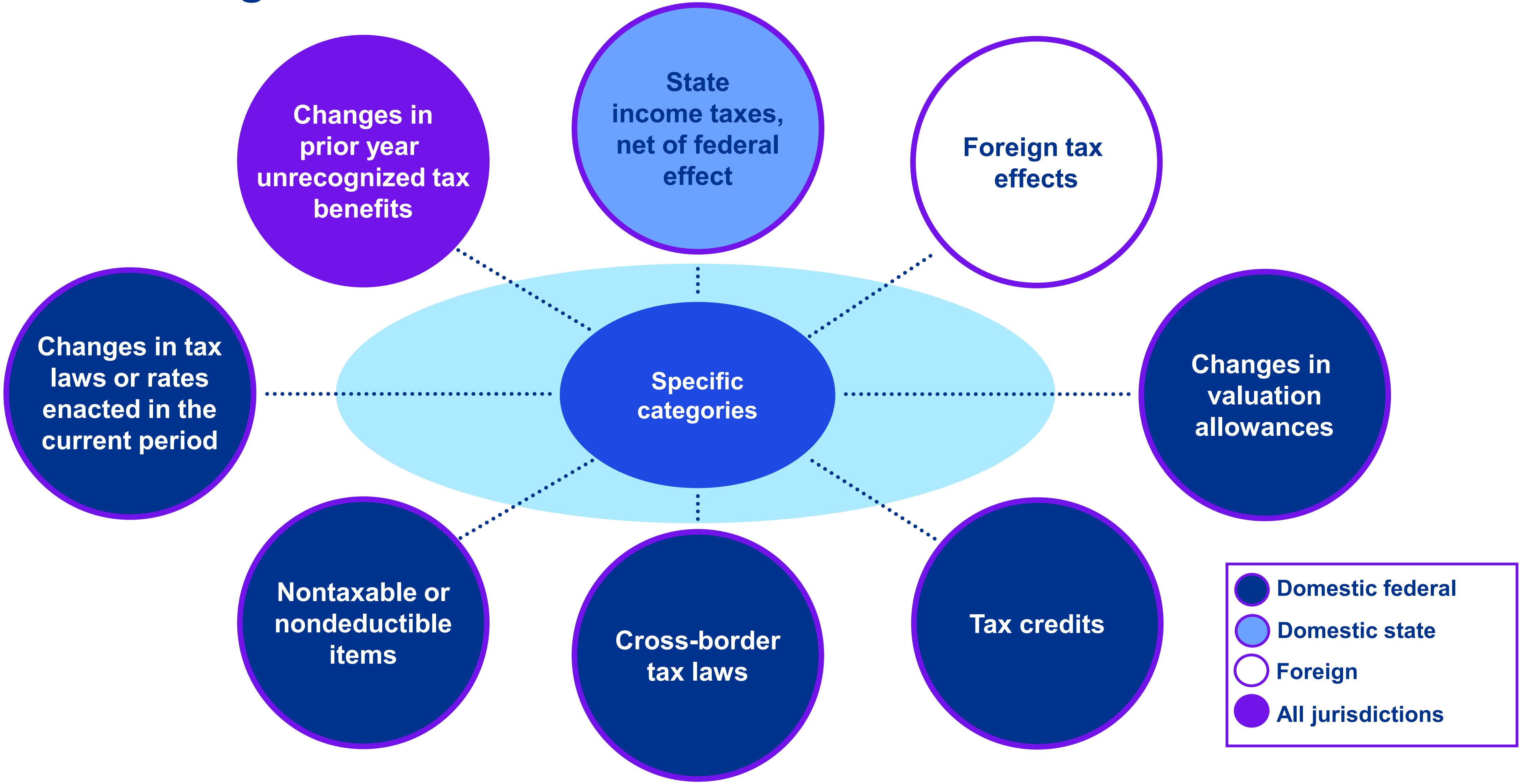
02

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

03

Disclose a tabular reconciliation using both percentages and reporting currency amounts

Specific categories



Specific federal categories in the country of domicile

Tax credits

- Reflects federal tax credits generated in the country of domicile (other than those that are netted within the cross-border tax laws category)

Cross-border tax laws

- Generally reflects:
  - Incremental income taxes
  - Imposed by the country of domicile
  - On income earned in foreign jurisdictions
- May be presented on a net basis with related tax credits

Nontaxable or nondeductible items

- Generally reflects items included in pretax income with no tax effect due to the provisions of the tax law

Changes in valuation allowances

- Reflects the valuation allowances initially recognized or subsequently adjusted in the reporting period

Changes in tax laws or rates enacted in the current period

- Reflects the cumulative tax effects of a change in enacted tax laws or rates on current or deferred tax assets and liabilities at the date of enactment

Categories may require further disaggregation

No further disaggregation required

All other specific categories

State income taxes, net of federal effect

- Reflects income taxes imposed at the state level in the country of domicile

Foreign tax effects

- Reflects reconciling items associated with foreign jurisdictions
- Requires further disaggregation by country and by nature

Changes in prior year unrecognized tax benefits

- Reflects reconciling items related to changes in unrecognized tax benefits for tax positions taken in prior reporting periods
- May be presented in aggregate for all jurisdictions permitted

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 income tax rate:

Domestic cross-border tax laws, tax credits, and nontaxable or nondeductible items	Disaggregated by nature	1
Domestic reconciling items that do not fall within the specific categories	Disaggregated by nature	2
Foreign tax effects	Disaggregated by country and by nature	3

Additional rate reconciliation disclosure requirements

Additional information required to be disclosed in the rate reconciliation

State income taxes, net of federal effect category

A public business entity must provide a qualitative description of the state jurisdictions that contribute to the majority of the effect of the state income taxes, net of federal effect category.

Qualitative explanations

A public business entity must provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, underlying cause, and judgment used in categorizing the reconciling items.

Entities other than public business entities

For entities other than public business entities, the amendments in the ASU require qualitative disclosure about the nature and effect of specific categories 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**
US federal statutory income tax rate	2,520	21.0%	2,100	21.0%	1,680	21.0%
Domestic federal						
Tax credits						
Research credits	(250)	-2.1%	(240)	-2.4%	(130)	-1.6%
Other	(20)	-0.2%	(20)	-0.2%	(10)	-0.1%
Nontaxable and nondeductible item, net	60	0.5%	(20)	-0.2%	30	0.4%
Cross-border tax laws						
Global intangible low-taxed income	180	1.5%	180	1.8%	90	1.1%
Other	10	0.1%	20	0.2%	10	0.1%
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 are subject to materiality considerations and based on entity-specific facts and circumstances.

Rate reconciliation example

	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 legal expenses	150	1.3%	120	1.2%	90	1.1%
Other	(100)	-0.9%	90	0.9%	(80)	-1.0%
Ireland						
Rate differential	(350)	-2.9%	(280)	-2.8%	(160)	-2.0%
Other	10	0.1%	20	0.2%	-	0.0%
Japan						
Changes in valuation allowances	-	0.0%	(300)	-3.0%	(30)	-0.4%
State and local 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)	-2.4%
Worldwide changes in prior year unrecognized tax benefits	70	0.6%	(230)	-2.3%	10	0.1%
Total	**2,040**	**17.0%**	**1,450**	**14.5%**	**1,510**	**18.9%**

Note: This example is for illustrative purposes only and is not based on an entity's operations. The information presented are subject to materiality considerations and based on entity-specific facts and circumstances.

Other disclosure requirements

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

Additional disclosures

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 domestic federal, domestic state, and foreign

Eliminated disclosures

- **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

Disclosing other disaggregated amounts example

The components of income (loss) from continuing operations before income tax expense (benefit) are as follows:

	20X3	20X2	20X1
United States	$ 4,500	$3,500	$2,785
Foreign	7,500	6,500	5,215
Total	**$12,000**	**$10,500**	**$8,000**

The components of income tax expense (benefit) from continuing operations are as follows:

	20X3	20X2	20X1
Current tax expense (benefit)			
US federal	$669	$332	$518
US state and local	417	394	375
Foreign	917	299	657
Total current tax expense (benefit)	**2,003**	**1,025**	**1,550**
Deferred tax expense (benefit)			
US federal	(50)	200	(20)
US state and local	89	49	(8)
Foreign	(2)	176	(12)
Total deferred tax expense (benefit)	**37**	**425**	**(40)**
Total income tax expense (benefit)			
US federal	619	532	498
US state and local	506	443	367
Foreign	915	475	645
Total income tax expense (benefit)	**$2,040**	**$1,450**	**$1,510**

Effective date and transition requirements

The Board decided that all entities should apply the amendments on a prospective basis, with a retrospective option.

The amendments are effective for public business entities for annual periods beginning after December 15, 2024.

The amendments are effective for entities other than public business entities for annual periods beginning after December 15, 2025.

Early adoption is permitted.

Resources

01

ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*

02

FASB Improvements to Income Tax Disclosures Project Update webpage

03

KPMG Hot Topic: *Income tax disclosures, Applying recent disaggregation enhancements*

04

KPMG Defining Issues, *FASB issues ASU to disaggregate income tax disclosures*

05

KPMG Handbook: Accounting for income taxes

06

Enhancing transparency: Disaggregating income tax disclosures webcast

03

Q&A

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