Accounting for Income Taxes Bulletin

April 2025

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

Getting ready to adopt ASU 2023-09: Improvements to Income Tax Disclosures

Adoption of *Accounting Standards Update (ASU) 2023-09—Income Taxes (Topic 740): Improvements to Income Tax Disclosures* is right around the corner. The ASU is effective for public business entities for fiscal years beginning after December 15, 2024 and for all other entities for fiscal years beginning after December 15, 2025. Among other changes, the ASU introduces disaggregation of income taxes paid as well as specific categories and further disaggregation of the effective tax rate reconciliation.

Adoption of the ASU may require new sources of information or modification of existing reports in order to meet the additional disclosure requirements. Additionally, various accounting policy elections may need to be established as it relates to the new disclosures. As such, it is recommended to consider modeling the new disclosure requirements to ensure a smooth transition and identify any areas that necessitate specific considerations.

The recently published *Hot Topic: Income tax disclosures* (November 2024) addresses many questions encountered in practice when implementing the ASU as well as detailed examples under the new requirements.

KPMG report on accounting for indemnification arrangements associated with transferable credits

The Inflation Reduction Act has led to a significant increase in the market for transferable tax credits, prompting many entities to acquire these credits for the first time. Once acquired, these credits are nonrefundable and nontransferable in the hands of the acquirer requiring accounting under ASC 740. As the acquirer becomes the primary obligor for any underpayment due to the taxing authority associated with the purchased credits, buyers often seek indemnification arrangements to mitigate potential risks.

Refer to the KPMG report for a summary of the accounting for indemnification arrangements, including seller indemnifications and third party insurance policies, associated with the acquisition of transferable credits in accordance with US GAAP.

Q1 2025 reminders

As calendar year-end companies prepare financial statements for the interim period ended March 31, 2025, below are selected reminders on accounting for income taxes considerations that may be relevant to the current interim period income taxes calculations.

Pillar Two administrative guidance

On January 15, 2025, the Organisation for Economic Cooperation and Development (OECD) released new administrative guidance related to Pillar Two which included specifications in dealing with the use of deferred tax assets under the Global Anti-Base Erosion (GloBE) transition rules, primarily associated with tax benefits arising from a government arrangement or following the introduction of a new corporate income tax prior to a constituent entity entering into the GloBE rules.

Some jurisdictions may automatically apply changes to the Agreed Administrative Guidance to the OECD model rules, whereas others may require enactment of new laws in the respective jurisdiction to apply such guidance. As such, analysis needs to be performed by jurisdiction to determine if the new administrative guidance has been enacted.

An entity is required to reflect the impact of changes in tax laws and rates in the interim period that includes the enactment date. Any impact on current year income taxes receivable (payable) are reflected in the estimated annual effective tax rate in the interim period that includes such enactment date, even if the law has a future effective date. The effect of a change in laws or rates on existing deferred tax assets and liabilities or a retroactive change to income taxes receivable or payable for an earlier annual period is excluded from the estimated annual effective tax rate calculation and recognized as a discrete event in the interim period that includes the enactment date.

See the KPMG report: Inclusive Framework guidance on application of GloBE rules for additional analysis of the new administrative guidance.

Accounting for income taxes considerations of the issuance of the section 987 final regulations

A recently issued KPMG report provides guidance on the key provisions of section 987 regulations enacted in December 2024. These regulations are used to determine taxable income or loss and foreign currency gain or loss for a section 987 qualified business unit (QBU). The guidance explains ASC 740, *Income Taxes* implications in relation to the transition, including accounting for the change in tax law as of enactment, net accumulated unrecognized section 987 gain or loss, and cumulative suspended section 987 loss. As the current quarter includes the effective date of the final regulations and, thus, this is the first quarter the final regulations are effective, careful consideration should be given to ensure the ongoing effects are appropriately considered.

Updates on accounting matters

Updated Hot Topic: IRA and CHIPS – Tax considerations

KPMG has updated its Hot Topic to replace the detailed US GAAP guidance with references to the current guidance in KPMG's respective accounting publications.

National Association of Insurance Commissioners 2024 Fall meeting

KPMG reports on the 2024 National Association of Insurance Commissioners (NAIC) Fall meeting. During the fall meeting, the NAIC adopted guidance on new market tax credits and revisions to Statement of Statutory Accounting Principles No. 101 to remove the disclosure requirement for the cumulative amount of each type of temporary difference when a deferred tax liability has not been recognized and rejected ASU 2023-09.

KPMG DPP Quarterly Outlook

The March 2025 Quarterly Outlook summarizes major accounting and financial reporting developments that may affect entities in the current period or in the near term. Previous editions of Quarterly Outlook are also available.

Remember recent pronouncements

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

Updated standard	Brief description of standard	Public business entities' effective date	Other entities' effective date
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	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

	amortization method if certain conditions are met		
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 income taxes paid information, as well as certain other amendments to improve the effectiveness of income tax disclosures	Annual periods beginning after December 15, 2024	Annual periods beginning after December 15, 2025

See the KPMG Financial Reporting View (FRV) ASU 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 2024 and 2025 financial reporting by insurers.

Professionals should be mindful of the recently updated IFRS Accounting Standards.

Updated standard	Brief description of standard	Effective date
IFRS 18 *Presentation and Disclosure in Financial Statements*	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) codification improvements

On January 22, 2025, the FASB issued a proposed ASU as part of its Codification Improvements (Evergreen) project that provides 34 targeted improvements addressing technical corrections, unintended Codification applications, clarifications, and minor enhancements. Included in the proposed amendments are items aligning intraperiod tax allocation guidance within ASC 740 and updating real estate guidance to refer to the use of the proportional amortization method to investments made primarily for the purpose of receiving income tax credits and other income tax benefits.

Comments are due by April 22, 2025.

FASB invites stakeholders to comment on future agenda priorities

On January 3, 2025, the Board published an Invitation to Comment that gives stakeholders the opportunity to provide feedback on its future standard-setting agenda. Among the items included are the derecognition of transferable credits and challenges on the accounting for renewable energy partnerships.

Comments are due by June 30, 2025.

FASB issues proposed ASU on accounting for government grants

On November 19, 2024, the FASB released a proposed ASU regarding accounting for government grants by business entities. Under the proposed ASU, a government grant would be recognized when it is probable that the business entity will comply with the grant conditions and receive the grant. The ASU would apply to all business entities that receive a government grant; however, it would not apply to transactions within the scope of ASC 740.

Under the proposal, entities may elect either a prospective or retrospective transition approach. The FASB will determine the effective dates and whether to allow early adoption after considering stakeholders' feedback.

Comments were due on March 31, 2025. See the KPMG comment letter for additional detail on certain items within the proposed ASU.

See the KPMG *Defining Issues* article for additional discussion on the proposed ASU.

Exposure Draft impacting IFRS Interpretations Committee (IFRIC) Interpretation 21 application requirements

The International Accounting Standards Board (IASB) published an Exposure Draft *Provisions – Targeted Improvements* on November 12, 2024, which proposes amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Exposure Draft addresses the apparent contradictions within the principles in IAS 37 for identifying liabilities, which have resulted in inconsistent and, sometimes, unsatisfactory application requirements. The Exposure Draft would replace the requirements supporting the present obligation recognition criterion with new requirements based on concepts in the Conceptual Framework for Financial Reporting and then withdraw IFRIC 21, *Levies*.

Comments were due on March 12, 2025. See the KPMG IFRG Limited comment letter for additional insights on the project.

Exposure Draft impacting Pillar Two disclosures under IFRS 19

In July 2024, the IASB published an Exposure Draft proposing amendments to its newest standard issued in May 2024, IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, that would reduce disclosure requirements from new or amended IFRS Accounting Standards issued between February 2021 and May 2024.

The proposals would retain the temporary exception to the recognition of deferred taxes related to Pillar Two income taxes and the targeted disclosure requirements for affected entities as included within *International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12 Income Taxes)*; however, the disclosure objective would be removed. Once feedback through the comment process is obtained, if the IASB agrees to proceed, any amendments to the requirements would be effective at the same time as IFRS 19 itself (January 1, 2027, with early adoption permitted).

Comments were due on November 27, 2024. See the KPMG IFRG Limited comment letter on disclosing Pillar Two income taxes and the tax effect of management-defined performance measures under IFRS 19.

During the February 2025 IASB meeting, the IASB decided to indicate the disclosure requirements only apply to known or reasonably estimable information.

Other IASB projects

Exposure Draft proposes examples to report the effects of uncertainties in financial statements

In July 2024, the IASB published an Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*, which proposes eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements.

One example illustrates how an entity might need to disclose information about assumptions it makes about the future even if other IFRS Accounting Standards do not require such disclosure. In Example 5, the entity operates in a jurisdiction whose government has announced regulations that would restrict the entity’s ability to operate and generate profits in that jurisdiction in the future. While the announced regulation does not relate to taxation, it could significantly affect the entity’s profitability and, therefore, its ability to recover its deferred tax assets. IAS 12 does not require an entity to disclose information about the assumptions used in determining the extent to which it is probable that taxable profit will be available against which unused tax losses can be utilised. However, in the proposed example, the entity would disclose information about the assumption of when the regulation will become effective and the effect that assumption has on the recognition of the deferred tax asset.

Comments were due on November 28, 2024. See the KPMG IFRG Limited comment letter on the exposure draft.

Exposure Draft proposes deferred taxes within equity method investments under IFRS Accounting Standards

In September 2024, the IASB published an Exposure Draft *Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)*, which includes proposed amendments to help companies report on such investments applying the equity method. The amendments 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 an associate's net identifiable assets and liabilities at fair value.

Comments were due on January 20, 2025. See the KPMG IFRG Limited comment letter on the exposure draft.

Other items of interest

KPMG learning – Executive education

KPMG offers CPE-eligible curriculum covering 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 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*