KPMG

Accounting for Income Taxes Bulletin

January 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

Updated Hot Topic: Income tax disclosures

The KPMG WNT Accounting for Income Taxes group and Department of Professional Practice (DPP) recently published an updated *Hot Topic: Income tax disclosures* (November 2024) incorporating recent updates, interpretations, and observations based on questions we have encountered in practice.

The publication highlights the new disclosure requirements in *Accounting Standards Update (ASU) 2023-09—Income Taxes (Topic 740): Improvements to Income Tax Disclosures* and addresses common questions regarding the application of the recent disaggregation enhancements arising from the issuance of the ASU. It also summarizes the guidance in the ASU on a topic-by-topic basis and provides KPMG observations based on our current understanding. 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. This 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.

Hot Topic: Checking in on Pillar Two

A new KPMG Hot Topic provides our latest insights into what companies are saying about Pillar Two in public disclosures, what questions we have been getting on the accounting, and what implementation steps companies are focusing on in advance of year-end. The article focuses on the accounting questions that come up under U.S. GAAP–including our view on how to account for the recapture rule under Pillar Two.

Additionally, KPMG IFRG Limited updated its guidance on accounting for Pillar Two under IFRS Accounting Standards for its view on whether to consider the impact of Pillar Two taxes when determining future taxable profits to assess the recoverability of deferred tax assets arising under the domestic corporate income tax regime.

KPMG Report: Recent SEC comment letters on income taxes

A forthcoming KPMG Report from the Accounting for Income Taxes group in WNT provides examples of comments regarding accounting for income taxes matters recently issued by the Securities and Exchange Commission (SEC) to registrants. Recent comments from regulators may assist issuers in identifying areas for improvement in existing income taxes disclosures in order to provide more robust and relevant information to investors and other users of the financial statements.

The examples include comments from the SEC related to effective tax rate reconciliation, valuation allowances, unrecognized tax benefits, indefinite reinvestment, and non-GAAP financial measures related to income taxes.

Additionally, at the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments, representatives of the SEC discussed the importance of disclosing the impact of known tax law changes, including Pillar Two, in Management Discussion and Analysis. The regulators emphasized that such disclosures should continue to evolve as more information becomes available. Other panelists stressed that companies need to assess their systems and processes and design new internal controls to address Pillar Two. See the KPMG SEC Issues & Trends for additional discussion and analysis of the conference.

FASB issues proposed ASU on accounting for government grants

On November 19, 2024, the Financial Accounting Standards Board (FASB) released a proposed ASU regarding accounting for government grants by business entities. This proposal addresses a lack of specific guidance on the recognition, measurement, and presentation of government grants, which has led to inconsistent practices among businesses. 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, *Income Taxes*.

Under the proposal, entities could 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. The Exposure Draft is open for comment until March 31, 2025.

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

Accounting for final section 987 regulations

In 2025, most taxpayers will be required to transition to the foreign exchange exposure pool methodology (the FEEP method) for calculating Internal Revenue Code section 987 currency gains and losses. Final regulations were issued in December 2024 and generally apply to tax years beginning after December 31, 2024. Taxpayers should assess the changes resulting from the final section 987 regulatory framework and recognize the income taxes impact in the interim period that includes the issuance of the final regulations.

See the KPMG Report that provides analysis and observations of the final and proposed regulations under section 987, including implementation of the FEEP method.

Updates on Accounting Matters

KPMG DPP Quarterly Outlook

The December 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 below 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 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**
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
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

FASB projects

FASB codification improvements related to income taxes

At the September 18, 2024 FASB Board meeting, the Board deliberated on various Codification improvements issues as part of its Codification Improvements (Evergreen) project that are expected to provide clarification to the Codification without undue incremental costs to preparers or users of financial statements. 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. As a result of the discussion, the Board directed the Staff to draft a proposed ASU for vote by written ballot with a 90-day comment period. The FASB expects to publish a proposed ASU in the first quarter of 2025.

FASB invites stakeholders to comment on future agenda priorities

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 the challenges on the accounting for renewable energy partnerships.

Comments are due by June 30, 2025.

Insurance statutory accounting projects

KPMG reports on actions taken and discussions held about ongoing projects on conference calls and at the Summer 2024 National Association of Insurance Commissioners meeting, which includes exposed revisions to guidance related to the new market tax credits as well as income tax disclosures.

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 will 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*. The deadline for submitting comments on the Exposure Draft is March 12, 2025.

Other IASB projects

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.

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 Statement*s, 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 recognizing its share of an associate's net identifiable assets and liabilities at fair value.

The Exposure Draft is open for comment until January 20, 2025.

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*

kpmg.com/socialmedia

Privacy | Legal