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Accounting for taxes in a transformative 2025

Transforming tax.
Redefining connections.

2025 US Cross-Border Tax Summit

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Accounting for taxes in a transformative 2025

Accounting for changes in tax laws

- Accounting for income taxes considerations
- Accounting for uncertainty

Accounting for tariffs

- Financial reporting considerations
- Considerations in accounting for income taxes

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

- Overview
- Effective tax rate reconciliation considerations
- Disclosure examples
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01

Accounting for changes in tax law

Changes in tax laws

Accounting for income taxes considerations

- The tax effect of changes in tax laws on income taxes receivable (payable) for the current year is recognized in the estimated annual effective tax rate in the period that includes the enactment date, even if the change is effective in a later reporting period.
- The tax effect of changes in tax laws on income taxes receivable (payable) for prior years is recognized discretely in income tax expense (benefit) from continuing operations as of the date of enactment.
- Effects of changes in tax laws on existing deferred tax assets (liabilities), including the reevaluation of a valuation allowance:
  - Based on enactment date temporary differences and allocated to income tax expense (benefit) from continuing operations for intraperiod tax allocation purposes
  - We believe the effects may be based on either enactment date or beginning-of-year temporary differences for determining a discrete amount to recognize in the period of enactment.

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Changes in tax laws (continued)

Accounting for uncertainty

- As entities assess the impact of the new law, there may be elements that are not entirely clear how the taxing authority or a court would interpret the language in the statute.
  - Entities should consider the impact the legislation would have on accounting for uncertainty in income taxes.
  - Although there may be anticipation that future regulations or other administrative guidance will resolve some of the uncertainties, until that guidance is promulgated, there may be a period of time where the language in the statute is the only information available to be evaluated.
- A presumption exists that beneficial tax positions, based on currently enacted law, will be claimed.
- If tax positions arise that are expected to be reported on a tax return that are not highly certain to be sustained upon examination based on the technical merits that exist at the balance sheet date, an entity should assess the tax position in accordance with the recognition and measurement criteria within ASC 740 to determine the appropriate amount of tax benefit to be reflected within the financial statements.

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Accounting for tariffs

Considerations in accounting for tariffs

Recent US tariffs may potentially affect multiple areas of financial reporting. Rapidly changing policies are creating uncertainty which can pose challenges in preparing estimates, assumptions, and projected financial information.

Contingencies

Any uncertainty existing surrounding the applicability or calculation of tariffs is assessed in accordance with ASC 450, *Contingencies.*

Impairments

Consider the tax effects when evaluating impairment of inventory, goodwill and long-lived assets, and financial assets.

Valuation allowances

Consider if changes in estimates or changes in conditions result in the inability to realize deferred tax assets.

Interim reporting

New challenges may exist in estimating the annual effective tax rate.

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03

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

ASU 2023-09 overview

Income taxes paid

- Required for all entities
- Disclose income taxes paid, net of refunds, disaggregated by domestic federal, domestic state and foreign
- Further disaggregation required when income taxes paid (net of refunds) to an individual jurisdiction is 5.0 percent or more of the total
- Comparative presentation not required

Rate reconciliation

- Required for public business entities
- Presented in both amounts and percentages
- Required categories with further disaggregation in specified categories
- Disaggregation threshold of 5.0 percent of expected tax
- Comparative presentation required

Additional disclosures

- Required for all entities
- Pretax income (loss) from continuing operations disaggregated between domestic and foreign
- Total income tax expense (benefit) disaggregated between domestic federal, domestic state and foreign

Eliminated disclosures

- Cumulative amount of each type of temporary difference for which a deferred tax liability has not been recognized
- Reasonably possible changes in unrecognized tax benefits within 12 months of the reporting date

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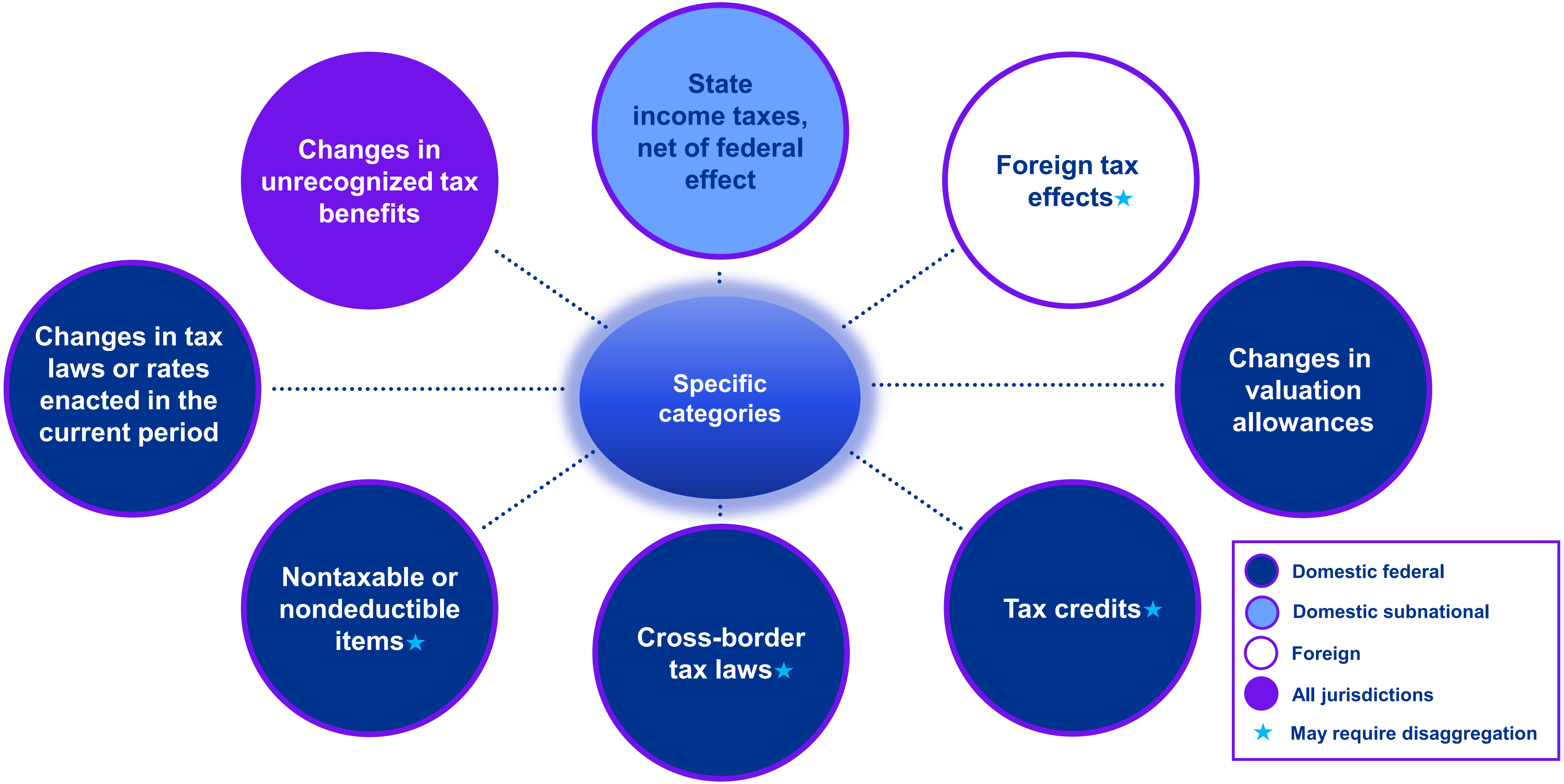
ASU 2023-09 rate reconciliation categories



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Cross-border tax laws category

Cross-border tax laws characteristics

Reconciling items in the cross-border tax laws category include income taxes with the following characteristics:

- Imposed at the federal level in the country of domicile
- Related to income earned in foreign jurisdictions
- An incremental income tax

Common examples may include the following:

- GILTI
- Subpart F income
- Income from branches, disregarded entities and partnerships located in foreign jurisdictions

Cross-border tax laws considerations

Reconciling items within the cross-border tax laws category may be presented net of related tax credits

- Only applicable when the tax credit is related to the same income during the same reporting period and may not be presented net within the tax credits category
- In circumstances in which a net benefit arises for which no benefit is able to be realized, the impact to the valuation allowance must be separately presented within the changes in valuation allowances category

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Cross-border tax laws category example

A US parented company has a foreign disregarded entity (DRE) in Australia that is subject to a 30.0 percent local tax rate. DRE reports $100 of pretax income which is the only income of the group resulting in $30 of foreign current tax expense ($100 times 30.0 percent). US parent needs a valuation allowance on all branch character deferred tax assets, including foreign tax credit carryforwards. The US statutory income tax rate is 21.0 percent.

Rate reconciliation (gross)

	20X3	
	Amount	**Percent**
US federal statutory income tax rate	$21	21.0%
Domestic federal		
Tax credits		
Foreign tax credit	(30)	-30.0%
Cross-border tax laws		
US taxation of foreign disregarded entity	21	21.0%
Changes in valuation allowance	9	9.0%
Foreign tax effects		
Australia		
Statutory income tax rate differential	9	9.0%
Total	30	30.0%

Rate reconciliation (net)

	20X3	
	Amount	**Percent**
US federal statutory income tax rate	$21	21.0%
Domestic federal		
Tax credits		
Foreign tax credit	—	—
Cross-border tax laws		
US taxation of foreign disregarded entity	(9)	-9.0%
Changes in valuation allowance	9	9.0%
Foreign tax effects		
Australia		
Statutory income tax rate differential	9	9.0%
Total	30	30.0%

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Foreign tax effects

Disaggregation

- By country if total reconciling items exceed the 5.0 percent threshold
- By country and by nature if any individual reconciling item in a country exceeds the 5.0 percent threshold

Reconciling items by nature

- Entities may need to apply judgment to determine whether an item is of a separate nature
- When disaggregating by nature, all items of a similar nature for the country are aggregated, even if they are in different legal entities

Statutory income tax rate differential

- Reporting entity's pretax income (loss) times the difference between the federal statutory income tax rates of the foreign jurisdiction and the domestic jurisdiction
- Excludes alternative minimum taxes, outside level taxes, withholding taxes and subnational taxes

Withholding taxes

- Associated with the jurisdiction imposing the tax
- Excluded from any statutory rate differential reconciling items and separately presented if it exceeds the 5.0 percent threshold

Subnational income taxes

- Includes all tax effects of subnational income taxes (other reconciling items are based on the foreign federal statutory income tax rate only)
- Presented as an individual reconciling item if it exceeds the 5.0 percent threshold

Gross versus net presentation

- Tax effects of a cross-border tax and any related credit for the same jurisdiction related to the same income may be presented on a net basis
- Judgment may be required to determine appropriate presentation

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Items of income and expense and jurisdictional attribution

Entities will generally need to determine pretax income (loss) by country to determine the rate differential and whether the respective country exceeds the 5.0 percent disaggregation threshold

Do not generate pretax income (loss)

- Dividends from consolidated subsidiaries
- Certain intra-entity transfers of assets other than inventory
- Payments under intercompany recharge agreements for share-based payment awards

Generate pretax income (loss)

- Income (loss) from branches and disregarded entities that are taxed in multiple jurisdictions
- Income (loss) from intra-entity transfer of inventory
- Income (expense) from intra-entity transactions not involving assets (for instance, intra-entity services, management fees, interest, and royalties)
- Transfer pricing adjustments
- Share-based payment awards
- Acquisition accounting adjustments
- Adjustments recorded centrally
- Non-dividend income subject to withholding

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Subnational income taxes example

ABC Corp (US) — $0 pretax income

DEF GmbH (Germany) — $1,000 pretax income; $100 nondeductible fines

Jurisdiction	Tax rate
US federal	21.0%
Germany federal	16.0%
Berlin trade tax	14.0%

	20X3	
	Amount	Percent
US federal statutory income tax rate[1]	210	21.0%
Foreign		
Germany		
Rate differential[2]	(50)	-5.0%
Nondeductible fines[3]	16	1.6%
Trade taxes[4]	154	15.4%
Total	$330	33.0%

Notes:

[1] Total pretax income of $1,000 at the 21.0 percent US federal statutory income tax rate

[2] Germany pretax income of $1,000 times the rate differential of 5.0 percent

[3] $100 nondeductible fines at the Germany federal statutory income tax rate of 16.0 percent

[4] $1,100 of Germany taxable income at the 14.0 percent trade tax rate

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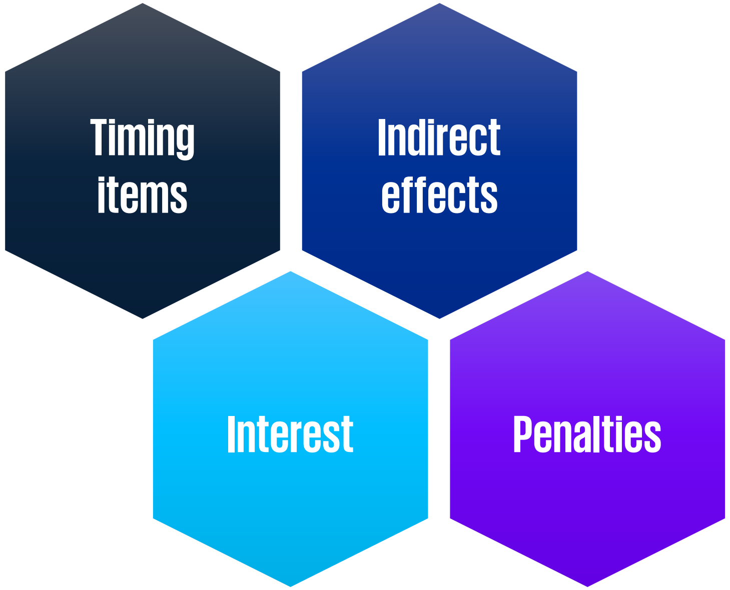
Unrecognized tax benefits

Tax position period	Presentation within the rate reconciliation
Current annual reporting period	Net basis and within the same category as the related tax position
	Gross basis within the same jurisdiction as the related tax position
	Within the worldwide changes in unrecognized tax benefits category
Prior annual reporting period	Within the worldwide changes in unrecognized tax benefits category



Indirect effects

- Consistency with presentation of tax positions related to the current annual reporting period
- Indirect effects related to changes in prior annual reporting periods are included within the changes in unrecognized tax benefits category

Timing items

- Unrecognized tax benefits related expense may be presented with the related deferred tax benefit resulting in a single reconciling item that is not subject to the gross presentation requirement

Interest and penalties

- Appropriate to include interest and penalties related to prior year unrecognized tax benefits even if the balance of unrecognized tax benefits has not changed

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Changes in unrecognized tax benefits example

A US entity has pretax income of $1,000 and a $100 research credit, with a current year unrecognized tax benefit of $30 related to the $100 research credit.

	Net basis		Gross basis		Worldwide basis	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
US federal statutory income tax rate	210	21.0%	210	21.0%	210	21.0%
Domestic federal						
Tax credits						
Research credits	(70)	-7.0%	(100)	-10.0%	(100)	-10.0%
Increase in current year unrecognized tax benefits			30	3.0%		
Worldwide changes in unrecognized tax benefits					30	3.0%
Income tax expense	140	14.0%	140	14.0%	140	14.0%

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.

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Disclosure examples

Income taxes paid, rate reconciliation and other disaggregated amounts

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	*	260
	New Jersey	*	180	*
	New York State	*	200	275
	New York City	*	220	290
	Other	65	85	110
	Subtotal	460	935	1,235
Foreign	United Kingdom	540	810	1,300
	India	*	(200)	300
	Ireland	155	*	*
	Germany Federal	200	180	*
	Berlin	210	190	*
	Other	80	130	265
	Subtotal	1,185	1,110	1,865
Total		**$3,000**	**$3,545**	**$5,100**

*** The amount of income taxes paid during the year does not meet the 5.0 percent disaggregation threshold.**

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

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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 items, 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%

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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	(120)	-1.0%	90	0.9%	(80)	-1.0%
Ireland						
Statutory income tax rate differential	(450)	-3.8%	(280)	-2.8%	(160)	-2.0%
Other	10	0.1%	20	0.2%	—	0.0%
Germany						
Statutory income tax rate differential	(140)	-1.2%	(150)	-1.5%	(30)	-0.4%
Changes in valuation allowances	—	0.0%	(500)	-5.0%	—	0.0%
Trade taxes	500	4.2%	480	4.8%	100	1.3%
Nondeductible fines	130	1.1%	70	0.7%	20	0.3%
Other	(190)	-1.6%	(70)	-0.7%	(40)	-0.5%
Singapore	(170)	-1.4%	(120)	-1.2%	(80)	-1.0%
Other foreign jurisdictions	(300)	-2.5%	(20)	-0.2%	(200)	-2.4%
Worldwide changes in 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%**

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Disclosing other disaggregated amounts example

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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**	**$10,000**	**$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**

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

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Effective date and transition

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.

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Q&A

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