KPMG

Accounting for Income Taxes Bulletin

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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

Year-end accounting for income taxes disclosures reminders

Accounting Standards Update (ASU) 2023-09, *Improvements to Income Tax Disclosures*, is intended to enhance the transparency and decision-usefulness of income tax disclosures by expanding annual income tax disclosures. Public business entities (PBEs) with calendar year-ends are required to provide the new disaggregated disclosures in the December 31, 2025 financial statements. As year-end income taxes disclosures are being prepared, the following KPMG resources are available to assist with the implementation of ASU 2023-09:

- KPMG *Hot Topic: Income tax disclosures* (August 2025)
- KPMG webcast: Income tax: New rate reconciliation disclosures

To ensure successful implementation of ASU 2023-09, entities should establish a cross-functional implementation team, review and understand the new requirements, determine the adoption approach, assess data availability, and update policies, processes, and controls.

Additionally, a KPMG Hot Topic includes key disclosure considerations related to H.R. 1, the budget reconciliation bill known as the One Big Beautiful Bill (OBBB). In annual financial statements, income tax expense (benefit) resulting from adjustments to deferred tax assets or liabilities due to enacted tax law changes are required to be disclosed. Within the rate reconciliation, the tax effects of a change in enacted domestic federal tax laws or rates on current or deferred taxes at the date of enactment are included in the changes in tax laws and rates category; however, we believe that any domestic federal valuation allowance changes that arose as a result of OBBB generally should be included in the changes in valuation allowance category.

KPMG report: Recent SEC comment letters on income taxes

A 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, Pillar Two top-up taxes, changes in tax laws, pro forma adjustments, and non-GAAP financial measures related to income taxes.

Additionally, at the 2025 AICPA Conference on Current SEC and PCAOB Developments, panelists discussed key ASU 2023-09 implementation challenges, tax as a driver of business strategy, and the significant changes introduced by global tax initiatives, such as Country-by-Country Reporting. Refer to KPMG's conference highlights, including Tax in transition: ASU 2023-09 and global shifts, for additional details.

FASB issues ASU on accounting for government grants

On December 4, 2025, the FASB issued ASU 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities*. The ASU expands ASC 832 to:

- establish authoritative guidance on the accounting for government grants received by business entities

- define a government grant as a transfer of a monetary asset or a tangible nonmonetary asset, other than an exchange transaction, from a government to a business entity
- provide a recognition threshold under which a grant is not recognized until (1) it is probable the entity will comply with the grant's conditions and that the grant will be received and (2) the entity meets the specific recognition guidance for a grant related to an asset or a grant related to income.

Existing disclosure requirements in ASC 832 for annual reporting periods are leveraged for the new requirements, including certain new disclosures that are required only in the period the grant is recognized.

The ASU applies to all business entities that receive government grants except for not-for-profits and employee benefit plans; however, the ASU does not apply to, among other things, transactions within the scope of ASC 740.

For public business entities, the amendments are effective for annual reporting periods beginning after December 15, 2028, and interim reporting periods within those annual reporting periods. For entities other than public business entities, the amendments are effective for annual reporting periods beginning after December 15, 2029, and interim reporting periods within those annual reporting periods. Early adoption is permitted. Entities may elect a modified prospective, modified retrospective, or retrospective transition approach.

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

New and updated KPMG handbooks

KPMG has updated the Handbook: *Accounting for income taxes* and the Handbook: *Tax credits* to include new and updated guidance and interpretations.

Among other things, the October 2025 updates to the *Handbook: Accounting for income taxes* include:

- clarified guidance related to income taxes disclosures that will be effective upon the adoption of ASU 2023-09
- clarified guidance related to accounting for Pillar Two
- updated guidance related to final regulations under section 987
- clarified guidance related to changes in tax accounting methods
- added new guidance related to accounting for insurance policies associated with tax positions
- added a new example to reflect accounting for contract liabilities arising in a business combination
- added new guidance related to recognition and measurement of indirect effects of an unrecognized tax benefit
- added new guidance related to the allocation of income taxes attributed to an owner in separate financial statements

- clarified guidance related to measuring an acquirer's change in valuation allowance.

The October 2025 updates to the Handbook: *Tax credits* include:

- updated the summary of credits as a result of the enactment of the OBBB
- clarified guidance related to accounting for refundable credits under the grant model (IAS 20)
- clarified guidance on accounting for nonrefundable, nontransferable investment tax credits under the deferral method
- updated guidance on accounting for transferable credits
- added a new chapter for tax equity structures with new and updated guidance on how they work and what accounting models apply
- reorganized and added guidance on applying the proportional amortization method in tax equity investments.

See the KPMG Handbooks page for all available handbooks.

Updates on accounting matters

FASB issues ASU on Codification improvements

On December 17, 2025, the FASB issued ASU 2025-12, *Codification Improvements*, that provides targeted improvements addressing technical corrections, unintended Codification applications, clarifications, and minor enhancements. Included in the ASU are items aligning intraperiod tax allocation guidance within separate sections of ASC 740 and updating real estate guidance to reference the use of the proportional amortization method to investments made primarily for the purpose of receiving income tax credits and other income tax benefits. The amendments are not expected to have a significant effect on accounting practice.

The ASU is effective for all entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods. Early adoption is permitted for both interim and annual financial statements that have not yet been issued and may generally be applied on either a retrospective or a prospective basis.

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

Insurance statutory accounting adopts revisions to SSAP No. 101

During the December 2025 meeting of the NAIC, the Statutory Accounting Principles Working Group adopted to SSAP No. 101, with modification, certain revisions from ASU 2019-12, *Simplifying the Accounting for Income Taxes*. The adopted revisions also align statutory guidance with the U.S. GAAP requirement to estimate the effective annual tax rate at each interim period based on the best available data, excluding the tax effects of significant unusual or extraordinary items. Further, the guidance aligns statutory guidance with U.S. GAAP to recognize the tax effects of losses arising in the early portion of a fiscal year only when the tax benefits are expected to be realized during the year or as a deferred tax asset at the end of the year (taking into account changes in valuation allowances and tax law effects in the period they occur and recognizing new legislation only after enactment).

Applying the mandatory deferred tax exception to QDMTTs

Many countries are implementing the international tax reform under Pillar Two and introducing top-up taxes, which are subject to the mandatory exception from deferred tax accounting under IAS 12 *Income Taxes*. In some countries, a domestic minimum top-up tax, intended to be "qualified" under Pillar Two, is effective from January 1, 2025. However, the "qualifying" status of such a tax is expected to be formally confirmed at a future date.

Our digital guide provides guidance on how to apply the mandatory deferred tax exception to a domestic minimum top-up tax before its qualified status is formally confirmed. The new guidance applies immediately.

Updated KPMG Handbook: *IFRS® compared to US GAAP*

KPMG has updated its IFRS compared to US GAAP handbook, which includes our most recent side-by-side comparison of IFRS Accounting Standards and U.S. GAAP, highlighting the key differences between the two frameworks for financial reporting of 2025 calendar year-end entities. Updates to the income taxes chapter include the accounting for investment tax credits and considerations around the measurement of current and deferred taxes that are subject to a future condition.

KPMG DPP Quarterly Outlook

The December 2025 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 2023-02,	Permits reporting	Fiscal years	Fiscal years

Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method	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	beginning after December 15, 2023, and interim periods within those fiscal years	beginning after December 15, 2024, and 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
ASU 2025-12, *Codification Improvements*	Provides technical corrections to align the intraperiod tax allocation guidance and reference the proportional amortization method	Annual periods beginning after December 15, 2026, and interim periods within those annual periods	Annual periods beginning after December 15, 2026, and interim periods within those annual periods
ASU 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities*	Provides guidance on how business entities should recognize, measure, and present government grants received	Annual periods beginning after December 15, 2028, and interim periods within those annual periods	Annual periods beginning after December 15, 2029, and interim periods within those annual periods

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 2025 and 2026 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
IFRS 19 *Subsidiaries without Public Accountability: Disclosures*	Voluntary IFRS Accounting Standard with reduced disclosure burden for subsidiaries that do not have public accountability and whose parent produces consolidated financial statements that are available for public use under IFRS Accounting Standards	An entity may elect to apply the standard for reporting periods beginning on or after January 1, 2027, with early adoption permitted

On the horizon

Updates to the Committee’s agenda decisions for IFRS 18

During a November 2025 meeting, the IFRS Interpretations Committee (IFRIC or the Committee) considered whether IFRS 18 *Presentation and Disclosure in Financial Statements* allows entities to present taxes or charges that are not income taxes within the scope of IAS 12 in the “income tax expense or income” line item or the income taxes category of the statement of profit or loss. It concluded that, under IFRS 18, only income tax expense or income recognised under IAS 12 (including related foreign exchange differences) can be classified in the income taxes category. Therefore, taxes or charges outside IAS 12 cannot be presented in that line item or category. The Committee determined that existing IFRS principles provide sufficient guidance and tentatively decided not to add a standard-setting project to the work plan. The IFRIC is requesting comments by February 6, 2026.

As a result of this discussion, the IFRIC decided to propose additional updates to prior agenda decisions. The first item was a request the Committee received seeking clarification on whether production-based royalty payments payable to one taxing authority that are claimed as an allowance against taxable profit for the computation of income taxes payable to another taxing authority should be presented as an operating expense or a tax expense in the statement of comprehensive income. The second item was a request the Committee received for guidance on whether a tax based on tonnage capacity can be considered an income tax in accordance with IAS 12. In both instances, the IFRIC clarified that the respective items are not considered income taxes within the scope of IAS 12 and therefore it would not be appropriate to include such amounts within the income tax expense or income line or the income taxes category of the statement of profit or loss. The IFRIC is asking for feedback only about the proposed updates and not about other aspects of these agenda decisions by February 6, 2026.

Other IASB projects

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

In September 2024, the IASB published the 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. At the June 2025 IASB meeting, the Board decided to keep the project's objectives unchanged and proceed in redeliberating the proposals in the Exposure Draft.

The Board intends to decide on the project's direction during the first quarter of 2026.

Exposure Draft impacting IFRS Interpretations Committee Interpretation 21 application requirements

The IASB published the 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 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*.

The Board met in October and December 2025 to continue redeliberating proposals and intends to decide on the project's direction during the first quarter of 2026.

Other items of interest

Tariff-related disclosures

DPP has updated its web article highlighting how SEC registrants are increasingly providing investors with more detailed, quantified, and operationally focused quarterly disclosures regarding tariff and trade policy impacts within recent Form 10-Q filings through November 30, 2025.

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*

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