



# Accounting for One Big Beautiful Bill Act: Key policies to review after enactment

September 2025

This article highlights certain accounting policy and other considerations when accounting for the changes in the One Big Beautiful Bill Act.

## Introduction

On July 4, 2025, President Trump signed into law H.R. 1, the budget reconciliation bill known as the “One Big Beautiful Bill” (OB BB or the bill) (Pub. L. No. 119-21). ASC 740, *Income Taxes*, requires the tax effect of changes in tax laws to be recognized in the period that includes the enactment date. Consequently, entities are undertaking a review of existing accounting policies or establishing new accounting policies related to accounting for income taxes. This report delves into considerations for accounting policy choices in various scenarios to assist organizations in making informed decisions. Discussion and detailed examples are provided below regarding the following situations:

- Accounting policy considerations for effects of the corporate alternative minimum tax (CAMT) in the valuation allowance assessment,
- Accounting policy considerations when performing valuation allowance assessments on deferred tax assets for interest carryforwards,
- Accounting policy to use the enactment date or beginning-of-year deferred taxes in determining interim period income taxes consequences, and
- Repeal of the tax election for a one-month deferral of the tax year of specified foreign corporations.

This report highlights selected items included in the bill and discusses some related accounting for income taxes implications, but it is not all inclusive. This report is based on our current understanding of the bill's tax law provisions and our analysis to date. Certain of the tax law provisions require interpretation, which may be clarified in future guidance from the U.S. Treasury, including regulations or sub-regulatory guidance.

## AMT interaction with valuation allowance on regular tax deferred tax assets

A valuation allowance is required for deferred tax assets if, based on available evidence, it is more likely than not that all or part of the asset will not be realized due to insufficient taxable income of the appropriate character or in the relevant period.

An entity's alternative minimum tax (AMT) status may affect its ability to realize tax benefits under the regular tax system. For example, an entity may have an operating loss carryforward for regular tax purposes but not for AMT purposes; such a carryforward can reduce future regular taxable income but not AMT taxable income. If the loss carryforward is used in a period subject to AMT, the benefit under the regular tax system is offset by the AMT liability, which is expected to generate AMT credit carryforwards. Available AMT credits may be used to offset future regular tax, but if they cannot be utilized (such as when there is the expectation that the entity will perpetually be subject to the AMT), the realized benefit is limited to the excess of the regular tax without the carryforward over the AMT, if any. However, ASC 740-10-55-15(c) provides that AMT rates and laws are a factor only in considering the need for a



valuation allowance for a deferred tax asset for AMT credit carryforwards.<sup>1</sup> As a result, we believe entities have a policy choice to consider or to disregard the effect of the AMT system in determining the valuation allowance for deferred tax assets under the regular tax system. An entity's policy choice must be consistently applied to that type of AMT and disclosed, if material. We believe an entity may have a different policy for different types of AMTs, such as CAMT, the base erosion and anti-abuse tax (BEAT) or a qualified domestic minimum top-up tax (QDMTT).

Some companies may be establishing this accounting policy for CAMT for the first time in the interim period that includes the July 4, 2025 enactment of the OBBB given certain provisions included in the law may significantly reduce regular taxable income and result in first-time exposure to CAMT as well as a change in many organization's expectation related to its CAMT profile in future years. In other words, if an entity expects to become a perpetual CAMT taxpayer (even if it is not currently forecasted to begin for another few years), the accounting policy as to whether to consider or disregard its AMT status in assessing the need for a valuation allowance may be relevant for the first time in the July 4, 2025 period of enactment for any temporary differences or carryforwards under the regular tax system that reverse in a future year if the entity expects to be a CAMT taxpayer in such year.

### Example: AMT interaction with valuation allowance

As of December 31, 2025, ABC, a calendar year-end corporation, has a deferred tax asset of \$2,100 from a \$10,000 deductible temporary difference related to accrued vacation, and a deferred tax liability of \$(1,680) from an \$(8,000) taxable temporary difference related to property and equipment. As of the reporting date, ABC also has a \$10,000 CAMT credit carryforward.

For its valuation allowance assessment, ABC relies on forecasted pretax income of \$2,000 annually for the next three years, as well as taxable income from the reversal of the property and equipment taxable temporary difference. ABC has established an accounting policy to evaluate multiple sources of taxable income in combination with each other for purposes of the valuation allowance assessment and to use the with-and-without approach for determining how much benefit is expected to be realized on reversal of a deferred tax asset.<sup>2</sup>

Historically, ABC's regular tax was anticipated to exceed its tentative minimum tax so the impact of CAMT was not previously considered in its policy. However, due to an increased foreign-derived deduction eligible income (FDDEI) benefit from OBBB, ABC now expects to be a perpetual CAMT taxpayer. The company has prepared the following analysis to compare the effects of considering versus disregarding CAMT when determining the need for a valuation allowance on its regular tax deferred tax assets.

Prior to considering the projections of future taxable income, ABC considered the deferred tax assets supported by the future reversal of existing temporary differences as such amount will represent the minimum amount that is considered realizable.

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<sup>1</sup> The tax benefit of an AMT credit carryforward can be realized by using the credit to reduce income taxes payable under the regular tax system on reversing net taxable temporary differences or on future taxable income exclusive of reversing items (but not below the amount of tentative minimum tax that would be payable on AMT temporary differences or future taxable income, respectively). See ASC 740-10-55-33.

<sup>2</sup> Refer to sections 4.007a and 4.048 of the KPMG Handbook, *Accounting for Income Taxes* (July 2024) for additional detail on the available approaches.



		With deferred tax assets			Without deferred tax assets		
	12/31/2025	2026	2027	Total	2026	2027	Total
Accrued vacation	10,000	(10,000)	-		-	-	
Property and equipment	(8,000)	4,000	4,000		4,000	4,000	
Taxable income before NOL		(6,000)	4,000		4,000	4,000	
NOL generated (utilized)		6,000	(3,200)	2,800	-	-	
Taxable income		-	800	800	4,000	4,000	8,000
Statutory tax rate		21%	21%		21%	21%	
<b>Regular tax</b>		-	<b>168</b>	<b>168</b>	<b>840</b>	<b>840</b>	<b>1,680</b>
Adjusted financial statement income (AFSI)		4,000	4,000		4,000	4,000	
CAMT rate		15%	15%		15%	15%	
Tentative minimum tax		600	600	1,200	600	600	1,200
AMT credit carryforward	10,000	600	432	11,032			
<b>Income taxes payable</b>		<b>600</b>	<b>600</b>	<b>1,200</b>	<b>840</b>	<b>840</b>	<b>1,680</b>
Savings disregarding CAMT (1,680-168 of total regular tax with and without the deferred tax assets)							1,512
Savings considering CAMT (1,680-1,200 of total income taxes payable with and without the deferred tax assets)							480

The future reversal of existing taxable temporary differences supports \$1,512 of deferred tax assets disregarding the effect of CAMT and \$480 when considering the effect of CAMT. As the future reversal of existing taxable temporary differences does not support all deferred tax assets as of the December 31, 2025 balance sheet date, ABC considers its future taxable income exclusive of reversing items in combination with the future reversals of existing taxable temporary differences, as summarized below.<sup>3</sup>

		With deferred tax assets			Without deferred tax assets		
	12/31/2025	2026	2027	2028	2026	2027	2028
Pretax income (loss)		2,000	2,000	2,000	2,000	2,000	2,000
FDDEI <sup>4</sup>		(800)	(800)	(800)	(800)	(800)	(800)
Accrued vacation	10,000	(10,000)					
Property and equipment	(8,000)	4,000	4,000		4,000	4,000	
Taxable income before NOL		(4,800)	5,200	1,200	5,200	5,200	1,200
NOL generated (utilized)		4,800	(4,160)	(640)	-	-	-
Taxable income		-	1,040	560	5,200	5,200	1,200
Tax rate		21%	21%	21%	21%	21%	21%
Regular tax		-	218	118	1,092	1,092	252
<b>Total regular tax from 2026 to 2028</b>				<b>336</b>			<b>2,436</b>
AFSI		6,000	6,000	2,000	6,000	6,000	2,000
CAMT rate		15%	15%	15%	15%	15%	15%
Tentative minimum tax		900	900	300	900	900	300
AMT credit carryforward	10,000	900	682	182			48
Income taxes payable		900	900	300	1,092	1,092	300
<b>Total income taxes payable from 2026 to 2028</b>				<b>2,100</b>			<b>2,484</b>
Savings disregarding CAMT (2,436-336 of total regular tax with and without the deferred tax assets)							2,100
Savings considering CAMT (2,484-2,100 of total income taxes payable with and without the deferred tax assets)							384

Based upon the above, when disregarding CAMT, ABC's ability to rely on future taxable income exclusive of reversing items, results in \$2,100 of deferred tax assets being supported, which is greater than the \$1,512 supported when only considering the reversal of existing taxable temporary differences; accordingly, if ABC adopts a policy to disregard CAMT, it would recognize \$2,100 of deferred tax assets after valuation allowance. However, the use of forecasted taxable income did not result in additional savings when considering CAMT in assessing the need for a valuation allowance; as such, the \$480 supported by only considering the future reversal of existing taxable temporary differences would represent the total amount of deferred tax assets realizable if ABC adopts a policy to consider CAMT.

<sup>3</sup> Assume ABC has nominal future originating temporary differences. Accordingly, those temporary differences and subsequent reversals have been ignored for simplicity.

<sup>4</sup> The taxable income limitation on FDDEI has been ignored for simplicity. Additionally, the FDDEI deduction has been assumed to be the same with and without deferred tax assets consistent with Example 18 at ASC 740-10-55-145.



In summary, based upon the potential policy elections ABC may implement, the ending table of deferred taxes would reflect one of the following:

	Policy to disregard CAMT	Policy to consider CAMT
<b>Deferred tax assets</b>		
Accrued vacation	\$2,100	\$2,100
AMT credit carryforward	10,000	10,000
	12,100	12,100
Valuation allowance	(10,000)	(11,620)
<b>Total deferred tax assets</b>	<b>2,100</b>	<b>480</b>
<b>Deferred tax liabilities</b>		
Property and equipment	(1,680)	(1,680)
<b>Total deferred tax liabilities</b>	<b>(1,680)</b>	<b>(1,680)</b>
<b>Net deferred tax asset (liability)</b>	<b>420</b>	<b>(1,200)</b>

The above example was for an entity that expected to be a perpetual CAMT taxpayer. Other entities may expect to temporarily pay CAMT; however, if those entities generate significant general business credits, they may never be able to utilize the AMT credit carryforwards generated. The above policy choice and analysis may also be applicable to such entities.

## Policy choices when assessing realizability of interest expense carryforwards

Under pre-OBDD law, the amount of business interest expense that can be deducted in the U.S. under section 163(j) is limited to 30% of a company's adjusted taxable income (ATI). For tax years beginning on or after January 1, 2022, ATI was calculated based on earnings before interest and taxes (EBIT). OBDD permanently increases the limit on the deductibility of business interest expense for tax years beginning after December 31, 2024, by providing that ATI is computed in a manner similar to earnings before interest, taxes, depreciation and amortization (generally referred to as EBITDA); however, subpart F and net CFC tested income inclusions along with the associated section 78 gross-ups are excluded from ATI during those tax years.

If an entity anticipates adjustments to future taxable income (loss) as a result of the changes from OBDD, existing valuation allowance judgments need to be reassessed to determine if a change in judgment on the realizability of existing deferred tax assets occurs. Whether, and to what extent, the changes will impact an entity may depend on whether the entity evaluates future taxable income exclusive of reversing items under the with-and-without approach or the replacement approach.<sup>5</sup>

Further, the new provisions will need to be incorporated into the scheduling of the reversal of existing temporary differences in order to determine whether deferred tax assets are realizable. If an entity is relying on both reversing taxable temporary differences and future taxable income exclusive of reversing items to realize its deferred tax assets, the impact may be affected by whether those sources of income are evaluated in combination or using an additive approach.<sup>6</sup>

When an entity analyzes the extent to which future reversals of existing taxable temporary differences support deferred taxes assets, the scheduling may be impacted by the tax basis of existing assets that produce depreciation, amortization or depletion that will increase ATI. We believe it is acceptable for a company to apply an accounting policy election to either consider such tax basis or solely consider the temporary difference when assessing the realizability of deferred tax assets. As interest limitations in many countries are based on EBITDA measures, we believe the accounting policy election should be consistently applied across regimes and jurisdictions. An entity with significant interest expense carryforwards should review its accounting policy in the interim period that includes the July 4, 2025 enactment of OBDD. The example below analyzes the results different policy choices could yield.

<sup>5</sup> Refer to paragraph 4.048 of the KPMG Handbook, *Accounting for income taxes* (July 2024) for additional detail.

<sup>6</sup> Refer to paragraph 4.007a of the KPMG Handbook, *Accounting for income taxes* (July 2024) for additional detail.



## Example: Considering how tax basis in existing assets affects the interest expense limitation when assessing the realizability of deferred tax assets

At December 31, 2025, DEF, a calendar year-end corporation, has a \$2,000 taxable temporary difference related to a piece of property and equipment with a \$10,000 financial statement carrying amount and \$8,000 of tax basis, all of which is expected to reverse next year. DEF's only other tax attribute is a \$5,000 interest carryforward subject to a 30% limitation of ATI (determined on an EBITDA measure) which can be carried forward indefinitely.

DEF has no carryback availability, is unable to rely on forecasted future earnings, and has identified no available tax-planning strategies. Accordingly, DEF can only recognize deferred tax assets to the extent supported by future reversals of existing taxable temporary differences.

Upon enactment of OBBB, DEF analyzes whether or not to consider the tax basis in the property and equipment when considering the effects of the interest limitation on its ability to utilize the \$5,000 interest carryforward. DEF has not established an accounting policy in a previous period.

	Consider tax basis			Consider temporary differences only		
	Book	Tax		Book	Tax	
Earnings	\$10,000	\$10,000		\$-	\$2,000	
Depreciation	(10,000)	(8,000)		-	-	
Taxable income before interest		2,000			2,000	
Interest deduction (see below)		(3,000)			(600)	
Taxable income (loss) before NOL		(1,000)			1,400	
NOL generated		1,000			-	
Taxable income		-			1,400	
<b>Calculation of interest limitation:</b>						
Taxable income (loss)		2,000			2,000	
Depreciation addback under EBITDA measure		8,000			-	
ATI		10,000			2,000	
Interest limitation rate		30%			30%	
Interest carryforward supported		3,000			600	
<b>Rollforward of temporary differences and carryforwards:</b>	<b>12/31/2025</b>	<b>2026 activity</b>	<b>12/31/2026</b>	<b>12/31/2025</b>	<b>2026 activity</b>	<b>12/31/2026</b>
Property and equipment	(2,000)	2,000	-	(2,000)	2,000	-
Interest carryforward	5,000	(3,000)	2,000	5,000	(600)	4,400
NOL carryforward	-	1,000	1,000	-	-	-

As reflected in the table above, the primary difference between the two approaches is incorporating the \$8,000 of tax basis in the interest limitation when utilizing the tax basis approach that results in additional ATI, thus increasing the allowable interest expense deduction by \$2,400 (\$8,000 at 30%) to \$3,000 as opposed to the \$600 permitted when solely considering temporary differences. In this situation, while additional interest expense is expected to be permitted to be utilized when considering the available tax basis, this results in an overall taxable loss for DEF in 2026 and the generation of a \$1,000 net operating loss carryforward that is taken into consideration when assessing the realizability of the existing deferred tax assets. Based upon the analysis above, DEF would recognize a valuation allowance for either \$3,000 or \$4,400 of the interest carryforwards under the considering tax basis approach or the considering temporary differences only approach, respectively, to reduce deferred tax assets to the amount that is more likely than not realizable as of December 31, 2025.

## Interim period income taxes accounting policy considerations

The effects of the bill's tax law changes are recognized in income from continuing operations in the period that includes the July 4, 2025 enactment date, even if the changes are effective in future periods within the annual period of enactment. If an entity provides interim period financial statements, the impact of the





change in tax laws may depend on whether the change relates to prior year income taxes receivable (payable), current year income taxes receivable (payable) or deferred taxes.

Item	Interim period effects
Prior year income taxes receivable (payable)	Recognized as a discrete event in the interim period that includes the enactment date
Current year income taxes receivable (payable)	Included in the estimated annual effective tax rate (AETR) for the interim period that includes the enactment date
Deferred taxes, including any related valuation allowance	Recognized as a discrete event in the interim period that includes the enactment date

Although the literature provides that the effect of a change in tax laws or rates on deferred taxes is recognized discretely, it does not indicate how such an amount is measured.

Deferred taxes are not typically calculated daily, reasonable efforts must be made to estimate temporary differences and resultant deferred taxes, including any related valuation allowances, as of July 4, 2025, to measure the amount of the adjustment to allocate to continuing operations as part of the intraperiod tax allocation process.

After performing the intraperiod tax allocation, entities generally calculate total income tax expense (benefit) associated with ordinary income for the interim period including the enactment date using one of two approaches. These approaches reflect alternate ways to measure the effects of the tax law changes on deferred taxes to be accounted for discretely versus the amount included in the AETR. We believe either approach is acceptable.

Effect	Beginning-of-year approach	Enactment date approach
<b>Discrete</b>	Remeasure beginning of the year deferred taxes (including adjustments to the valuation allowance) and recognize the adjustment as a discrete item in the period including the enactment date.	Remeasure enactment date deferred taxes (including adjustments to the valuation allowance) and recognize the adjustment as a discrete item in the period including the enactment date.
<b>AETR</b>	Adjust the estimated AETR and apply that revised rate to year-to-date ordinary income. The revised estimated AETR includes the change in deferred taxes from the remeasured beginning of the year amount through the end of the year.	Adjust the estimated AETR and apply that revised rate to year-to-date ordinary income. The revised estimated AETR includes the change in deferred taxes occurring both before and after the date of enactment but excludes the remeasurement of deferred taxes as of the date of enactment.

No matter which approach is used for interim accounting, an entity is required to disclose the total effect on deferred taxes resulting from the change in law within the annual financial statements.<sup>7</sup> This disclosure should be measured using the enactment date amounts of deferred taxes. Additionally, for entities that have adopted ASU 2023-09, *Improvements to Income Tax Disclosures*, the impact of remeasuring domestic federal deferred taxes and the adjustment to the balance of domestic federal income taxes receivable (payable) are required to be presented together within the changes in tax laws category in the annual rate reconciliation, measured at the date of enactment.<sup>8</sup>

### Example: Accounting policy to use in determining interim period income taxes

GHI is a U.S. Taxpayer with a December 31, 2025 year-end. On January 31, 2025, GHI acquired and placed in service property and equipment of \$10,000. The property and equipment will be depreciated straight line over ten years for U.S. GAAP purposes. At the time of the acquisition, 100% of the property and equipment was expected to be depreciated over five years using the applicable MACRS rate under U.S. tax law, which is 20.0% for the first year.

On July 4, 2025, the new law is enacted that modifies the first-year depreciation deduction to 100% for property acquired after January 19, 2025. The property and equipment acquired by GHI during 2025 is eligible for the 100% depreciation deduction and GHI intends to file its tax return with the 100%

<sup>7</sup> ASC 740-10-50-9(g) requires the disclosure of adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the entity.

<sup>8</sup> ASC 740-10-50-12A(a)(3) and 50-12A(c)(4).



depreciation deduction.

GHI expects to earn \$100,000 in ordinary income and has earned \$73,000 in actual ordinary income through September 30, 2025. Further, GHI recognized \$9,500 of year-to-date income tax expense as of the interim period ended June 30, 2025. GHI is assessing the accounting policy to compute the effect of changes in tax laws or rates on deferred taxes in interim periods and performs the following steps to measure the effect of the change under both the beginning-of-year and enactment date approaches.

GHI first determines the impact of the remeasurement of deferred taxes as of the enactment date.

	U.S. GAAP carrying amount	Tax basis	Deductible (taxable) temporary difference	Tax rate	Deferred tax asset (liability)
Property and equipment before OBBB enactment	\$9,500 <sup>1</sup>	\$9,000 <sup>2</sup>	\$(500)	21.0%	\$(105)
Property and equipment after OBBB enactment	\$9,500 <sup>1</sup>	\$ — <sup>3</sup>	\$(9,500)	21.0%	\$(1,995)
Change in deferred taxes					\$1,890
<sup>1</sup> \$10,000 – ((\$10,000 / 10 years) x 6 over 12 months of the year), assuming a full-month convention					
<sup>2</sup> \$10,000 – ((\$10,000 x 20 percent) x 50 percent of the year), assuming the half-year convention					
<sup>3</sup> As GHI expects to elect the 100 percent bonus depreciation, there would be no tax basis remaining after the enactment date					

GHI acknowledges there would be no adjustment to deferred taxes as of the beginning-of-year as the asset had not been acquired. It then determines the AETR under both the beginning-of-year approach and the enactment date approach.

	Beginning-of-year approach	Enactment date approach
Forecasted full year ordinary income (loss)	\$100,000	\$100,000
Excess of full year tax depreciation over U.S. GAAP depreciation	(9,000)	(9,000)
Forecasted taxable income	91,000	91,000
Statutory income tax rate	21.0%	21.0%
Expected full year current tax expense to be included in the AETR	19,110	19,110
Deferred tax expense (benefit) before measurement of enactment impact	N/A	105 <sup>2</sup>
Deferred tax expense (benefit) after measurement of enactment impact	1,890 <sup>1</sup>	(105) <sup>3</sup>
Expected full year deferred tax expense to be included in the AETR	1,890	-
Total income tax expense (benefit) to be included in the AETR	21,000	19,110
Estimated annual effective tax rate on ordinary income	21.0%	19.1%
Year-to-date ordinary income	73,000	73,000
Estimated annual effective tax rate	21.0%	19.1%
Year-to-date income tax expense (benefit), prior to discrete items	15,330	13,950
Discrete items:		
Remeasurement of deferred taxes as a result of enactment of new tax law	-	1,890
Actual year-to-date income tax expense (benefit)	15,330	15,840
Less: Income tax expense (benefit) recognized through June 30, 2025	(9,500)	(9,500)
Income tax expense (benefit) recognized during the September 30, 2025 interim period	\$5,830	\$6,340
<sup>1</sup> \$9,000 of U.S. GAAP carrying amount less zero tax basis at 21.0 percent, less zero beginning deferred		
<sup>2</sup> \$105 deferred tax liability before OBBB enactment (computed above), less zero beginning deferred		
<sup>3</sup> \$1,890 ending deferred tax liability, less \$1,995 deferred tax liability after OBBB enactment (computed above)		

Assuming GHI actually generates \$100,000 of ordinary income (loss) during 2025, \$21,000 of total income tax expense (benefit) would ultimately be recognized during the year under both approaches; however, the different approaches would result in differing amounts of income tax expense (benefit) recognized during the last interim period of the year (\$5,670 under the beginning-of-year approach and \$5,160 under the enactment date approach).

The adjustment to deferred taxes to be disclosed in the annual financial statements would be \$1,890 no



matter which approach is used for interim accounting. Further, under either approach noted above, the impact included in the changes in tax laws or rates in the current period category of the annual effective tax rate reconciliation would be a net zero as the adjustment to income taxes receivable (payable) at the date of enactment of \$1,890 (\$9,000 of tax basis at 21%) would offset the \$1,890 adjustment to deferred tax expense (benefit).

Entities subject to other adjustments tied to taxable income, such as the deduction for foreign-derived intangible income and components of GILTI, may have further items to consider.

## **Repeal of tax election for one-month deferral in determination of tax year of specified foreign corporations**

Prior to OBBB, under section 898, specified foreign corporations (SFCs)<sup>9</sup> are generally required to follow the tax year of its majority U.S. shareholder. A notable exception, however, permitted an SFC to elect a tax year beginning one month earlier than the majority U.S. shareholder's tax year (one-month deferral election). For example, an SFC with a calendar year majority U.S. shareholder will default to the December 31 year-end of its shareholder or could make the one-month deferral election to use a tax year ending November 30.

OBBB eliminated the one-month deferral election for an SFC's first tax year beginning after November 30, 2025. After this change, SFCs must conform to the majority U.S. shareholder's year. A special transition rule provides that SFCs with one-month deferral elections in place have, for the first year beginning after November 30, 2025, a one-month short year as the mechanism to conform to the majority U.S. shareholder year. For calendar year taxpayers this means that any in-scope SFC will have a short year from December 1, 2025, to December 31, 2025, and then will have its first calendar tax year in 2026. The transition rule also provides that any required change in tax year will be treated as having been initiated by the corporation and made with the Secretary's consent.

When different year-ends are used for financial reporting and tax purposes, current and deferred taxes should be calculated as of the financial reporting year-end, as if it were the tax year-end. Accordingly, the tax bases of assets and liabilities as of the financial reporting year-end should be estimated to identify and quantify temporary differences and calculate the related deferred taxes. Income taxes payable and carryforwards should be estimated by considering the amount of taxable income that would be generated during a hypothetical short period from the end of the last tax year through the end of the financial reporting year. For instance, we believe that if a U.S. parent elects to account for taxes on global intangible low-taxed income (GILTI) as a period cost, the CFC has a calendar year-end for financial reporting purposes and a non-calendar fiscal year-end for U.S. federal tax purposes, and the U.S. parent expects a portion of the CFC's calendar-year financial reporting income to result in a GILTI inclusion in the parent's following tax year, the U.S. parent should accrue an estimate of the related tax for the activity included within the current financial reporting year. When estimating the amount of foreign tax credit generated as part of that exercise, we believe an entity should evaluate foreign tax credits based only on the attributes arising from the CFC's activity for the applicable financial reporting period.<sup>10</sup>

The repeal of the one-month deferral tax election is expected to simplify the accounting for income taxes for many organizations by eliminating the need to generate a hypothetical short period as financial reporting and tax year-ends will be aligned. As the Secretary is granted authority to issue guidance allocating foreign taxes between years, entities should monitor for optional or required changes to the operation of this element of the tax law.

### **Example: Accruing GILTI for a CFC with a fiscal tax year-end prior to OBBB**

A U.S. parent with a December 31, 2025 financial reporting and U.S. federal tax year-end has an investment in a consolidated CFC with a December 31, 2025 financial reporting year-end and foreign tax

<sup>9</sup> SFCs are generally defined as controlled foreign corporations (CFCs) that are majority owned by a single U.S. shareholder.

<sup>10</sup> See paragraphs 3.014a through 3.014d of the KPMG Handbook, *Accounting for income taxes* (July 2024) for additional detail.





year-end, but a November 30 U.S. federal tax year-end. The consolidated financial statements would include in its 2025 income tax expense an estimate of the expected GILTI tax for that CFC based on tested income earned for the period from January 1 to December 31, 2025, if any. The estimate of GILTI tax expense for calendar year 2025 would include an estimate for January 1, 2025, to November 30, 2025. That amount would represent the difference between actual GILTI for the period from December 1, 2024, to November 30, 2025, less any GILTI recognized in the prior year for the month of December 2024. In addition, an expense for the period from December 1, 2025, to December 31, 2025, will be reported for the short period return under the transition rule. It is possible that GILTI accrued from January 1, 2025, to November 30, 2025 would only include the foreign tax credits generated on December 31, 2024, but not recognized in the 2024 financial statements, since the credit may only arise on the last day of the CFC's local tax year. The short-period for December 2025, may include the generation of a foreign tax credit for the foreign income taxes incurred in the entire calendar year, which may exceed the amount that can be utilized based on income generated in that month (in other words, trapped credits).

The U.S. parent's income taxes payable as of December 31, 2025, also would include the expected GILTI tax for that CFC based on tested income earned and foreign tax credits generated for the period from December 1, 2024, to December 31, 2024, but those amounts would have been previously expensed in the U.S. parent's 2024 financial statements.

Beginning in 2026, the U.S. parent will retain a December 31 financial reporting and U.S. federal tax year-end and the CFC will now have a December 31 U.S. federal tax year-end thus eliminating the need for the hypothetical short period return calculation. Entities will need to monitor for relief granted by the Secretary permitting the utilization in 2026 some of the trapped foreign tax credits from the December 2025 short period.

## Conclusion

With the enactment of new tax law, it is crucial for an entity to reassess its accounting policies within the period of enactment. This proactive approach ensures compliance, optimizes financial reporting, and reduces the need for change later. This document discusses selected areas of accounting for income taxes that may be impacted by the bill, but it is not all inclusive. We encourage you to review other recent publications from KPMG noted below. An entity's specific facts and circumstances should be assessed in determining the accounting for income taxes impact of the bill.

## Related content

For additional guidance on accounting for income taxes under U.S. GAAP, refer to the KPMG [Accounting for Income Taxes](#) handbook.

For additional analysis and observations on the tax subtitle for the One Big Beautiful Bill, refer to the KPMG reports: [Tax subtitle for "One Big Beautiful Bill"](#).

For additional analysis and observations on the accounting for income taxes implications of the One Big Beautiful Bill, refer to the KPMG [Hot Topic: Policy to provision](#) and the KPMG report [Accounting for income taxes implications of "One Big Beautiful Bill Act"](#).

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