

# Regulatory perspectives on accounting for income taxes

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The 2025 AICPA<sup>1</sup> Conference on Current SEC<sup>2</sup> and PCAOB<sup>3</sup> Developments brought together regulators, standard-setters, and practitioners to discuss the latest trends and challenges in financial reporting. This article summarizes certain remarks made at the conference and provides examples of comments related to income taxes recently issued by the SEC to registrants. Recent comments from regulators and standard setters may help registrants identify areas for improvements in existing income taxes disclosures in order to provide more robust and relevant information to investors and users of the financial statements.

## 2025 AICPA Conference on Current SEC and PCAOB Developments

The 2025 AICPA Conference on Current SEC and PCAOB Developments (the 2025 Conference) was held December 8–10, 2025, in Washington, D.C. The speakers and panellists included representatives of the SEC, the Financial Accounting Standards Board (FASB), and the PCAOB, who shared views on various accounting, financial reporting, auditing, and regulatory matters. For tax professionals, several themes emerged, particularly around disclosures, transparency, and regulatory changes, all of which will shape year-end reporting and beyond.

In one of the sessions, host Matt Drucker, KPMG Partner, was joined by panellists to discuss the evolving tax landscape, with discussions centred on the implementation of Accounting Standards Update (ASU) 2023-09 (*Improvements to Income Tax Disclosures*), tax as a driver of business strategy, and the significant changes introduced by global tax initiatives. Panellists highlighted key ASU 2023-09 implementation challenges related to data and sorting, internal controls, and adoption approaches. Panellists discussed the transition from confidential tax reporting to public disclosures along with the importance of internal alignment so that public Country-by-Country Reporting data reconciles with the income taxes note in the financial statements, and taking into consideration demands for robust controls, cross-functional collaboration, and auditor engagement. For further reading, see [Tax in transition: ASU 2023-09 and global shifts](#).

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<sup>1</sup> American Institute of Certified Public Accountants

<sup>2</sup> Securities and Exchange Commission

<sup>3</sup> Public Company Accounting Oversight Board

## Examples of recent SEC comment letters

The following selection of SEC comment letters specific to income taxes is provided to illustrate areas in which the Staff questioned whether the disclosures provided adequate insight for investors to understand a company's income taxes environment or when the Staff wanted a better understanding of the basis for management's judgments. The comments below highlight common findings that are representative of the Staff's areas of recent focus associated with income taxes.

### *Example 1: Effective tax rate reconciliation*

The Staff may request additional information on fluctuations in the effective tax rate and inquire as to whether the trend is expected to continue:

We note your effective tax rate decreased significantly from fiscal 2023 to 2024, which you mainly attribute to an increase in deferred tax benefits resulting from the recognition of additional deferred tax assets from net operating loss in your Country X subsidiaries during fiscal 2024. Please tell us how the rate reconciliation on page F-X supports this disclosure or revise as necessary. In this regard, it appears your tax provision was impacted more by the tax rate difference for entities outside of Country X as well as gains or loss from foreign exchange transactions. Also, revise to clarify whether you anticipate the recent decrease in your tax provision to be indicative of a trend in your future effective tax rates.

### *Example 2: Effective tax rate reconciliation*

The Staff may request additional information on whether a reconciling item is a change in estimate or a correction of an error:

We note that your tax expense reconciliation includes a "Return to Provision" adjustment of (\$X) million for 2024. Please expand your disclosure to explain how you determined the amount and to clarify the nature of the adjustment and whether it represents a change in estimate or a correction of an error, in your view.

### *Example 3: Valuation allowances*

The Staff may request disclosure of specific evidence considered when evaluating the need for a valuation allowance:

In regard to your tax valuation allowance, expand your disclosures to address the specific positive and negative evidence you considered, how that evidence was weighed, and how that evidence led you to determine the amount of the tax valuation allowance. Specifically address how you considered historical losses, including the impact of non-recurring items, and forecasted earnings in your determination. Clearly explain the nature of the deferred tax assets that the current tax valuation allowance relates to and discuss the facts and circumstances that could reasonably be expected to materially impact the ongoing assessment of the tax valuation allowance in future periods.

#### *Example 4: Valuation allowances*

The Staff may request additional details regarding fluctuations in the amount and changes in judgment related to a valuation allowance:

We note your disclosure that in 2024 you recognized a tax benefit of \$X on the partial release of the valuation allowance in Country X as compared to tax expense of \$X in the year ended June 30, 2023 to increase the valuation allowance in Country X. We further note your disclosure that after considering all available evidence, including the recent history of strong earnings from core operations in Country X and the expectation of future taxable income, management concluded it is more likely than not that the recognized deferred tax assets are realizable and reduced the valuation allowance accordingly. Please explain to us in further detail why you believe it was appropriate to increase the valuation allowance in 2023 only to release most of the balance during 2024.

#### *Example 5: Valuation allowances*

The Staff may request explanation around the partial release of a valuation allowance:

We note the partial release of the valuation allowance against your U.S. deferred tax assets of \$X million during the year ended December 31, 2023. Tell us and expand your critical accounting policies in future filings to address, the specific positive and negative evidence you considered, how that evidence was weighed, and how that evidence led you to determine it was appropriate to reverse a portion of the valuation allowance. Please also address the anticipated future trends included in your forecasts of future earnings. In addition, revise future filings to address the factors that impact the remaining valuation allowance, including the most significant facts and circumstances that could result in changes in the valuation allowance.

Refer to Item 303(b)(3) of Regulation S-K and ASC 740-10-30-16 through 30-25.

#### *Example 6: Unrecognized tax benefits*

The Staff may request explanation of the rationale for not reflecting an unrecognized tax benefit in an earlier period:

We note your disclosure regarding the bilateral advance pricing agreement negotiations with the IRS and DTA. In anticipation of the agreements, you recorded \$X million of net tax expense in the year ended January 31, 2024. With a view towards expanded disclosure, please explain to us in detail the facts and circumstances that resulted in the recognition of the charge in fiscal 2024 and the basis for your accounting, referencing the supporting accounting literature.

Please address:

- the details of the Company's transfer pricing arrangements; the nature of your negotiations including what is being asserted by the IRS and the DTA relating to the Company's transfer pricing arrangements; why you did not recognize a liability for unrecognized tax benefits in an earlier period including your assessment of the technical merits of your tax position; and how the technical merits of your position changed in fiscal 2024.

### *Example 7: Pillar Two*

The Staff may request additional quantitative and qualitative information regarding the potential impact from Pillar Two legislation:

Please provide us additional quantitative and qualitative information regarding the potential impact from enacted Pillar Two legislation. For example, please describe in further detail the impact from enacted legislation in Ireland.

### *Example 8: Changes in tax laws*

The Staff may request disclosure of changes in tax laws:

Please provide us an accounting analysis that details the key facts, judgments and specific accounting guidance that you considered in recognizing and measuring the material deferred tax asset related to the new CIT regime in Bermuda. Please revise future filings to provide appropriate information to allow investors to understand your income tax determinations.

### *Example 9: Pro Forma adjustments*

The Staff may request disclosure of how tax effects of pro forma adjustments were determined:

Please disclose your consideration of the tax effects of the pro forma adjustments. Refer to Rules 11-02(a)(11)(i) and 11-02(b)(5) of Regulation S-X.

### *Example 10: Non-GAAP financial measures*

The Staff may request a reconciliation from a non-GAAP effective tax rate to a comparable GAAP measure:

Although you quantify your operational effective tax rate on page X and identify it as a non-GAAP measure, we do not note a reconciliation to the most comparable GAAP measure.

Please revise future filings to provide a reconciliation in accordance with Item 10(e)(1)(i)(B) of Regulation S-K.

### *Example 11: Non-GAAP financial measures*

The Staff may request disclosure of the tax effects of non-GAAP adjustments presented separately:

It appears that certain of your adjustments included in the non-GAAP reconciliation on page X are presented net of tax. If so and if material, please revise future filings to present the adjustments on a gross basis and present the tax impact in a separate line item with a clear explanation of how the amount was measured. Please refer to question 102.11 of the C&DI's on Non-GAAP Financial Measures for guidance.

### *Example 12: Non-GAAP financial measures*

The Staff may request additional information related to adjustments in non-GAAP valuation allowances:

We note your non-GAAP adjustments labelled "tax valuation allowance" reflected in your Adjusted net income measure presented for the reported periods in fiscal years 2023 and 2022,

and that the amounts mirror exactly the change in valuation allowance presented in the Income Tax note to your financial statements on page X of your Form 10-K for the year ended December 31, 2023. Please address the following:

- Clearly describe to us in detail what the adjustments represent and your reasons for excluding the changes in your tax valuation allowances from the measure.
- Tell us why management believes the adjustments are meaningful and appropriate.
- Explain to us how you determined that your evaluation of the positive and negative evidence to support realizability would be different on a non-GAAP basis such that excluding the changes in the GAAP tax valuation allowance would be appropriate.
- Tell us why the adjustments are consistent with Questions 100.01 and 102.11 of the Non-GAAP Financial Measures Compliance & Disclosure Interpretations.

## Conclusion

In summary, as demonstrated in recent comment letters, accounting for income taxes continues to be an area of focus for the SEC. Further demonstrated at the 2025 Conference, disclosure quality and transparency remain top priorities. Consequently, financial statement preparers may decide to consider the recent comments from regulators, standard setters, and practitioners to identify areas for improvements in existing income taxes related disclosures.

## Related content

For additional information and background on the 2025 Conference, refer to the KPMG [daily summaries](#) or [the Executive Highlights](#). For additional information on disclosure requirements related to income taxes, refer to section 9 of the KPMG Handbook: [Accounting for income taxes](#). Learn more about the new income taxes disclosures in our Hot Topic, [Income tax disclosures](#).

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