Accounting for Income Taxes Bulletin

January 2024

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

Accounting Standards Update issued for income tax disclosures

On December 14, 2023, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2023-09—Income Taxes (Topic 740): Improvements to Income Tax Disclosures* to enhance the transparency and decision usefulness of income tax disclosures, including jurisdictional information, by requiring consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disclosures.

The ASU is effective for public business entities for annual periods beginning after December 15, 2024 and for all other entities for annual periods beginning after December 15, 2025. Prospective application is required, though retrospective application is permitted. Entities are permitted to early adopt the standard.

Refer to the KPMG *Defining Issues* for further information regarding the final ASU. Additionally, professionals from KPMG WNT as well as KPMG Audit's Department of Professional Practice (DPP) provided an overview of the originally proposed version of the guidance, including hypothetical examples, in an earlier webcast that is available for replay.

Pillar Two gameplan for accounting professionals

Certain of the new Pillar Two global anti-base erosion (GloBE) rules are expected to be effective beginning in 2024 and may impact entity's estimated annual effective tax rate as early as the first quarter of 2024. This guidance has the potential to cause significant disruption to multinational entities, including the finance, accounting and tax functions. Below are resources available to provide an executive overview of the new rules, implementation steps entities should consider taking to get ready for Q1, and potential impacts to the finance, accounting and tax functions.

1. Pillar Two Gameplan
2. Pillar Two podcast series
3. Accounting for Pillar Two
4. Pillar Two resource hub – Tax webpage
5. Global minimum top-up taxes in 2023 IFRS reports
6. KPMG Illustrative guides to financial statements under IFRS Accounting Standards

New Bermuda corporate income tax law enacted

On December 27, 2023, the Government of Bermuda enacted a corporate income tax with a statutory tax rate of 15 percent applicable to Bermuda businesses that are part of multinational enterprise groups with annual revenue of €750 million in at least two of the four preceding fiscal years, subject to certain exemptions, effective for fiscal years beginning on or after January 1, 2025. The Bermuda income tax rules are aligned as closely as possible to the GloBE rules to support consistent and predictable tax outcomes. The impact of the enactment of the legislation, including any adjustment to an entity's deferred tax assets and liabilities, is required to be recognized in the interim period that includes the December 27, 2023 enactment date.

Refer to the KPMG Insights for further information on the newly enacted tax law.

What's News in Tax on SEC comments

A forthcoming *What's News in Tax* article 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 involve comments from the SEC related to effective tax rate reconciliation, valuation allowances, unrecognized tax benefits, indefinite reinvestment, investments in partnerships, intraperiod tax allocations, and non-GAAP financial measures.

UPDATES ON ACCOUNTING MATTERS

FASB discusses backwards tracing

In 2022, the Board received an agenda request to reconsider the prohibition within ASC 740 related to backwards tracing, the recognition of current year changes to previously recognized deferred tax amounts in the same line item that they were initially recorded. At the December 20, 2023 FASB meeting, the Board discussed the results of staff research and analysis related to recent agenda requests for a number of topics, including whether changes should be made to the prohibition on backwards tracing and possible alternatives to backwards tracing. The Board decided not to add a project for backwards tracing to its technical agenda.

ASU 2023-06 codifies REIT disclosure related to income taxes

On October 9, 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, which incorporates into the Codification several disclosures and presentation requirements currently residing in SEC Regulations S-X and S-K. Among the referred SEC disclosures to be incorporated into U.S. GAAP, real estate investment trusts (REITs) are currently required to disclose the tax status of distributions per unit (for example, ordinary income or capital gain). The ASU will move the guidance to Codification and require privately held REITs to make the same disclosures. For SEC registrants, the guidance is effective on the date in which the SEC's removal of the guidance from Regulations S-X or S-K becomes effective with application by all other entities two years thereafter. Early adoption is prohibited for SEC registrants. If the SEC guidance is not removed by June 30, 2027, the pending content will not become effective for all entities and will not be incorporated within the Codification.

Refer to the KPMG *Defining Issues* for additional detail on this ASU.

September 2023 SAPWG call

On the September 2023 Statutory Accounting Principles Working Group (SAPWG) call, INT 23-03, *Inflation Reduction Act—Corporate Alternative Minimum Tax*, was adopted which provides guidance on assessing the effects of corporate alternative minimum tax (CAMT) for periods ending on or after the calendar 2023 year-end which is applicable to all insurance companies using statutory accounting principles.

The updates rely on tax allocation agreements to allocate consolidated CAMT for purposes of admittance calculations, introduces a principles-based approach that could be applied by all insurers, and provides guidance for recognition of the CAMT payable, deferred tax asset and statutory valuation allowance, amongst other matters.

Refer to the KPMG report on the September 2023 SAPWG call for additional detail on this updated guidance.

New IFRS to U.S. GAAP comparison – GloBE and credits

KPMG International Standards Group updated the *IFRS® compared to US GAAP* handbook, which highlights key differences between the two frameworks, including new guidance on the global minimum top-up tax and credits under the U.S. Inflation Reduction Act and CHIPS Act.

KPMG DPP quarterly outlook

The January 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 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 2019-12, *Simplifying the Accounting for Income Taxes*	Removes specific exceptions to the general principles of ASC 740 and improves financial	Fiscal years beginning after December 15, 2020 and interim	Fiscal years beginning after December 15, 2021 and interim periods within

	statement preparers' application of income tax-related guidance and simplifies GAAP for certain income tax items	periods within those fiscal years	fiscal years beginning after December 15, 2022
ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*	Requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy	Annual periods beginning after December 15, 2021	Annual periods beginning after December 15, 2021
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	Annual periods beginning after December 15, 2024	Annual periods beginning after December 15, 2025

	improve the effectiveness of income tax disclosures		

See the FRV Accounting Standards Effective Dates page for a full list of recently issued ASUs.

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

ON THE HORIZON

FASB adds Accounting for Government Grants to its technical agenda

The FASB's Accounting for Government Grants project was added to the technical agenda during the November 1, 2023, Board meeting to address the accounting for the recognition, measurement and presentation of government grants received by business entities. The FASB staff will continue outreach and will meet with the Board at a future meeting to complete initial deliberations.

Refer to the KPMG *Defining Issues* for additional detail on this project.

IASB projects

Presentation of income tax-related currency transaction gains and losses

The International Accounting Standards Board (IASB) previously discussed proposals from the Exposure Draft *General Presentation and Disclosures* relating to categories and subtotals and tentatively decided to clarify, among other things, foreign exchange differences arising from assets and liabilities within the scope of IAS 12 that are recognised in profit or loss be classified in the income tax category of the statement of profit or loss, unless doing so involves undue cost or effort. The IASB also tentatively decided to amend the requirements in paragraph 78 of IAS 12 for classifying foreign exchange differences on deferred tax assets and liabilities to align with the recommendation above. The IASB expects to issue IFRS 18, *Presentation and Disclosure in Financial Statements*, and the related amendment to IAS 12 in the first half of 2024.

Deferred taxes within equity method investments under IFRS Accounting Standards

The IASB previously discussed application questions about the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures* within the scope of its Equity Method research project and tentatively decided to 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 the associate's net identifiable assets and liabilities at fair value. The IASB expects to publish an exposure draft as the next due process step during calendar 2024.

Potential replacement of IFRIC 21 application requirements

As a part of its *Conceptual Framework for Financial Reporting* project, the IASB previously discussed possible amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to address the apparent contradictions within the principles in IAS 37 for identifying liabilities, which have resulted in inconsistent, and sometimes unsatisfactory application requirements. For example, IFRIC 21 *Levies*, an interpretation of IAS 37, has been criticized for resulting in information that is not useful to investors. The possible amendments to IAS 37 are likely to include replacing IFRIC 21 with new application requirements for levies. The IASB will continue to discuss possible amendments and is expected to decide the project direction during 2024.

OTHER ITEMS OF INTEREST

KPMG Learning – Executive education

KPMG offers digital self-studies, which are mobile-friendly and easily accessible at the learner's convenience. The CPE-eligible curriculum covers 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 virtual seminars and 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 U.S. GAAP
- KPMG Handbook: Tax uncertainties in the United States
