KPMG

Accounting for Income Taxes Bulletin

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About this Publication

This publication is issued by KPMG's Accounting for Income Taxes group in Washington National Tax to highlight developments and other items of interest to professionals involved with accounting for income taxes matters.

Featured items

Accounting for Income Taxes Considerations of Final Treasury Regulations

In recent months, a significant volume of Treasury Regulations have been released in final (or near final) wording or published to the Federal Register. New regulations generally represent changes in currently enacted law; however, some regulations may be released that interpret or clarify current law instead of enacting new law.

To the extent the regulations are considered changes in tax law, the changes are accounted for in the period of enactment and should not be anticipated. To the extent the regulations interpret or clarify current law, the impact the regulations have on evaluating uncertainty in the tax law are similarly accounted for in the period the regulations are finalized. When additional interpretive guidance becomes available after the balance sheet date but prior to the issuance of the financial statements, the additional interpretive guidance may need to be considered in evaluating the need for a valuation allowance. Further, we believe entities may make an accounting policy election as to whether changes in estimates for uncertainties related to discontinued operations as a result of new interpretive guidance should be backwards traced to discontinued operations.

In certain circumstances, near final wording becomes available before a set of regulations would be published in the Federal Register. If a favorable filing position exists in those regulations, an entity may need to conclude whether it would take such a position even if the regulations are never published and fully enacted. A presumption exists that beneficial tax positions will be taken even if they are not claimed on the originally filed income tax return. Similar to the treatment on the issuance of proposed regulations, and as part of assessing the expected filing position under the guidance on uncertainty in income taxes, if it is widely understood the taxing authority would not challenge the position if the regulations are never fully enacted, then the tax position would generally meet the recognition criteria through the administrative practices guidance on accounting for uncertainty in income taxes.

Conversely, if near final wording results in an unfavorable change to a filing position, an entity should assess the filing position it would take if the regulation were never fully enacted. As such, it is anticipated that unfavorable changes would not be reflected until the period the regulation is fully enacted.

Some final regulations may include provisions that have future applicability dates but for which an entity can elect to apply the regulations to the current or certain prior periods. While original or amended tax returns to reflect this early adoption may not need to be prepared immediately, we believe an entity would need to reasonably estimate and include the expected impact of any early adoption in the period the regulations are enacted. A company may revise its estimate in future periods as a result of new or better information, clarifications of the application of the regulations and/or more experience. The financial statements should include appropriate disclosures of estimates in applying new regulations that are reasonably possible to change materially in the near term. The complexity of both the judgments around which regulations to early adopt and the related calculations is not a sufficient reason to exclude the estimated impact from the period of enactment financial statements. Any estimates should be prepared within the level of precision required for other ASC 740 estimates related to the entity. If a taxpayer does not recognize an estimate of the impacts in this period, then any revisions in future periods may be considered a correction of an error for financial reporting purposes. Any correction of an error would need to be assessed and has the potential to result in the restatement of prior reported financial statements, if material.

Additionally, to the extent an entity may expect to change a prior tax position and file an amended return, the period in which to recognize the effect of the change will depend on why the entity plans to file an amended return.

— If the amended return is a new filing position that becomes available or required as the result of the enactment of a new law or the issuance of regulations, it is recognized upon enactment of the law or issuance of the regulations.

— If an amended return is being filed to effectuate a permitted alternative election (for instance, certain changes in accounting methods), it generally is recognized in the period in which management commits to the change, assuming the position meets the more-likely-than-not recognition threshold; however, there is a presumption that beneficial tax positions will be claimed.

An entity that commits to filing an amendment as of the reporting date (and intends to account for the changes arising from the amendment) typically prepares and submits the amendment before the period-end financial statements are issued (before the Form 10-Q or 10-K is filed for public companies) or are available to be issued (for private companies). However, all facts and circumstances should be considered in determining when to account for an amended return.

Please refer to the September 28 What's News in Tax article for additional information.

Updates on Accounting Matters

IFRS® Standards Updates

KPMG LLP has released the following update that may impact tax professionals working on accounting for income taxes matters under IFRS Standards.

— KPMG's International Standards Group (ISG) has published *Insights into IFRS*, 17th edition, based on IFRS Standards that were issued as of August 1, 2020 and are required for an entity that applies IFRS for annual periods beginning on or after January 1, 2020. This edition includes standards and interpretations that are effective at that date ('currently effective requirements') and significant amendments that are effective in later periods ('forthcoming requirements'). The updated edition adds guidance on deferred tax and leases, deferred tax related to an investment in a subsidiary, and presentation and disclosure of uncertain tax treatments, as well as modifies guidance on deferred tax on assets with multiple tax consequences.

KPMG's DPP quarterly releases

KPMG's DPP published the following accounting and financial reporting developments releases:

— Quarterly Outlook— September 2020

Remember recent pronouncements

Professionals should be mindful of certain recently updated US GAAP standards, listed by order of required application.

Updated Standard	Brief Description of Standard	Public Business Entities Effective Date	Other Entities Effective Date
ASU 2016–01, *Recognition and Measurement of Financial Assets and Financial Liabilities*	The evaluation of a valuation allowance on deferred tax assets related to available for sale securities is performed along with the entity's other deferred tax assets	Fiscal years beginning after December 15, 2017, including interim periods within those fiscal years	Fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019
ASU 2016–16, *Intra-Entity Transfers of Assets Other Than Inventory*	Requires an entity to recognize the income tax consequences of an intra-entity transfer of assets other than a transfer of inventory, when the transaction occurs	Annual reporting periods, including interim reporting periods in those annual reporting periods, beginning after December 15, 2017	Annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019
ASU 2017–15, *Codification Improvements to Topic 995, U.S. Steamship Entities*	Eliminates an exception for steamship entities on the recognition of deferred taxes related to certain statutory reserve deposits	Fiscal years and first interim periods beginning after December 15, 2018.	Fiscal years and first interim periods beginning after December 15, 2018.
ASU 2018–02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*	Requires disclosure of an entity's policy for releasing stranded tax effects and allows entities to elect to reclassify certain stranded tax effects from AOCI to retained earnings	Fiscal years beginning after December 15, 2018, and interim periods within those fiscal years	Fiscal years beginning after December 15, 2018, and interim periods within those fiscal years
ASU 2018–09, *Codification Improvements*	Clarifies, corrects errors in, and makes improvements to several income taxes related matters	Generally, fiscal years beginning after December 15, 2018	Generally, fiscal years beginning after December 15, 2019
ASU 2017–04, *Simplifying the Test for Goodwill Impairment*	Provides guidance, amongst 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 statement preparers' application of income tax-related guidance and simplifies GAAP for certain income tax items	Fiscal years beginning after December 15, 2020, and interim periods within those fiscal years	Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022

Professionals should be mindful of certain recently updated IFRS Standards.

Updated Standard	Brief Description of Standard	Effective Date
IFRIC 23: Uncertainty over Income Tax Treatments	Addresses how to reflect uncertainty in accounting for income taxes	Annual periods beginning on or after January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	Clarifies recognition of income tax consequences of dividends, including payments on financial instruments	Annual periods beginning on or after January 1, 2019

On the Horizon

Financial Accounting Standards Board (FASB) projects

The FASB's Disclosure Review: Income Taxes project continues to be in the revised exposure draft redeliberations stage after the Board directed the staff in February 2020 to perform research and additional outreach on potential alternatives to disclose certain disaggregated income taxes information and to perform additional research on other proposed amendments. In September 2020, the staff updated the FASB's Private Company Council (PCC) on comments received on the project and obtained the PCC's feedback on proposed disclosures and potential alternative disclosures.

FASB's codification improvements project includes moving guidance, removing outdated guidance and correcting references and headings. The Board has directed the staff to draft a final Accounting Standards Update for vote by written ballot.

The Board's disclosures by business entities about government assistance project is in the exposure draft redeliberations stage.

The Board continues its project on backwards tracing to consider whether changes should be made to the prohibition on backwards tracing and may consider alternatives to backwards tracing. The project is in the research stage.

IFRS Interpretations Committee® discusses Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

During a recent meeting, the IFRS Interpretations Committee (IFRIC or the Committee) discussed feedback received on the International Accounting Standards Board's (IASB®) July 2019 Exposure Draft, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which proposed amendments to IAS 12. The amendments set forth in the exposure draft would narrow the scope of the initial recognition exemption such that it would not apply to transactions that give rise to equal amounts of deductible and taxable temporary differences. The IASB staff is considering recommending removing a cap to the amount of a deferred tax liability recognized that was included in the proposal. The Committee members provided advice on the project direction which will be considered by the IASB at a future meeting.

Other items of interest

Section 987 Regulations

On September 17, 2020, the IRS issued an advance version of Notice 2020–73, which further delays the applicability date of the 2016 regulations (and certain related and temporary regulations) as well as certain of the 2019 final regulations under section 987 by an additional year. Taxpayers should continue to consider the financial statement impact and tax implications when accounting for QBUs.

Refer to the KPMG Insights article for further information. A 2017 What's News in Tax article summarizes the current accounting for income taxes implications of the future adoption of the regulations.

KPMG learning—executive education self-study courses

The following Accounting for Income Taxes Executive Education courses will be offered:

— November 11–16, 2020

— December 7–10, 2020

This live, virtual seminar, spread over four days, is designed to help the understanding and application of income tax accounting in accordance with ASC 740, including the effect of 2017 tax reform. Each day's agenda features individual modules (each less than an hour) as well as breaks. This interactive course does more than describe technical requirements; the rationale and consequences of the relevant accounting standards will be explained using easy-to-follow examples with detailed journal entries. The course offers 16 CPE credits.

Additionally, the following Advanced Accounting for Income Taxes Executive Education course will be offered:

— December 15–18, 2020

This advanced seminar covers complex aspects of ASC 740 (the FASB standard for accounting for income taxes) by building upon our intermediate level seminar Accounting for Income Taxes. For example, the intermediate seminar only covers acquisitions with no tax-deductible goodwill, while this seminar covers tax-deductible goodwill, section 338 elections, contingent consideration, transaction costs, and measurement period adjustments. The seminar has been updated to cover the Tax Cuts and Jobs Act (TCJA). The course offers 16 CPE credits.

KPMG also offers digital self-studies, which are mobile-friendly and easily accessible at the learner's convenience. Our 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's virtual seminars and digital self-studies.

Resources

- KPMG's Accounting for Income Taxes Bulletin
- Financial Reporting View
- TaxNewsFlash
- Chief Tax Officer Insights
- KPMG Executive Education
- KPMG U.S.
- Insights into IFRS
- IFRS compared to U.S. GAAP

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