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.

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FEATURED ITEMS

Pillar Two reminders

In 2024 certain aspects of the new Pillar Two global anti-base erosion (GloBE) rules become effective and may have an impact on an entity's estimated annual effective tax rate in the first quarter of 2024. Many multinational entities have been planning for the potential disruption the GloBE rules could cause to the finance, accounting and tax functions over the past couple of years. Below are resources available to provide an executive overview of the new rules, implementation steps entities should consider taking beginning in the first interim period in which the GloBE rules become effective, and potential impacts to the finance, accounting and tax functions.

1. Pillar Two Gameplan
2. Pillar Two podcast series (Use *Pillar Two* within search function at the top of the webpage.)
3. Pillar Two resource hub – Tax web page
4. Accounting for the GloBE top-up tax – US GAAP
5. Global minimum top-up taxes in 2023 reports – IFRS® Accounting Standards
6. KPMG illustrative guides to financial statements – IFRS Accounting Standards

KPMG Report on tax credits generated by pass-through entities

Recent legislation has introduced or modified several tax credits available to entities in the United States, including introducing nonrefundable, transferable credits at the federal level for the first time. Pass-through entities, such as entities taxed as partnerships, are one of the more popular methods to invest in projects that generate tax credits.

Refer to the KPMG Report on accounting for tax credits generated by pass-through entities for a summary of certain accounting considerations entities should keep in mind when evaluating the impact of tax credits generated by pass-through entities.

Improvements to income tax disclosures ASU webcast

On December 14, 2023, the Financial Accounting Standards Board (FASB or the Board) 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 taxes related disclosures. The ASU addresses investor requests for additional information about how the tax risks, tax planning and operational opportunities present in an entity's worldwide operations affect the effective tax rate and prospects for future cash flows. The two primary changes within the ASU disaggregate existing income taxes related disclosures, including jurisdictional information, related to the effective tax rate reconciliation and income taxes paid disclosures, with certain other amendments incorporated within the standard.

The ASU is effective for annual periods beginning after December 15, 2024 for public business entities and for annual periods beginning after December 15, 2025 for all other entities. As many entities will be modeling the implications of adopting the ASU and making decisions about transition elections over the coming months, please join professionals from KPMG's WNT and KPMG Audit's Department of Professional Practice (DPP) for a webcast on May 23, 2024 for an in-depth analysis of the guidance with examples of the required disclosures.

Accounting for investments in tax credit structures using the proportional amortization method

On March 29, 2023, the FASB issued ASU 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, that allows reporting entities to consistently account for investments in income tax credit structures made primarily for the purpose of receiving income tax credits and other income tax benefits.

The ASU introduces the option for reporting entities to account for qualifying tax equity investments using the proportional amortization method, regardless of the tax credit program from which the income tax credits are received, if certain conditions are met. The ASU responds to stakeholder feedback that the proportional amortization method provides investors and other allocators of capital with a better understanding of the returns from investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits.

The amendments in the ASU are effective for public business entities in fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for all entities. Accordingly, calendar year-end public business entities generally should plan on adopting the standard in the first quarter of 2024.

Refer to the KPMG *Defining Issues* for further information.

UPDATES ON ACCOUNTING MATTERS

Hot Topic: SAB 74 reminders for ASU 2023-09

This Hot Topic highlights important reminders of Staff Accounting Bulletin (SAB) 74 disclosures for ASUs issued but not yet adopted as public companies prepare year-end and interim financial statements. Several recently issued ASUs have effective dates in 2024 and 2025 for public business entities, including ASU 2023-09 that is effective in annual periods for fiscal years beginning after December 15, 2024. Therefore, as companies assess the effect these standards, including disclosure-only standards, they will also need to determine whether SAB 74 disclosures are required. The SEC staff has stated that public companies should consider disclosing both qualitative and quantitative information and should indicate progress towards implementation.

KPMG DPP quarterly outlook

The March 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 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	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

	are met		
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

See KPMG's Financial Reporting View (FRV) Accounting standards 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 2023 and later.

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	Immediately for certain aspects and annual reporting periods

	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	beginning on or after January 1, 2023 for other aspects

ON THE HORIZON

FASB projects

Accounting for Government Grants

The FASB has an Accounting for Government Grants project on its technical agenda to address the accounting for the recognition, measurement and presentation of government grants received by business entities. The FASB staff will continue outreach and meet with the Board to complete initial deliberations at a future meeting. Refer to the KPMG *Defining Issues* for additional detail on this project.

Insurance statutory accounting projects

Proposed guidance on tax credit investments

During the January 2024 Statutory Accounting Principles Working Group (SAPWG) call, the National Association of Insurance Commissioners (NAIC) reexposed revisions to Statement of Statutory Accounting Principles (SSAP) No. 93 to update guidance for tax credit investments, to SSAP No. 94 to clarify the scope, and to SSAP Nos. 34 and 48 to ensure consistency with the proposed updates to SSAP Nos. 93 and 94. The proposed effective date of the revisions is January 1, 2025 and comments were due February 9, 2024. The proposed revisions were made in response to comments received from interested parties. SAPWG stated that it did not make revisions recommended by interested parties to narrow the scope of the admittance test to only tax credit investments which allocate non-transferable tax credit and prohibit the sale of ownership interests, but it intends to continue working with interested parties to address concerns that some previously admitted tax credit investments could become non-admitted under the reexposed guidance. Refer to the KPMG Report for additional detail on the SAPWG call.

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 International Accounting Standard (IAS) 12 *Income Taxes* that are recognized 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 April 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 in the second half of 2024.

Potential replacement of International Financial Reporting Interpretations Committee (IFRIC) Interpretation 21 application requirements

As a part of its *Provisions – Targeted Improvements* 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 expects to publish an exposure draft in the second half of 2024.

OTHER ITEMS OF INTEREST

KPMG Learning – Executive education

The following in-person Accounting for Income Taxes – KPMG Executive Education course will be offered:

- Chicago – May 14–15, 2024

This two-day seminar introduces the conceptual foundation of ASC 740. It explains how to reconcile permanent and temporary differences between four flows: cash flows, GAAP income, taxable income, and more-likely-than-not taxable income, given the uncertainty in income taxes. Also covered are tax loss carryforwards, tax credit carryforwards, other comprehensive income, and tax disclosures. The course also introduces more advanced concepts, such as valuation allowances, unrecognized tax benefits, interim tax allocations, business combinations, and stock compensation.

A virtual version of this same introductory course will also be offered:

- Accounting for Income Taxes (Live Virtual) – KPMG Executive Education—June 17–21, 2024

Additionally, the following in-person Advanced Accounting for Income Taxes – KPMG Executive Education course will be offered:

- Chicago – June 25–26, 2024

This two-day advanced seminar explains complex aspects of ASC 740. Topics covered include unrecognized tax benefits, valuation allowances, intraperiod tax allocations, interim allocations, acquisitions with tax-deductible goodwill, Section 338 elections, contingent consideration, transaction costs, measurement period adjustments, foreign operations, intra-entity transactions, equity investments, joint ventures, non-controlling interest, intercorporate tax allocations, and share-based compensation.

Further, 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 in-person seminars, 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 US GAAP*
