Accounting for Income Taxes Bulletin

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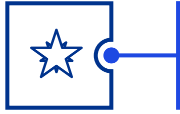

Featured items

U.S. tax legislation: IRA and CHIPS updates

In August of 2022, the Inflation Reduction Act of 2022 (IRA) and the CHIPS Act of 2022 (CHIPS Act) were signed into law by President Biden. The legislation adds new, and modifies existing, tax credits and introduces new options for monetizing certain of those credits, creates a new corporate alternative minimum tax (CAMT), and adds a stock repurchase excise tax. As more information has become known, accounting guidance has evolved associated with certain aspects of the newly enacted legislation. Further, additional disclosure considerations may be warranted as entities consider the potential impacts of the legislation in the current and future tax years.

Accounting for nonrefundable, transferable credits

U.S. GAAP does not specifically address how the transferability feature in nonrefundable IRA credits affects the accounting for those credits. Based on discussions with the Financial Accounting Standards Board (FASB) staff, we believe it is most appropriate for entities to apply ASC 740 to the IRA's nonrefundable, transferable credits which results in the accounting for these types of credits to be similar to nonrefundable, nontransferable credits. We also believe it is acceptable for entities to elect a policy to account for the credits like government grants. A third approach is an intent-based model that, if desired to be applied for the IRA's nonrefundable, transferable credits, should be followed only after consultation with advisers, external auditors, and potentially the Securities and Exchange Commission (SEC) staff.

Potential MD&A and Risk Factors disclosures

As entities develop an understanding of the potential impacts of the various provisions included within the legislation, consideration may be given to disclosure of expected future effective tax rates within management's discussion and analysis (MD&A). Entities may also consider disclosure within risk factors to the extent future regulatory, administrative, or legislative actions could have a material effect to its financial statements.

Deferral of effects of CAMT in financial statements under Statutory Accounting Principles

KPMG has reported on statutory accounting actions of the Statutory Accounting Principles Working Group (SAPWG) in its November 2022 conference call. The SAPWG exposed revisions to INT 22-02, *Third Quarter 2022 Reporting of the Inflation Reduction Act—Corporate Alternative Minimum Tax,* to extend the deferral of recognition of the effects of the CAMT in the financial statements through the first quarter of 2023. Comments were due December 1, 2022.

Realization of regular deferred tax assets for CAMT taxpayers under IFRS Accounting Standards®

Unlike U.S. GAAP, under IFRS Accounting Standards a company should consider whether it will be subject to the CAMT when assessing to what extent deductible temporary differences and unused tax losses under the regular tax will be realized in the future. If a company's projections of future taxable profits indicate that a certain amount of deductible temporary differences and unused tax losses will not be realized because the company expects to be subject to the CAMT, it should take that into account when measuring the deferred tax assets consistent with its expected manner of recovery. Any changes in the amount that can be realized should be recognized in the period that includes the August 16, 2022 enactment date.

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KPMG resources

KPMG has a number of resources that can assist entities and engagement teams as they work through the accounting for the legislation, including the Inflation Reduction Act web page. The following additional resources provide insight and considerations of accounting for the provisions included within the IRA and CHIPS legislation:

KPMG Hot Topic	IRA and CHIPS: Tax considerations
KPMG report	What Should CFOs, the C-Suite, and Tax Execs Know About the CAMT?
What's News in Tax	Accounting for Tax Credits
KPMG podcast series	IRA & CHIPS legislation
KPMG report	Analysis and observations: Tax law changes in the "Inflation Reduction Act of 2022"
KPMG report	Overview of investment tax credit for investments in semiconductor manufacturing
KPMG webcast	Q3 2022 Quarterly Outlook
KPMG TaxWatch webcast	Considerations of the IRA and CHIPS Acts
KPMG report	Insurance: SAPWG November 2022 call
KPMG *Defining Issues*	Corporate AMT implications – IFRS Accounting Standards

Q4 2022 reminders

Several areas of U.S. tax law have recent or future effective dates or have had recent changes that may impact accounting for income taxes. Below are reminders of selected items that may be of interest for those involved in accounting for income taxes.

Considerations of the final and proposed FTC regulations

In November 2022, the U.S. Treasury Department and IRS (collectively, Treasury) released proposed regulations (2022 Proposed Regulations) that provide additional guidance relating to the determination as to whether a foreign levy will generate a foreign tax credit. These 2022 Proposed Regulations would, if finalized, supplement and revise the final regulations published in the Federal Register on January 4, 2022 and the related correcting amendments. Refer to the KPMG report for additional discussion on the proposed guidance.

The impact of proposed regulations within an entity's financial statements may depend on whether the application of such guidance results in a benefit or detriment. Generally, proposed regulations do not change the technical analysis of a tax position until such guidance is issued in final form; however, administrative practices of a taxing authority should be taken into account, including a practice of not challenging positions consistent with its own proposed rulemaking. Additionally, there is a presumption that beneficial tax positions will be claimed. That being said, if the proposed regulations would result in a detriment if applied, it is expected that the guidance would only be applied and followed if the regulations are issued in final form and accounted for as a change in tax law upon issuance. For many entities, the analysis of whether the proposed regulations provide a beneficial or detrimental impact will take significant time and judgment in order to appropriately reflect the impact within the financial statements. Refer to sections 3 and 5 of the KPMG *Accounting for Income Taxes* handbook for additional guidance on accounting for proposed regulations.

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Impact of delayed effective dates for tax law changes related to interest and research or experimental expenditures

Certain changes to U.S. federal tax law included in the Tax Cuts and Jobs Act had a delayed effective date and are scheduled to take effect for tax years beginning after December 31, 2021. Thus, 2022 may be the first annual period in which the impact of these tax law changes is reflected in the current tax calculations.

Those changes include the limitation on net business interest expense deductions under section 163(j) no longer being increased by deductions for depreciation, amortization, or depletion, and, under section 174, specified research and experimentation (R&E) expenditures being capitalized and amortized. Refer to the December 2021 KPMG report for additional section 174 considerations. The changes may affect items such as an entity's reported base erosion and anti-abuse tax (BEAT) foreign-derived intangible income (FDII), or global intangible low-tax income (GILTI), among other items. The changes may also affect an entity's valuation allowance judgment, among other potential implications.

Section 162(m) expanded definition of a covered person

As part of the American Rescue Plan Act of 2021, the definition of covered employees under section 162(m) was expanded to include the five highest compensated employees other than those employees already treated as covered employees. While the expanded definition of covered employees is effective for tax years beginning after December 31, 2026, to the extent compensation that is nondeductible under section 162(m) is expected to be deducted in tax years beginning after the effective date, it may affect the measurement of existing deferred taxes. As the effective date becomes closer, entities should continue to evaluate whether any existing compensation arrangements are expected to give rise to nondeductible amounts under the expanded definition in tax years following the effective date. Refer to the April 2021 What's News in Tax article for additional guidance.

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European Council reaches agreement on Pillar 2 implementation

In December, European Union (EU) member states reached an agreement in principle to implement the minimum taxation component, known as Pillar 2, of the Organisation for Economic Co-operation and Development's (OECD) reform of international taxation. The European Council subsequently proceeded with a written procedure providing for formal adoption of the EU directive. The directive must be transposed into member states' national law by the end of 2023. We believe the issuance of a nonbinding EU directive generally would not constitute enactment of a new tax law in an individual jurisdiction for purposes of applying ASC 740. However, an entity should consider the specifics of the legislative system in its individual jurisdictions to determine what effect, if any, the directive has on the application of its currently enacted tax laws. Refer to the Euro Tax Flash for additional guidance.

Recent SEC and FASB comments on accounting for income taxes

A forthcoming What's News in Tax article from the Accounting for Income Taxes group in Washington National Tax (WNT) summarizes certain comments about accounting for income taxes made by representatives of the U.S. SEC and the FASB during the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments primarily related to disaggregation of income taxes information and the FASB's ongoing *Improvements to Income Tax Disclosures project*. It was noted that while the exposure draft is expected to be released early in 2023, a company may voluntarily provide disaggregated disclosures now. Read more about the conference in the recent Issues & Trends.

Additionally, the article provides examples of comments regarding accounting for income taxes matters recently issued by the 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. The examples involve comments related to effective tax rate reconciliations, valuation allowances, unrecognized tax benefits, indefinite reinvestment assertions, investments in partnerships, changes in ownership and potential limitations, tax receivable agreements, non-GAAP measures, and pro forma adjustments.

November 2022 IASB meeting on GloBE rules

At a November 2022 meeting, the International Accounting Standards Board (IASB) decided to add to its work plan an accelerated project proposing narrow-scope amendments to IAS 12 Income Taxes. In response to stakeholder concerns about the potential implications of the imminent implementation of the Pillar Two model rules set forth by the OECD, the IASB tentatively decided to introduce a temporary exception from accounting for deferred taxes arising from the implementation of the rules. The project also introduces targeted disclosure requirements for affected entities.

An exposure draft is expected to be published in January 2023, with a 60-day comment period and an aim to finalize any amendments, which would be effective immediately and retroactively, in the second quarter of 2023. For additional information, refer to the KPMG Global IFRS Institute article on the global minimum top-up tax.

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Updates on accounting and auditing matters

KPMG DPP quarterly outlook

The December 2022 Quarterly Outlook summarizes major accounting and financial reporting developments that may affect entities in the current period or in the near term. The Q4 2022 publication features highlights from the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments, potential impacts of economic uncertainty on accounting and financial reporting, new tax legislation, the EITF project on simplified accounting for tax equity investments, the FASB project on income tax disclosures, and other recent SEC and FASB news.

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, 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
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

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Professionals should be mindful of the recently updated IFRS 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

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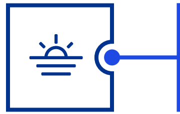

On the horizon

FASB decisions on the improvements to income tax disclosures

The FASB's *Improvements to Income Tax Disclosures* project seeks to improve the transparency and decision usefulness of income tax disclosures. At a November 30, 2022 meeting, the FASB Board discussed potential disclosure improvements to income taxes paid and the rate reconciliation, as well as certain disclosures in the 2019 revised proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes* to the Disclosure Requirements for Income Taxes (2019 revised Exposure Draft). The Board made the following tentative decisions.

Income taxes paid

The Board decided to require that all entities disclose the amount of the year-to-date income taxes paid, net of refunds received, disaggregated by federal, state, and foreign taxes on both an interim and annual basis. On an annual basis, the Board decided to require that all entities disclose income taxes paid disaggregated by individual jurisdiction based on a quantitative threshold of five percent of total income taxes paid.

Rate reconciliation

The Board decided to require that public business entities, on an annual basis, disclose rate reconciliation information by specific categories including state and local income tax, net of the federal income tax effect; foreign tax effects; enactment of new tax laws, effect of cross-border tax laws; tax credits; valuation allowances; nontaxable or nondeductible items; and changes in reserves for tax positions, at a minimum, with accompanying qualitative disclosures. Further, the Board would require a qualitative disclosure about the states that contribute to the majority of the effect of the state and local income tax, net of federal income tax effect category. The Board also would require disclosure of reconciling items by nature on a quantitative threshold of five percent, within the effect of cross-border tax laws, tax credits, and nontaxable or nondeductible items categories. Additional disclosure of reconciling items by nature and jurisdiction on a quantitative threshold of five percent within the foreign tax effect category and reconciling items separately by nature based on a quantitative threshold of five percent for all other items that do not fall within any specific category would be required.

The Board decided to require that public business entities disclose rate reconciliation information using both percentages and dollar amounts. The Board also decided to require and provide a qualitative disclosure, on an interim basis, about the reconciling items that cause significant year-to-date changes of the effective tax rate from the prior annual reporting period.

The Board decided to require that nonpublic entities provide a qualitative disclosure about specific categories and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

The Board decided not to provide additional guidance on the rate reconciliation disclosure for entities operating at or about breakeven or entities domiciled in jurisdictions with a minimal statutory tax rate.

Certain disclosures previously exposed for comment

The Board affirmed three amendments in the 2019 revised Exposure Draft that includes replacing the term *public entity with the term public business entity*, eliminating the requirement for all entities to disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months, and removing the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to

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comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

Finally, the Board decided to add income tax disclosures previously referred by the SEC and included in the 2019 revised Exposure Draft for all entities including income (or loss) from continuing operations before income tax expense (benefit) disaggregated between domestic and foreign and income tax expense (benefit) from continuing operations disaggregated by federal, state, and foreign taxes.

Transition and next steps

The Board decided that entities should apply the amendments on a retrospective basis, that is, as of the beginning of the earliest period presented in the financial statements. The Board directed the staff to draft a proposed Accounting Standards Update for vote by written ballot, with a comment period of 75 days.

EITF consensus: Simplified accounting for tax equity investments

On December 1, 2022, the EITF reached a final consensus on EITF Issue 21-A, *Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. Proportional amortization method (PAM) accounting has been available for qualifying investments in Qualified Affordable Housing Projects (otherwise referred to as low-income housing tax credits or LIHTC investments) as an alternative to either the cost or equity method of accounting since 2014. Given the economic similarities between LIHTC investments and other tax equity investments, stakeholders requested the FASB consider expanding the availability of the PAM, which led to EITF Issue 21-A. Expanding the availability of the PAM could simplify an investor's accounting for a more diverse population of tax equity investments and provide users of the financial statements with a better understanding of the related returns.

If ratified, the final consensus will expand the population of qualifying investments to which the PAM may be applied, clarify the qualifying investment criteria, provide for election of the PAM on a tax credit program-by-program basis and require the use of the flow-through method of accounting to account for the related tax credit when the PAM is applied. The final consensus also includes other amendments to the guidance in ASC 323-740 on applying the cost method and equity method to tax equity investments when the PAM is not applied and accounting for delayed equity contributions.

The FASB is expected to discuss ratification of the final consensus in January 2023.

Refer to the KPMG Defining Issues article for further discussion.

Other FASB projects

The FASB's *Accounting for Government Grants, Invitation to Comment* project to solicit feedback on whether the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* should be incorporated into U.S. GAAP continues in the research phase. The Board will consider comment letter feedback on the Invitation to Comment on the potential project.

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Other items of interest

Issues In-Depth: Government assistance disclosures

A new KPMG Issues In-Depth provides business entities with implementation considerations about the new ASC 832 government assistance disclosure requirements effective for 2022 annual financial statements.

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