



# Accounting for Income Taxes Bulletin

July 2023



# Featured items

## Proposed ASU: Improvements to Income Tax Disclosures

On March 15, 2023, the Financial Accounting Standards Board (FASB) issued *Proposed Accounting Standards Update (ASU)—Income Taxes (Topic 740): Improvements to Income Tax Disclosures* that addresses requests for enhanced disclosures related to income taxes from investors, lenders, creditors, and other allocators of capital (collectively, investors) that use the financial statements to make capital allocation decisions. The amendments in the proposed ASU would address investor requests for more transparency about income taxes, including jurisdictional information, by requiring consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid.

Stakeholders reviewed the proposal and provided [feedback](#) to the FASB on the proposed ASU during the comment period, which ended on May 30, 2023. KPMG commented on the FASB's proposed amendments and provided feedback primarily related to the threshold for separate disclosure in the rate reconciliation, whether the expected tax rate used in the rate reconciliation should always be the statutory tax rate in the jurisdiction of domicile, and the definition and characteristics of cross-border tax laws.

Refer to the KPMG [Defining Issues](#) for further information regarding the proposed ASU. Additionally, professionals from KPMG WNT as well as KPMG Audit's Department of Professional Practice (DPP) provided an overview of the proposed guidance and walked through examples of the proposed disclosures in a recent [webcast](#) that is available for replay.

## New handbook: Tax credits

KPMG recently released a new [handbook](#) that explains the accounting for various forms of tax credits in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) generated directly or generated indirectly through ownership of interests in pass-through entities, including consideration of ASC 323-740, as amended by ASU 2023-02, *Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. The handbook explains the differences in accounting for tax credits depending on who generates the tax credit, how the tax credit is realized, and what the tax credit is trying to incentivize.

In addition, KPMG professionals discussed the accounting for tax credits generated by a company through participation in qualifying activities or ownership of qualifying property in a recent [webcast](#) that is available for replay. Look for an upcoming KPMG webcast on accounting for tax credits under the equity method and the proportional amortization method in August 2023.

## Accounting for GloBE under IFRS Accounting Standards

On May 23, 2023, the International Accounting Standards Board (IASB) [issued](#) *International Tax Reform—Pillar Two Model Rules*, which amended IAS 12 *Income Taxes* to provide companies with a mandatory temporary exception to accounting for deferred taxes related to Pillar Two top-up taxes and provides for new disclosure requirements primarily in periods in which the new tax laws are enacted or substantively enacted, but not yet effective. The amendments to IAS 12 are effective

immediately and apply retrospectively. The KPMG [Global Minimum Tax Hot Topic](#) was updated for the amendments to IAS 12. Additionally, refer to the KPMG Global IFRS Institute [article](#) for further information.

Additionally, the IASB issued an [Exposure Draft International Tax Reform—Pillar Two Model Rules—Proposed Amendments to the IFRS for SMEs Standard](#), that proposed narrow-scope amendments to Section 29 of the *IFRS for SMEs Accounting Standard* to introduce a mandatory temporary exception from accounting for deferred taxes related to Pillar Two top-up taxes for

small- and medium-sized entities (SMEs). If finalized as proposed, SMEs would be prohibited from providing for deferred taxes related to Pillar Two income taxes. Further, the proposal would require SMEs to disclose the entity's current tax expense related to Pillar Two income taxes and to apply the disclosure requirement in annual financial statements for periods beginning on or after January 1, 2023, amongst other proposed requirements. The comment period on the exposure draft ends July 17, 2023.





# Updates on accounting matters

## Extension of CAMT relief for insurance companies reporting under Statutory Accounting Principles

KPMG reports on statutory accounting actions and discussions of the Statutory Accounting Principles Working Group (SAPWG) on the May 2023 conference call, which included the adoption of guidance that extended the effective date of INT 22-02 through August 16, 2023. The INT provides an exception to insurers when assessing the effects on the insurer's valuation allowance and deferred tax assets from the Corporate Alternative Minimum Tax.

## Income taxes: IFRS Accounting Standards versus U.S. GAAP

The KPMG IFRS Institute recently published an article on ten key differences between accounting for income taxes under IFRS Accounting Standards and U.S. GAAP. The selected differences focus on those that are generally most impactful to net income or the most complex to deal with.

## KPMG DPP quarterly outlook

The June 2023 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, <i>Simplifying the Test for Goodwill Impairment</i>	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, <i>Simplifying the Accounting for Income Taxes</i>	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, <i>Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance</i>	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, <i>Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method</i>	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

Professionals should be mindful of the recently updated IFRS Accounting Standards.

Updated Standard	Brief Description of Standard	Effective Date
<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)</i>	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
<i>International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)</i>	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

## Proposed ASU on REIT disclosures

On May 17, 2023, the FASB **redeliberated** on the proposed ASU, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. Among the referred disclosures to be incorporated into U.S. GAAP, the Board affirmed the decision to require real estate investment trusts (REITs) to disclose the tax status of distributions per unit (for example, ordinary income or capital gain), which would require privately held REITs to provide additional disclosures. The Board estimates a final ASU will be issued in the third quarter of 2023.

## 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 is considering feedback from the Invitation to Comment on the potential project for which the comment period concluded on September 12, 2022.

## Accounting for tax credits and tax equity investments under Statutory Accounting Principles

During its Spring meeting, the National Association of Insurance Commissioners (NAIC) discussed revisions to Statement of Statutory Accounting Principles (SSAP) Nos. 93 and 94R to capture all tax equity investments that qualify under specified criteria and provide federal business tax credits and state premium tax credits. Comments on the exposed revisions were due June 30, 2023.

The proposed revisions to SSAP No. 93 include expanding the scope to include tax credit investments irrespective of structure (which is a departure from U.S. GAAP that only applies to tax equity investments), providing guidance on the investment structures that would be in the scope, and applying the proportional amortization method in ASU 2023-02.

The proposed revisions to SSAP No. 94R include expanding the scope to include all state and federal tax credits that have been allocated to or purchased by an insurer, requiring tax credits be recorded at face value, recognizing a loss immediately for acquisitions at a premium, and deferring the gain as a miscellaneous liability for acquisitions at a discount until the insurer has used tax credits in excess of the acquisition cost.

Refer to the KPMG [report](#) for more information.

## Presentation of income tax–related currency transaction gains and losses

On June 20, 2023, the IASB **discussed** proposals from the Exposure Draft *General Presentation and Disclosures* relating to categories and subtotals. The IASB 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 intends to continue to redeliberate the project proposals at future meetings.

## Deferred taxes within equity method investments under IFRS Accounting Standards

On April 27, 2023, the IASB discussed application questions within the scope of the Equity Method research project. The IASB **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 decided to move the project to its standard-setting work plan with an expectation to publish an exposure draft as the next due process step in 2024.

## Potential replacement of IFRIC 21 application requirements

As a part of its *Conceptual Framework for Financial Reporting* project, the IASB **discussed** possible amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. One of the issues being addressed is 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 the second half of 2023.





# 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](#).

Additionally, the [Accounting for Income Taxes](#) live virtual Executive Education classes will be offered:

- August 15–18, 2023
- December 12–15, 2023

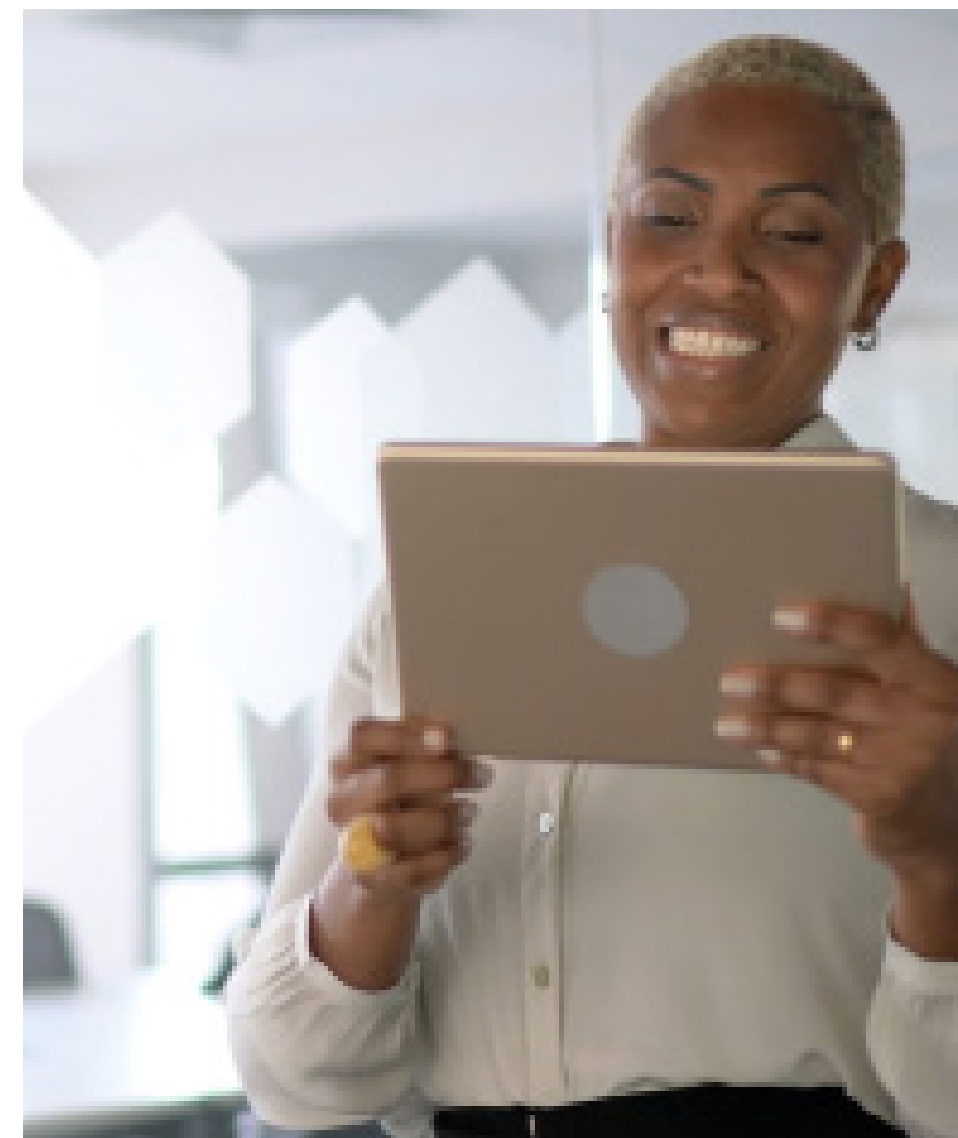
The [Advanced Accounting for Income Taxes](#) live virtual Executive Education classes will be offered:

- December 18–20, 2023



# 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



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