



Accounting for Income Taxes | Quarterly Hot Topics

US Federal

Tax News & Views, published by the Deloitte Tax LLP Tax Policy Group in Washington, DC, provides a compact, reader-friendly perspective on the latest tax developments coming out of Congress affecting businesses and high-wealth individuals.

For updates and perspective on the latest tax developments coming out of Congress please subscribe to [Tax News and Views](#).

Ways and Means Committee approves budget reconciliation tax package

The US House Ways and Means Committee, the week of 13 September 2021, approved, almost entirely along party lines, a tax package that calls for significant revenue-raising provisions targeting large corporations and high-income individuals to pay for lower- and middle-class tax relief, bankroll tax breaks, and new spending on traditional physical infrastructure projects and “human” infrastructure initiatives, and to address climate change.

For additional details, please see the Deloitte [article](#) dated September 17, 2021.

Deloitte Tax materials on budget reconciliation available

New resources from Deloitte Tax LLP that look at provisions in the budget reconciliation legislation being developed by US congressional tax-writing leaders in September 2021 are available [here](#), dated September 17, 2021.

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Credits and incentives for clean energy, community development proposed

On 10 September and 13 September 2021, the US House of Representatives Ways and Means Committee released markups of pieces of the Build Back Better Act (Act) (bill number not yet released), a large legislative proposal that is part of the budget reconciliation proposed legislation. The bill includes numerous measures to combat climate change by stimulating the development of clean energy. The bill also encourages economic and affordable housing and community development, among many other credits and incentives proposals.

For additional details, please see [Deloitte tax@hand](#) article dated September 14, 2021.

Senators unveil draft bill fleshing out details of international tax “framework”

US Senate Finance Committee Chairman Ron Wyden, D-Ore., along with Senate Democratic tax writers Sherrod Brown of Ohio and Mark Warner of Virginia, unveiled draft legislation for international tax reform on August 25, 2021 that provides additional detail on proposed changes within the high-level “framework” the trio previously released in April.

For additional details, please see the [Deloitte article](#) dated August 27, 2021.



Federal Periods and Methods

IRS issues procedural guidance for final revenue recognition regulations

On 12 August 2021, the US IRS released [Revenue Procedure \(Rev. Proc.\) 2021-34](#) and [Rev. Proc. 2021-35](#), which provide guidance for a taxpayer to comply with Treasury Regulations under IRC [sections 451\(b\), 451\(c\), and 1275](#). Additionally, Rev. Proc. 2021-34 provides guidance for a taxpayer to change its methods of accounting for certain inventory costs to comply with IRC sections 263A, 461, and 471 if they are made in connection with a change in accounting method to comply with Treas. Reg. sections 1.451-3 and/or 1.451-8.

For additional details, please see [Deloitte tax@hand](#) article dated August 16, 2021.

US Multistate

Arizona

Combined reporting of parent and affiliates deemed necessary to accurately reflect income

Services provided by a parent company were deemed operational components of the core business embodied in the products and services provided by its unitary affiliates and thus Arizona combined reporting of overall net income by the parent and the affiliates was deemed necessary to clearly reflect the taxable income earned by those subsidiaries with Arizona income factors.

For additional details, please refer to the July 2, 2021 edition of [State Tax Matters](#).

Delaware

New law codifies practice of limiting NOLs to amounts claimed on federal return

New law limits a Delaware corporate taxpayer's net operating loss deductions to those deductions that were claimed on its federal income tax return. Under the new law, any net operating loss that exceeds the amount claimed on a corporate taxpayer's federal income tax return is not permitted in the calculation of its Delaware corporate income tax.

For additional details, please refer to the August 13, 2021 edition of [State Tax Matters](#).

Florida

New law updates state conformity and contains some decoupling

New law updates corporate income tax statutory references in Florida to conform to the IRC provisions as in effect on January 1, 2021 and decouples from certain federal tax provisions involving IRC sections 163(j), 168(e), and 172.

For additional details, please refer to the July 2, 2021 edition of [State Tax Matters](#) and the August 20, 2021 edition of [State Tax Matters](#).

Hawaii

New law updates state conformity

New law updates statutory references to the IRC providing that references to the IRC in Hawaii income tax laws refer to the federal law in effect as amended as of December 31, 2020.

For additional details, please refer to the July 2, 2021 edition of [State Tax Matters](#).

Iowa

Adopted rules reflect state treatment of interest expense limitations under IRC section 163(j)

The Iowa Department of Revenue adopted administrative rules implementing adjustments to income for Iowa individual and corporate income and franchise taxes for interest expense deductions under IRC section 163(j), which are limited for federal income tax purposes but which are permitted in full for Iowa purposes.

For additional details, please refer to the July 2, 2021 edition of [State Tax Matters](#).

Louisiana

New law extends carryforwards of some NOLs for an indefinite period

New law extends the period in which taxpayers may carry forward certain net operating losses for Louisiana corporate income tax deduction purposes.

For additional details, please refer to the July 2, 2021 edition of [State Tax Matters](#).

Maine

New law updates state conformity

New law conforms state corporate and personal income tax references to the IRC to the federal IRC as in effect as of April 30, 2021.

For additional details, please refer to the July 9, 2021 edition of [State Tax Matters](#).



New Hampshire

New law lowers rates on BPT and BET

Recently enacted budget legislation includes provisions that lower tax rates under New Hampshire's business profits tax (BPT) from 7.7% to 7.6% and business enterprise tax (BET) from 0.6% to 0.55%.

For additional details, please refer to the July 2, 2021 edition of [State Tax Matters](#).

New Jersey

COVID-19 temporary suspension period for corporate tax nexus purposes ends October 1

The New Jersey Division of Taxation posted updated guidance addressing the impact of telecommuting and nexus in light of the COVID-19 pandemic, providing that its temporary waiver of New Jersey's corporation business tax nexus standard for employees working in New Jersey as a result of the COVID-19 pandemic no longer applies on and after October 1.

For additional details, please refer to the August 6, 2021 edition of [State Tax Matters](#).

Oregon

Adopted rules implement Portland metro area's new business profits

Adopted administrative rules seek to implement a new voter-approved business profits tax that is imposed within the Portland Metro District with the first annual tax returns due by April 15, 2022 for calendar year filers.

For additional details, please refer to the July 30, 2021 edition of [State Tax Matters](#).

Texas

Texas Supreme Court accepts review of case on sourcing satellite radio subscription receipts

The Texas Supreme Court granted review of a 2020 decision involving a satellite radio subscription service and how to source its subscription receipts for Texas franchise tax purposes.

For additional details, please refer to the September 10, 2021 edition of [State Tax Matters](#).



Appellate Court says company qualified for reduced rate and COGS Deduction

Under substance over form reasoning, a Texas Court of Appeals affirmed that a company engaged in selling business equipment through the use of certain sales-type leases qualified for the reduced Texas franchise tax rate applicable to entities primarily engaged in retail or wholesale trade and may include costs related to the sales-type leases in its cost of goods sold (COGS) deduction.

For additional details, please refer to the September 3, 2021 edition of [State Tax Matters](#).

Virginia

New law eliminates \$10K penalty associated with unitary combined information reports

In 2021 Special Session II of General Assembly, the \$10,000 penalty associated with failure to timely file Virginia's one-time unitary combined information report was stricken from the Code of Virginia. Legislation was enacted earlier this year requiring some corporations that are members of a unitary business to file an informational report by July 1, 2021, containing the unitary group's combined net income and tax.

For additional details, please refer to the August 20, 2021 edition of [State Tax Matters](#).

West Virginia

Revised rules reflect newly adopted single sales factor and market-based sourcing

The West Virginia Department of Revenue has adopted amended state corporation net income tax rules reflecting legislation that adopts a single-sales factor formula, eliminates the sales factor throw-out rule, and implements market-based sourcing of certain receipts.

For additional details, please refer to the August 6, 2021 edition of [State Tax Matters](#).

International

This compilation is intended to be an overview of major international tax developments during the quarter that may have ASC 740 implications. For more summaries of other current international income tax news and developments for the current quarter, please refer to the additional publications listed at the end of this section.

Multiple Jurisdictions

OECD

Inclusive framework statement agrees taxation of digital economy, global minimum rate

On July 1, 2021, the G20/OECD Inclusive Framework on BEPS ("inclusive framework") published a statement on the key components of global tax reform, agreed by 130 of its members.

Since 2017, the 139 member countries of the inclusive framework have jointly been developing a "two-pillar" approach to address the tax challenges arising from the digitalization of the economy. This led to the publication of two detailed "blueprints" in October 2020 on potential rules for addressing nexus and profit allocation challenges (Pillar One) and for global minimum tax rules (Pillar Two). The proposals were updated and simplified by the US Biden Administration in April 2021 and formed the basis for the political agreement reached by the G7 countries in June 2021.

For additional details, please see the Deloitte [article](#) dated July 1, 2021.

Australia

Accounting for the revised R&D tax incentive

In October 2020, the Australian government announced some long-awaited key changes to the research and development (R&D) Tax Incentive (RDTI) regime, with most taking effect for income years commencing on or after July 1, 2021.

The government chose to backtrack on some controversial prior proposed amendments, with the following changes now having taken effect as from July 1, 2021:

- The refundable R&D tax offset is now fixed at a premium rate of 18.5% above the prevailing corporate tax rate;
- A single tier intensity threshold mechanism now provides a non-refundable R&D tax offset basic rate of 8.5%, with a 16.5% premium rate for any expenditure above a 2% intensity threshold;

- Amendments to the claw back and catch-up mechanisms to ensure accuracy; and
- A permanent increase in the R&D expenditure cap from AUD 100 million to AUD 150 million.

For additional details, please see the Deloitte [article](#) dated September 5, 2021.

Brazil

Chamber of Deputies approves income tax reform bill

On September 2, 2021, Brazil's Chamber of Deputies approved the income tax reform bill (No. 2,337/2021) initially presented on June 25, 2021, although with several important proposed changes. The bill now will move forward to the Senate for approval.

Although still subject to review, amendment, or even rejection by the Senate, certain changes to the original draft bill have been proposed by the Chamber of Deputies, which include a reduction of the proposed withholding tax rate on dividends from 20% (30% when paid to beneficiaries located in tax havens or tax-privileged regimes) to 15%, and a reduction in the proposed corporate income tax (IRPJ) rate from 12.5% in 2022 and 10% in 2023 to 8% as from January 1, 2022.

For additional details, please see the Deloitte [article](#) dated September 6, 2021.

China

STA issues simplified procedures for unilateral APAs

On July 30, 2021, China's State Taxation Administration (STA) issued Bulletin [2021] No. 24, which sets forth simplified procedures for unilateral advance pricing arrangements (APAs) for enterprises that meet certain conditions. Bulletin 24 will become effective on September 1, 2021.

For additional details, please see the Deloitte [article](#) dated August 2, 2021.

France

2021 Amended finance bill becomes law

Parliament has adopted the 2021 amended finance bill, which includes provisions that temporarily extend the loss carryback mechanism and amend the rules on the taxation of nonresidents' capital gains to comply with European Union law.

For additional details, please see the Deloitte [article](#) dated July 21, 2021.

Germany

Federal Constitutional Court rules interest rate on tax payments unconstitutional

In a decision dated July 8, 2021 and published on August 18, 2021, Germany's Federal Constitutional Court (BVerfG) held that the 6% annual interest rate applied on direct and indirect tax payments and refunds for the year 2014 and subsequent periods violates German constitutional principles.

For additional details, please see the Deloitte [article](#) dated August 20, 2021.

Updated transfer pricing principles provide new MOF guidance on financing structures

The German Ministry of Finance (MOF) published a decree providing updated "Administrative Principles regarding Transfer Pricing" on July 14, 2021. The updates generally were made in response to recently enacted legislation (specifically, the law to implement the EU anti-tax avoidance directive ("ATAD implementation law") and the law on the modernization of withholding tax relief and certification of withholding tax) and the February 2020 guidance on financial transactions provided in chapter X of the OECD transfer pricing guidelines; however, the decree also provides some unexpected

new guidance regarding intercompany loans by a foreign financing company to a German borrower.

For additional details, please see the Deloitte [article](#) dated July 28, 2021.

MOF grants extension of deadline for certain ORIP-related filings

The German Ministry of Finance (MOF) published a decree on July 14, 2021 that extends the deadline for certain filings that are required in connection with the German extraterritorial taxation of royalty payments derived by nonresidents ("ORIP" cases) from the original December 31, 2021 date to June 30, 2022. Despite the extension, affected taxpayers should be aware that the application of the relevant rules can be highly complex and that they should not delay in taking necessary actions.

For additional details, please see the Deloitte [article](#) dated July 14, 2021.

India

CBDT provides formula to recalculate minimum alternate tax following TP adjustments

India's Central Board of Direct Taxes (CBDT) issued a notification on August 10, 2021 setting out the formula for adjusting the minimum alternate tax (MAT) payable in a year in which transfer pricing (TP) adjustments are made for past years (i.e., additional income is included in the books of account) following the conclusion of an advance pricing agreement (APA) or a secondary adjustment.

For additional details, please see the Deloitte [article](#) dated August 10, 2021.

Mexico

Large taxpayers with low effective tax rates may be subject to increased audit risk

Large taxpayers should be aware that they may be subject to an increased risk of a tax audit if their effective tax rate is below the relevant industry-specific rate in a list published by Mexico's Service Tax Administration (SAT) on June 13, 2021.

For additional details, please see the [Deloitte article](#) dated July 21, 2021.

Russia

Recent developments affecting IT companies

As from January 1, 2021, qualified, eligible IT companies registered in Russia (including the local subsidiaries of multinational corporations) may enjoy the following new tax benefits (subject to certain conditions):

- Preferential 3% corporate income tax rate; and
- Reduced social security contribution rates (total rate of 7.6% vs 30% standard rate).

To claim these benefits, software developers must meet the following requirements:

- Obtain an accreditation certificate from the Ministry of Communications and Media; and
- Generate at least 90% of their income from qualified IT activities.

For additional details, please see the [Deloitte article](#) dated August 2, 2021.

U.K.

New patent box regime

From July 1, 2021, the new patent box regime applies to all UK claimant companies, regardless of when the company elected into the regime. The new rules meet the revised OECD nexus principles and can limit the qualifying intellectual property ("IP") profits based on the proportion of R&D activity undertaken by the company, by applying the "nexus fraction." The effective benefit, which is currently 9%, will increase to 15% from April 1, 2023, when the corporation tax rate increases to 25%.

For additional details, please see the [Deloitte UK Banking & Capital Markets newsletter](#) dated July 23, 2021.

Notification of uncertain tax positions

Draft legislation for the requirement to notify HMRC of uncertain tax treatment was published on July 20, 2021. Under the current drafting, businesses would be required to report to HMRC where:

- A provision has been recognized in the accounts of the company or partnership in accordance with accounting principles;
- Reliance was placed on an interpretation or application of the law that is not in accordance with HMRC's known position; or
- There is a substantial possibility that a court or tribunal would, if it were to consider the treatment, conclude that the way the amount has been arrived at is incorrect.

For additional details, please see the [Deloitte UK Banking & Capital Markets newsletter](#) dated July 23, 2021.

Accounting Developments

Environmental, social and governance (ESG)

Environmental, social, and governance (ESG) matters may impact a company's financial accounting and reporting in the context of the existing accounting guidance and the current regulatory environment. While these effects will vary depending on the company's industry, along with factors such as relevant regulatory, legal, and contractual obligations, entities should evaluate ESG-related financial accounting and reporting implications.

To learn more about how ESG may impact a company's current accounting and financial reporting, please see Deloitte's [Heads Up](#) article dated May 26, 2021.

Reminder: FASB ASU 2019-12, Simplifying the Accounting for Income Taxes, now effective

As a reminder, the amendments under FASB ASU 2019-12, Simplifying the Accounting for Income Taxes, are now effective for public business entities (PBEs).

The ASU impacts various topic areas within ASC 740, including accounting for taxes under hybrid tax regimes, accounting for increases in goodwill, allocation of tax amounts to separate company financial statements within a group that files a consolidated tax return, intraperiod tax allocation, interim period accounting, and accounting for ownership changes in investments, among other minor codification improvements.

For non-PBEs, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the ASU is permitted.

For additional details and a full summary of ASU 2019-12, please refer to our December 19, 2019 [Heads Up](#).

Reminder: FASB ASU 2020-06, Accounting for Convertible Instruments & Contracts in an entity's own equity

On August 5, 2020, the FASB issued ASU 2020-06, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The ASU is part of the FASB's simplification initiative, which aims to reduce unnecessary complexity in US GAAP.

The ASU's amendments are effective for PBEs that are not smaller reporting companies, fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. For all other entities, fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The guidance may be early adopted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years.

For additional details and a full summary of ASU 2020-06, please refer to our August 5, 2020 [Heads Up](#).

Other

For other information regarding newly issued accounting standards, exposure drafts, and other key developments, refer to our [Quarterly Accounting Roundup](#).

For upcoming webcasts that give you valuable insights on important developments affecting your business and feature practical knowledge from Deloitte specialists and CPE credits, please visit us at [Dbriefs Webcasts](#).

Join us at the [Deloitte Tax Accounting Conference-2021 Virtual](#) from November 29–December 9, 2021 for tax accounting sessions delivered by well-known Deloitte speakers. Join discussions on key topics and explore insights from the comfort and safety of your virtual office.

Learn More

Additional resources you may find helpful

- [Accounting for Income Taxes—Quarterly Hot Topics Archive](#)
- [TaxFirst Webcast Series](#)
- [Deloitte Tax Accounting & Provision Services Home Page](#)
- [Deloitte Tax Accounting & Provisions Dbriefs Webcasts Series](#)
- [Deloitte Heads Up Newsletter Archive](#)
- [Global Tax Developments Quarterly—Accounting for Income Taxes](#)
- tax@hand

As always, we are interested in your comments on our publications. Please take a moment to tell us what you think by sending us an [e-mail](#).

Talk to us

If you have any questions or comments about the ASC 740 implications described above or other content of Accounting for Income Taxes Quarterly Hot Topics, contact the Deloitte Washington National Tax Accounting for Income Taxes Group at: USNationalWNTActIncomeTaxesGrp@deloitte.com



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