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On the Radar
Income Taxes

The accounting for income taxes under ASC 740 can be extremely complex. The amount of income tax expense an entity must record in each period does not simply equal the amount of income tax payable in each period. Rather, ASC 740 requires an entity to record income tax expense in each period as if there were no differences between (1) the timing of the recognition of events in income before tax for U.S. GAAP purposes and (2) the timing of the recognition of those events in taxable income.

In accordance with ASC 740-10-10-1, an entity's overall objectives in accounting for income taxes are to (1) "recognize the amount of taxes payable or refundable for the current year" (i.e., *current tax expense or benefit*) and (2) "recognize deferred tax liabilities [DTLs] and assets [DTAs] for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns" (resulting in *deferred tax expense or benefit*). An entity's total tax expense is generally the sum of these two components and can be expressed as the following formula:

Total tax expense or benefit = **Current tax expense or benefit** + **Deferred tax expense or benefit**

Current tax expense or benefit — Taxes expected to be reflected on the entity's current tax return.

Deferred tax expense or benefit — Generally, the *change* in the sum of the entity's DTAs (net of any valuation allowance) and DTLs during the period (i.e., the *change* in the future tax consequences of events that have been recognized differently for financial reporting and tax purposes).

To apply the guidance in ASC 740, entities must understand not only the standard's accounting requirements but also the tax codes under various jurisdictions. Accordingly, coordination between the accounting and tax departments is generally required.

Legislative and Economic Setting

In 2017, we saw sweeping tax reform unfold in the United States. The Tax Cuts and Jobs Act (the "2017 Act") introduced a host of new concepts, including a one-time transition tax on unrepatriated foreign earnings, along with a new tax on global intangible low-tax income (GILTI) inclusions, the base erosion anti-abuse tax (BEAT), and more restrictive interest limitations under IRC Section 163(j). In some respects, however, the 2017 Act simplified the accounting under ASC 740 because assertions entities needed to make to avoid recording DTLs for unremitted foreign earnings now primarily apply only to ancillary taxes (i.e., withholding and state).

Then, in 2022, two pieces of legislation with significant tax-related provisions were enacted. The CHIPS Act of 2022 (H.R. 4346), signed into law on August 9, 2022, established an advanced manufacturing investment credit under new IRC Section 48D. The Inflation Reduction Act of 2022 (H.R. 5376), signed into law on August 16, 2022, included (1) a 15 percent book minimum tax (corporate alternative minimum tax [AMT]) on the adjusted financial statement income of applicable corporations; (2) a plethora of clean-energy tax incentives in the form of tax credits, some of which have a direct-pay option or transferability provision; and (3) a 1 percent excise tax on certain corporate stock buybacks.

The provisions of the Inflation Reduction Act went into effect this year, and while the ASC 740 ramifications of the corporate AMT were relatively minor, the direct-pay and transferability provisions of the new tax credits have provided (and continue to provide) a host of new challenges.

In addition, the global economy has started to prepare for the Organisation for Economic Co-operation and Development's (OECD's) Pillar 2 tax regime, which is intended to introduce a global minimum corporate tax rate of 15 percent. To implement the global minimum tax, individual countries are responsible for establishing laws and regulations in line with the framework provided by the OECD. The framework is set to go into effect as early as January 2024, subject to the enactment of tax laws in accordance with the framework on a jurisdictional basis. Generally, we expect these new taxes to be accounted for in a manner similar to AMTs, but the accounting impacts of each new law will need to be separately evaluated in each jurisdiction.

Standard-Setting Activity

The FASB has completed (or is about to complete) projects related to income tax disclosures and the accounting for investments in tax credit structures. The status of these projects is discussed below.

Disclosure Requirements

On March 15, 2023, the FASB issued a proposed ASU to improve the transparency and decision-usefulness of income tax disclosures. The project's scope concentrates on disclosures related to income taxes paid and the rate reconciliation table. Comments were due May 30, 2023. At its meeting on August 30, 2023, the FASB discussed feedback on the proposed ASU. In general, the Board affirmed most of the proposal's income tax disclosure amendments[1] and instructed the FASB staff to draft for the Board's approval a final ASU, which is expected to be issued by December 31, 2023.

[1] All FASB decisions are tentative until a final ASU is issued.

Accounting for Investments in Tax Credit Structures

In March 2023, the FASB issued ASU 2023-02, which expands the use of the proportional amortization method to other investment tax credits besides low-income housing tax credit investments provided that the other investments meet certain revised criteria in ASC 323-740-25-1. The ASU is intended to improve the accounting and disclosures for investments in tax credit structures.

> For a comprehensive discussion of the income tax accounting guidance in ASC 740, see Deloitte's Roadmap *Income Taxes*.

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