



Accounting for Income Taxes | Quarterly Hot Topics

US Federal

Treasury "Green Book" sheds additional light on Biden's tax proposals

The White House released a fiscal year 2022 US budget blueprint on May 28, 2021. The budget blueprint calls for significant tax increases targeting large corporations and includes proposals to overhaul or eliminate a number of current-law tax provisions that the White House argues provide incentives for companies to locate investment in foreign jurisdictions. Notable tax provisions include:

- Increase in the corporate tax rate
- Implement minimum tax on book income
- Revise the global intangible low-taxed income ("GILTI") regime
- Disallow deductions for exempt or tax-preferred foreign gross income
- Expand IRC section 7874 (rules related to expatriated entities and their foreign parents)

- Change GILTI and foreign tax credit provisions for foreign fossil fuel income
- Change to foreign-derived intangible income (FDII) rules
- Replace base erosion anti-abuse tax (BEAT) with Stopping Harmful Inversions and Ending Low-Taxed Developments (SHIELD)
- Limit foreign tax credits from sales of hybrid entities
- Create incentives for "onshoring"; denial of deductions for "offshoring"
- Create additional interest deduction limitation for multinational group members

For additional details, please see the Deloitte [tax@hand](#) article dated May 29, 2021.

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Federal Periods and Methods

IRS provides automatic consent and updates procedural guidance for CFC method changes

On May 11, 2021, the Internal Revenue Service ("IRS") issued [Rev. Proc. 2021-26](#), which provides guidance for a controlled foreign corporation ("CFC") to change its depreciation method, whether permissible or impermissible, to the alternative depreciation system ("ADS") under IRC section 168(g) for purposes of computing its gross and taxable income and earnings and profits ("E&P"). Rev. Proc. 2021-26 also modifies [Rev. Proc. 2015-13](#) to require taxpayers to include IRC section 481(a) adjustments resulting from a CFC's method change in computing its tested income and tested loss. Additionally, the guidance clarifies that the computation of the "150 percent rule" that limits audit protection with respect to certain CFC method changes is determined based on foreign taxes deemed paid.

For additional details, please see Deloitte [tax@hand](#) article dated May 19, 2021

US Multistate

State tax considerations of President Biden's federal tax proposals

The U.S. Department of the Treasury ("Treasury") released the 2022 Green Book calling for significant tax increases to fund traditional physical infrastructure projects and "human" infrastructure initiatives proposed by the Biden administration in its American Jobs and American Families Plans. This Multistate Tax Alert discusses the state tax considerations associated with the federal tax proposals outlined in the Green Book.

Please refer to the [Multistate Tax Alert](#) dated June 1, 2021.

GILTI high-tax exclusion: Impact on state taxes

Examine the impact of the GILTI retroactive high-tax exclusion election on state income tax and future cash repatriation.

For additional details, please refer to the May 21, 2021 edition of [State Tax Matters](#).

Arizona

New law updates state conformity to IRC

New law updates the definition of the federal IRC for Arizona tax purposes to the IRC as in effect on March 11, 2021, including those provisions that became effective during 2020, with the specific adoption of all federal retroactive effective dates, but excluding any change to the IRC enacted after March 11, 2021.

For additional details, please refer to the April 23, 2021 edition of [State Tax Matters](#).

California

FTB says returns may be prepared using current market-sourcing rule, not draft

The California Franchise Tax Board ("FTB") states that tax returns for taxable years beginning during the 2020 calendar year are not required to be prepared utilizing the version of market-sourcing rules reflected in proposed revisions to California Code of Regulations because the actual applicability date for the proposed revisions has yet to be determined.

For additional details, please refer to the May 7, 2021 edition of [State Tax Matters](#).

Governor signs A.B. 80 relating to PPP loans

California Governor Gavin Newsom signed A.B. 80 addressing modified conformity to federal income tax provisions relating to loans forgiven pursuant to the Coronavirus Aid, Relief, and Economic Security Act, the Paycheck Protection Program ("PPP") and Health Care Enhancement Act, the Paycheck Protection Program Flexibility Act of 2020, or the Consolidated Appropriations Act, 2021.

For additional details, please refer to the [Multistate Tax Alert](#) dated April 30, 2021.

Idaho

Enacted legislation reduces income tax rates

Idaho House Bill 380 was signed into law modifying the Idaho income tax brackets and reducing the income tax rates for individuals, estates, trusts, and corporations. This Multistate Tax Alert summarizes this new law.

For additional details, please refer to the [Multistate Tax Alert](#) dated May 11, 2021.

Indiana

Updates IRC conformity

Indiana Governor Eric Holcomb signed House Bill 1001 into law, updating Indiana's conformity to the IRC, as defined in Indiana Code 6-3-1-11, as of March 31, 2021, effective retroactively to January 1, 2021. The Indiana Department of Revenue updated Information Bulletin #119 to address and clarify Indiana's conformity to certain provisions of the IRC.

For additional details, please refer to the [Multistate Tax Alert](#) dated June 1, 2021.

Tax court says company's receipts are derived from services for sourcing purposes

The Indiana Tax Court held that a corporate taxpayer received its Indiana income from the provision of pharmacy benefit services for state-adjusted gross income tax purposes, allowing it to source such receipts outside Indiana if the greater proportion of its income-producing activities were incurred outside Indiana.

For additional details, please refer to the May 21, 2021 edition of [State Tax Matters](#).

Kansas

Legislature overrides governor veto to enact significant indirect and income tax law changes

The Kansas State Legislature voted to override Governor Laura Kelly's veto of Senate Bill 50. The bill amends income tax law regarding conformity to certain Tax Cuts and Jobs Act ("TCJA") provisions, corporate return due dates, and NOL carryforward provisions.

For additional details, please refer to the [Multistate Tax Alert](#) dated May 5, 2021.

Maryland

Appellate court affirms mandated use of single-sales factor alternative apportionment

The Maryland Court of Special Appeals recently affirmed the Maryland Comptroller's mandated use of an alternative apportionment method in calculating corporate partners' Maryland income attributed from a limited partnership pursuant to its discretionary authority to fairly reflect the extent of a taxpayer's in-state activity.

For additional details, please refer to the May 14, 2021 edition of [State Tax Matters](#).

New law alters provisions on automatic one-year decoupling from IRC changes

New law alters Maryland's automatic one-year decoupling provisions for state corporate income tax purposes by specifying that such provisions also apply to amendments of the IRC that impact Maryland revenues by at least \$5 million in any taxable year that precedes the calendar year in which the amendment is enacted.

For additional details, please refer to the June 4, 2021 edition of [State Tax Matters](#).

Montana

Enacted legislation creates employer job growth incentive tax credits

Montana House Bill 629 was signed into law by Montana Governor Greg Gianforte creating a new Employer Job Growth Incentive Tax Credit.

For additional details, please refer to the [Multistate Tax Alert](#) dated May 28, 2021.

Enacted legislation modifies apportionment factor and eliminates numerous tax credits

Senate Bill 376 provides for a double-weighted sales factor for corporate income tax apportionment purposes.

For additional details, please refer to the [Multistate Tax Alert](#) dated May 18, 2021.

Nebraska

New law lowers corporate income tax rates for some taxpayers

Recently enacted legislation lowers Nebraska's corporate income tax rates for some taxpayers—namely, those with taxable incomes in excess of \$100,000—for taxable years beginning or deemed to begin on or after January 1, 2022.

For additional details, please refer to the May 28, 2021 edition of [State Tax Matters](#).

New Jersey

Tax court holds that some of taxpayer's in-state activity is protected by P.L. 86-272

The New Jersey Tax Court held that under the presented circumstances, an out-of-state company's conduct of accepting product returned to it prior to acceptance by the customer is ancillary to its solicitation of sales and thus protected activity pursuant to P.L. 86-272 for state corporation business tax purposes.

For additional details, please refer to the June 4, 2021 edition of [State Tax Matters](#).

Adopted rules address GILTI, FDII, and intercompany expense addback provisions

The New Jersey Division of Taxation adopted permanent corporation business tax rules addressing treatment of GILTI and FDII, as well as New Jersey's intangible expense addback statute.

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

New York

2021–2022 state budget highlights

New York Governor Andrew Cuomo signed into law New York's 2021–2022 Budget Act.

For additional details, please refer to the [Multistate Tax Alert](#) dated April 20, 2021.

Taxpayer must include royalty payments received from foreign affiliates in tax base

An administrative law judge recently held that while certain payments received by a taxpayer from its foreign affiliates constituted royalties, such intercompany payments could not be excluded under a former statutory royalty exclusion in effect for the prior tax years at issue in computing its Article 9-A combined return entire net income.

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

New York City

Appellate court addresses sourcing of company's subscription-based service receipts

The New York Supreme Court, Appellate Division, considered the proper method for sourcing a consulting company's receipts from subscription-based services for purposes of calculating its New York City general corporation tax sales factor—affirming that such receipts must be allocated to New York City based on compensation paid to nonemployee consultants as well as employees performing both consulting and non-consulting tasks.

For additional details, please refer to the April 16, 2021 edition of [State Tax Matters](#).

Oklahoma

New law lowers corporate income and bank privilege tax rates from 6% to 4%

New law lowers tax rates for Oklahoma corporate income tax and bank privilege tax purposes from 6% to 4%. Corresponding tax rate reductions also apply to passthrough entities electing to pay Oklahoma income tax at the entity level.

For additional details, please refer to the May 28, 2021 edition of [State Tax Matters](#).

Oregon

New law revises broadcaster apportionment by sourcing sales based on audience location

Oregon Senate Bill 136 provides guidance to determine the sales factor for taxpayers engaged in broadcasting services, requiring broadcasters to use their subscribers to determine the sales factor numerator to apportion sales from broadcasting services.

For additional details, please refer to the [Multistate Tax Alert](#) dated May 25, 2021.

Tax court addresses inclusion of commodities hedging receipts in company's sales factor

In an order released by the Magistrate Division of the Oregon Tax Court involving whether to include a taxpayer's commodities hedging receipts in its sales factor for Oregon corporate excise tax purposes, the presiding magistrate held that such receipts arose from sales of intangible assets and thus must be excluded unless they derive from the taxpayer's primary business activity.

For additional details, please refer to the April 23, 2021 edition of [State Tax Matters](#).



South Carolina

New law updates state conformity to IRC

New law updates corporate and personal income tax statutory references to the IRC, referring to the federal law in effect as amended through December 31, 2020 and includes the effective date provisions contained in it.

For additional details, please refer to the May 21, 2021 edition of [State Tax Matters](#).

Virginia

Budget bill requires corporations to file an informational report on unitary combined reporting

Virginia House Bill H.B. 1800 contained amendments requiring Virginia corporate taxpayers that are members of a unitary business group to file an informational report with the Department of Taxation for the unitary group reflecting the combined net income and tax of the unitary group. This Multistate Tax Alert discusses this new reporting requirement in further detail.

For additional details, please refer to the [Multistate Tax Alert](#) dated May 12, 2021.

West Virginia

Adopts single factor sales and market sourcing apportionment

West Virginia Governor Jim Justice signed into law House Bill 2026, which includes moving the state to a single sales factor apportionment regime with market-based sourcing for sales other than sales of tangible personal property.

For additional details, please refer to the [Multistate Tax Alert](#) dated April 14, 2021.

For more US Multistate income tax news and developments for the current quarter, please visit Deloitte's [State Tax Matters](#) archive and consider [subscribing](#) to State Tax Matters to receive up-to-date US Multistate news every week.

International

Multiple jurisdictions

Withholding tax rates

An update on recent tax treaty developments as from May 2021 with a focus on items that directly affect the withholding tax rates of the key jurisdictions covered by the [Deloitte International Tax Source](#) (DITS) has been released.

Please see the Deloitte tax@hand article dated May 25, 2021.

G7 communique on global tax reform

On June 5, 2021, the Group of Seven (G7) finance ministers published a [communiqué](#), which sets out high-level political agreement on global tax reform, including the reallocation of a share of the global residual profit of certain businesses to market countries and a minimum effective tax rate in each country in which a business operates of at least 15%.

For additional details, please see the Deloitte [tax@hand](#) article dated June 7, 2021 and the Deloitte [tax@hand](#) article dated June 14, 2021.

Australia

R&D tax considerations—past, present, and future

Australian taxpayers carrying on eligible research and development (R&D) activities should turn their mind to the following key issues resulting from the tax legislative changes seen in the last 12 months:

- The new R&D tax offset rates and most of the other amendments enacted late last year will take effect from July 1, 2021. Taxpayers should start to incorporate the key changes and any increased risks into existing corporate tax governance frameworks.
- Reduced periods of review will apply for base rate entities for income years commencing on or after July 1, 2021. There will also be increased risks surrounding

the disposal of R&D assets that are likely to have been over-depreciated by concessional capital allowances. Medical and biotech claimants also will start to turn their mind to the consultation on the design of the recently announced patent box regime from July 1, 2022.

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

Germany

EU anti-tax avoidance directive into German tax law, along with other measures

On June 30, 2021, the “ATAD implementation law” to implement the EU anti-tax avoidance directive into German domestic law was published in the Federal Gazette. The anti-hybrid rules are retroactively effective as of January 1, 2020.

For additional details, please see the Deloitte [article](#) dated May 25, 2021 and [tax@hand](#) article dated June 25, 2021.

Modernization of the corporate income tax rules

On June 30, 2021, the law to modernize corporate income tax rules was published in the Federal Gazette. The law includes an option for partnerships to be taxed as corporations and certain other measures.

For additional details, please see the Deloitte [article](#) on the draft law dated March 25, 2021.

Modernization of the withholding tax relief law

After the lower house of parliament approved the law on the modernization of the withholding tax relief law on May 5, 2021, the upper house approved the law on May 28, 2021. The law includes a modernization of German WHT rules and a significant tightening of the German anti-treaty shopping rule. The law was published in the Federal Gazette on June 8, 2021.

For additional details, please see the Deloitte [article](#) on the draft law dated March 24, 2021.

India

CBDT notifies thresholds for significant economic presence

India's Central Board of Direct Taxes (CBDT) on May 3, 2021 issued Notification No. 40/2021 that prescribes the thresholds for constitution of a significant economic presence (SEP) in India for the purposes of establishing a business connection of a nonresident in India and confirms the date from which the SEP concept will apply.

For additional details, please see the Deloitte [tax@hand](#) article dated June 3, 2021.

Italy

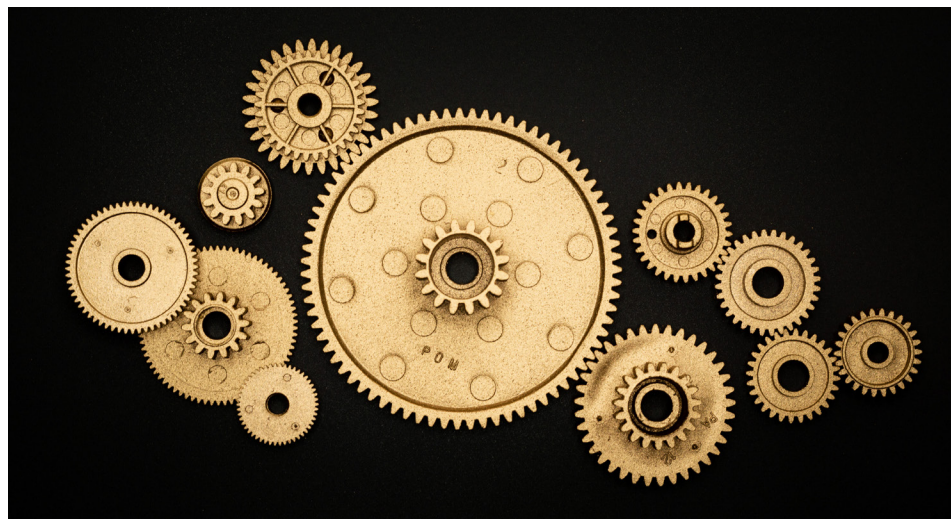
Law decree provides significant enhancements to notional interest deduction regime

On May 25, 2021, the Italian government published a new law decree (No. 73/2021) in the official gazette, introducing tax measures to increase the support for businesses and the economy in response to the coronavirus (COVID-19). To support liquidity and encourage Italian entities to increase their capital, the law decree introduces, among other measures, significant enhancements to the notional interest deduction ((NID), also referred to as the ACE) for equity increases taking place during fiscal year (FY) 2021 (i.e., between January 1, 2021 and December 31, 2021 for calendar-year companies). Although the decree entered into force immediately after its publication, it must be converted into law by the parliament within 60 days to avoid being retroactively null and void, and there could be changes to its provisions.

For additional details, please see the Deloitte [tax@hand](#) article dated June 3, 2021.

Guidance issued on digital services tax, payment and filing obligations deferred

On March 24, 2021, the Italian tax authorities released official guidance on the digital service tax (DST) that is being implemented in Italy pending broader solutions from the OECD on the taxation of digital services. The extensive guidance provides significant



clarifications on the definitions of taxable persons and services, exemptions, territorial nexus requirements, reporting and accounting obligations, refunds, and double taxation relief. In addition, through Law Decree No. 41, published in the official gazette on March 22, 2021, the Italian government has further postponed the payment and reporting deadlines for the DST to allow taxpayers time to comply with the additional guidance.

For additional details, please see the Deloitte [tax@hand](#) article dated April 8, 2021.

Luxembourg

Tax authorities update guidance on interest expense deduction limitation rules

The Luxembourg tax authorities updated their guidance on the interest expense deduction limitation rules of article 168b of the Income Tax Law (ITL) by commenting on the equity escape provision for members of a consolidated group for financial accounting purposes in a circular dated June 2, 2021. Where the taxpayer is part of a group that files statutory consolidated accounts, the worldwide indebtedness of the overall group may be taken into account to allow taxpayers to deduct higher amounts of exceeding borrowing costs. In this respect, the interest limitation rule does not apply if a company can demonstrate that its ratio of equity over total assets is equal to or higher than the equivalent group ratio. The circular

also clarifies that consolidated financial statements prepared under US, Canadian, Chinese, Korean, and Japanese GAAP (generally accepted accounting principles) are acceptable for purposes of the equity escape clause and multinationals should not be required to convert their consolidated accounts into IFRS or EU GAAP.

For additional details, please see the Deloitte [tax@hand](#) article dated June 8, 2021.

Netherlands

Changes to Dutch tax loss carryforward

On June 4, 2021, the Netherlands published the Decree in the Official Gazette, which provides for the implementation of the NOL carryforward changes that were proposed as part of the 2021 Tax Plan. Currently, Dutch tax law states that tax losses can be carried back one year and carried forward six years. Under the new tax law, the NOL carryback period will remain one year and the carryforward period will be unlimited. However, the amount of the NOL utilization will be limited to 50% of taxable income (in excess of EUR 1 million). The legislation will enter into force on January 1, 2022 and will apply to all tax losses arising as of January 1, 2022, as well as tax loss carryforwards still available at that date.

For additional details, please see the Deloitte [article](#) published June 2021.

Russia

Russia denounces tax treaty with the Netherlands

On June 7, 2021, Russia's Ministry of Finance confirmed the denunciation of the 1996 Netherlands-Russia tax treaty following the completion of all unilateral withdrawal procedures. The treaty will be officially terminated on January 1, 2022. The action has potentially significant consequences for multinationals who hold investments in Russia via a Netherlands intermediary and Russian corporate groups structured through Dutch holdings.

For additional details, please see the Deloitte [tax@hand](#) article dated June 15, 2021.

U.K.

Finance Bill 2021 receives Royal Assent

The Finance Bill 2021 received Royal Assent on June 10, 2021. The bill contained several legislative changes to corporate tax, including:

- An increase in the rate of corporation tax for companies with profits over £250k to 25% with effect from April 1, 2023. Companies with profits of £50k or less will be eligible for a new small profits rate and will continue to pay corporation tax at 19%. For companies with profits between £50k and £250k, corporation tax rates will be tapered until they reach the main rate of 25%.
- For qualifying capital expenditure incurred from April 1, 2021 up to and including March 31, 2023, companies can claim in the period of investment:
 - A super-deduction providing allowances of 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances
 - A first-year allowance of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances
- A temporary increase to the period over which companies and unincorporated businesses can carry back trading losses

- from one year to three years. Companies with accounting periods ending between April 1, 2021 and March 31, 2022 will be permitted, after carry back to the preceding year, which remains unlimited, to carry back a maximum of £2,000,000 of unused losses against trading profits of the preceding two years, subject to certain group restrictions.

For additional details, please see the Deloitte [article](#) dated June 11, 2021.

Accounting Developments

IASB publishes amendments to IAS 12

On May 7, 2021, the International Accounting Standards Board (IASB) has published "Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)" that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For additional details, please see the Deloitte [article](#) dated May 7, 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 Incomes 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 and 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](#).

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