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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 may be 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).

In 2020, the unstable economic environment brought its own set of challenges related to the ability to successfully forecast taxable income, both for establishing an entity's annual effective tax rate used for calculating interim tax provisions and for assessing the realizability of net operating loss carryforwards and other attributes.

Now, in late 2022, two pieces of legislation with significant tax-related provisions have been enacted. The CHIPS Act of 2022 (HR 4346), signed into law on August 9, 2022, establishes an advanced manufacturing investment credit under new IRC Section 48D. The Inflation Reduction Act (HR 5376), signed into law on August 16, 2022, includes (1) a 15 percent book minimum tax (corporate alternative minimum tax) 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.

For additional details and ASC 740 considerations related to the tax-related provisions of these new pieces of legislation, see Deloitte's Tax Alert *Emerging ASC 740 Issues: Recent Tax Legislation*.

Standard-Setting Activity

The FASB has undertaken several projects related to reducing some of the complexity associated with the accounting for income taxes under ASC 740. The status of three such projects is discussed below.

ASU 2019-12: Simplifying the Accounting for Income Taxes

The amendments under ASU 2019-12 are effective for public business entities (PBEs) and non-PBEs with fiscal years beginning after December 15, 2021. For non-PBEs, the ASU is effective for interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.

ASU 2019-12 addresses topics such as the accounting for taxes under hybrid tax regimes, the accounting for increases in tax deductible goodwill, the 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 the accounting for the tax effects of ownership changes in investments.

For additional details, see Deloitte's December 19, 2019, *Heads Up*.

Disclosure Requirements

In March 2019, the FASB issued a proposed ASU as part of its disclosure framework project to improve the effectiveness of disclosures in the notes to financial statements. The proposed ASU was intended to modify or eliminate certain requirements related to income tax disclosures as well as establish new disclosure requirements. According to feedback received on the proposed ASU, financial statement users wanted more information about an entity's tax footprint so they could make capital allocation decisions. Respondents also believed that an entity could provide such information by making incremental improvements to its income tax disclosures. Therefore, at its March 23, 2022, meeting, the FASB updated the project's objective to focus on improving the transparency and decision-usefulness of income tax disclosures. The Board also realigned the project's scope to concentrate on disclosures related to income taxes paid and the rate reconciliation table, while retaining within the scope of the project certain of the proposed ASU's generally supported amendments (e.g., removing the existing requirement in ASC 740-30-50-2(b) to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures). At its November 30, 2022, meeting, the FASB reached a number of tentative decisions about the project and indicated that it expects to issue a proposed ASU for comment in the first quarter of 2023. See Appendix C of Deloitte's Roadmap *Income Taxes* for more information about the status of the project.

Accounting for Investments in Tax Credit Structures

In August 2022, the FASB issued a proposed ASU that would expand 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 proposed ASU is intended to improve the accounting and disclosures for investments in tax credit structures.

At its December 1, 2022, meeting, the Emerging Issues Task Force reached a final consensus that would require public business entities to adopt the proposed ASU's guidance for fiscal years beginning after December 15, 2023, and other-than-public entities to adopt the guidance for fiscal years beginning after December 15, 2024. The FASB staff will draft an ASU for ratification by the Board at a future meeting.

For additional details about tax credit structures, see Deloitte's December 2022 *EITF Snapshot*.

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

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