



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:

$$\begin{array}{|c|} \hline \text{Total tax} \\ \text{expense} \\ \text{or benefit} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Current tax} \\ \text{expense or} \\ \text{benefit} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{Deferred tax} \\ \text{expense or} \\ \text{benefit} \\ \hline \end{array}$$

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 laws in various jurisdictions. Accordingly, coordination between the accounting and tax departments is generally required.

Legislative and Economic Setting

Multinational entities have been navigating the Organisation for Economic Co-operation and Development's (OECD's) Pillar Two tax regime, which introduces 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. Many countries have enacted legislation that went into effect in 2024 and 2025. Generally, we expect these new taxes to be accounted for in a manner similar to alternative minimum taxes (AMTs) for consolidated financial statements, but the accounting impacts of each new law will need to be separately evaluated in each jurisdiction.

On July 4, 2025, President Trump signed into law the [legislation](#) formally titled "An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14" (the "2025 Act") and commonly referred to as the One Big Beautiful Bill Act. The centerpiece of the 2025 Act is the extension of expiring — and in some cases expired — provisions of the 2017 Tax Cuts and Jobs Act (the "2017 Act"). While many provisions of the legislation focus on tax changes for individuals, such as extending current individual tax rates originally put in place under the 2017 Act, the 2025 Act also adjusts certain requirements affecting businesses that were similarly subject to sunsets, phase-outs, or phase-ins that would have taken effect in the absence of action by Congress or that have already taken effect. For example, recent years have seen the loss of the ability to immediately expense R&D costs; a new, more restrictive calculation of the extent to which net interest expenses are deductible; and a phase-down of bonus depreciation. Moreover, barring action by Congress, 2026 would have witnessed an increase in the tax rate applied to the base erosion anti-abuse tax (BEAT) and a lower deduction for both the global intangible low-taxed income (GILTI) and foreign-derived intangible income (FDII) regimes.

The 2025 Act's net cost was somewhat reduced by the addition of some revenue-raising provisions, including phase-outs of and restrictions on several clean energy tax incentives. Further, the new law makes various broadly applicable changes to the GILTI and FDII regimes. While many are taxpayer friendly, they are paired with lower deduction amounts for GILTI and FDII, meaning that the combined impact is very likely to depend on an individual company's facts and circumstances.

Standard-Setting Activity

In December 2023, the FASB issued [ASU 2023-09](#), which establishes new income tax disclosure requirements within ASC 740 in addition to modifying and eliminating certain existing requirements. The ASU's amendments are intended to enhance the transparency and decision-usefulness of such disclosures. Under the new guidance, public business entities (PBEs) must consistently categorize and provide greater disaggregation of information in the rate reconciliation. The ASU also includes additional disaggregation requirements related to income taxes paid. The ASU's disclosure requirements apply to all entities subject to ASC 740. PBEs must apply the amendments to annual periods beginning after December 15, 2024 (2025 for calendar-year-end PBEs). Entities other than PBEs have an additional year to adopt the guidance.

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 — which previously applied only to low-income housing tax credit investments — to other tax equity investments that 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 additional information about tax credit structures, see [Appendix C](#) of Deloitte's Roadmap [Equity Method Investments and Joint Ventures](#).

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

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