



Accounting for Income Taxes Bulletin

January 2022



Featured items



Updates on accounting matters



On the Horizon



Other items of interest







Featured items

Build Back Better Act

While it is unclear if the Build Back Better Act (BBBA) will move forward in the legislative process and thus is not yet enacted, entities may need to consider the potential implications of the proposals for financial statement purposes. If enactment of some version of the proposals occurs prior to the issuance of the financial statements, entities may need to disclose the nature of the event and an estimate of its financial statement effect, or a statement that such an estimate cannot be made.

KPMG has a number of resources that can assist clients and engagement teams as they face the challenges of accounting for the potential changes in tax law. As guidance may be quickly developing and evolving, the following resources (which may be updated on a regular basis) provide additional insight and considerations of accounting for the potential enactment of the provisions included within the BBBA. Those resources include:

- [KPMG TaxNewsFlash-Legislative Updates](#) website
- [KPMG report: Financial statement and potential U.S. GAAP implications of tax proposals in “Build Back Better Act”](#)

Recent SEC and FASB comments on accounting for income taxes

A [What’s News in Tax](#) article from the Accounting for Income Taxes group in Washington National Tax (WNT) summarizes certain comments about accounting for income taxes made by representatives of the US Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) during the 2021 AICPA & CIMA Conference on Current SEC and PCAOB Developments primarily related to pending tax legislation and disaggregation of income taxes information.

Additionally, the article provides examples of comments regarding accounting for income taxes matters recently issued by the SEC to registrants. Recent comments from regulators may assist issuers in identifying areas for improvement in existing income taxes disclosures in order to provide more robust and relevant information to investors. The examples involve comments related to effective tax rate reconciliations, valuation allowances, unrecognized tax benefits, net operating loss carryforwards, business combinations, critical accounting policies disclosures, and use of non-GAAP measures.

Tax effects of share-based payments: IFRS® Standards vs US GAAP

Despite similar objectives, the accounting for income tax effects of share-based payments under IFRS Standards and US generally accepted accounting principles (US GAAP) may differ. The differences in measuring and allocating the income tax effects of share-based payments between IAS 12 and ASC 718-740 may be significant and complex to navigate. A recently issued [IFRS Perspectives](#) article highlights some of the common differences related to the accounting for income taxes consequences of share-based payments under IFRS Standards and US GAAP.



Updates on Accounting Matters

Accounting Standards Update 2021-10 — Government Assistance (Topic 832): Disclosures by business entities about government assistance

On November 17, 2021, the FASB issued [Accounting Standards Update \(ASU\) No. 2021-10, Government Assistance \(Topic 832\): Disclosures by Business Entities about Government Assistance](#) which requires business entities to make annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. The disclosures include identifying the nature of the transactions, the accounting policy used, the line items on the balance sheet and income statement affected by the transactions, and information about significant terms and conditions of the assistance (including commitments and contingencies). The amendments in the ASU are effective for all entities within its scope, which excludes not-for-profit entities and employee benefit plans, for financial statements with annual periods beginning after December 15, 2021. Early application is permitted.

Transactions, including government assistance, that are within the scope of ASC 740 are excluded from the scope of the amendments in this ASU. See the KPMG [Defining Issues](#) for additional analysis.

IFRS® Standards updates

KPMG International Standards Group (ISG) 2021 guides to annual financial statements issued under IFRS Standards are now available. These comprise [Illustrative disclosures](#), a [Disclosure checklist](#) and supplements. Communicating effectively has never been more important and these guides assist entities in adjusting the financial statements to reflect individual circumstances, explaining the judgements made and the estimates used. Refer to the [web article](#) for additional detail and information.

KPMG DPP quarterly releases

KPMG DPP published the following accounting and financial reporting developments releases:

— [Quarterly Outlook – December 2021](#)

Remember recent pronouncements

Professionals should be mindful of certain recently updated US GAAP standards, listed by order of required application.

Updated Standard	Brief Description of Standard	Public Business Entities Effective Date	Other Entities Effective Date
ASU 2018-09, <i>Codification Improvements</i>	Clarifies, corrects errors in, and makes improvements to several income taxes related matters	Generally, fiscal years beginning after December 15, 2018	Generally, fiscal years beginning after December 15, 2019
ASU 2017-04, <i>Simplifying the Test for Goodwill Impairment</i>	Provides guidance, amongst others, on the income tax effects from tax deductible goodwill when measuring goodwill impairment loss	Annual and interim impairment tests for periods beginning after December 15, 2019 for SEC filers other than smaller reporting companies	Annual and interim impairment tests for periods beginning after December 15, 2022
ASU 2019-12, <i>Simplifying the Accounting for Income Taxes</i>	Removes specific exceptions to the general principles of ASC 740 and improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for certain income tax items	Fiscal years beginning after December 15, 2020, and interim periods within those fiscal years	Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022
ASU 2021-10, <i>Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance</i>	Requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy	Annual periods beginning after December 15, 2021	Annual periods beginning after December 15, 2021

Professionals should be mindful of the recently updated IFRS Standards.

Updated Standard	Brief Description of Standard	Effective Date
<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)</i>	Narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences (for example, leases and decommissioning provisions)	Annual reporting periods beginning on or after January 1, 2023, with earlier application permitted



On the Horizon

EITF 21-A, Accounting for investments in tax credit structures using the proportional amortization method

At a [November educational meeting](#) to discuss [Issue No. 21-A, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method](#), the Emerging Issues Task Force (EITF) identified areas that require additional staff research and stakeholder outreach. The project is intended to consider the possible expansion of the proportional amortization method to investments in tax credits structures beyond low-income housing tax credit (LIHTC) investments. Additionally, the project is expected to evaluate whether the current criteria for investments to be accounted for using the proportional amortization method are also operable for investments in tax credit structures other than LIHTC structures. The next EITF meeting is currently scheduled for March 24, 2022.

Accounting for Government Grants added to FASB research agenda

At a [December meeting](#) to discuss its June 2021 *Invitation to Comment, Agenda Consultation*, the FASB [announced](#) the addition of *Accounting for Government Grants, Invitation to Comment* to its [research agenda](#). This research project will solicit feedback on whether the requirements in IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, should be incorporated into US GAAP.

FASB projects

The FASB's [Disclosure Review: Income Taxes](#) project continues to be in the revised exposure draft redeliberations stage after the Board directed the staff in February 2020 to perform research and additional outreach on potential alternatives to disclose certain disaggregated income taxes information and to perform additional research on other proposed amendments.





Other items of interest

Section 987 regulations deferral

On October 12, 2021, the Internal Revenue Service (IRS) released an advance version of [Notice 2021-59](#) that announced that the IRS and Treasury Department intend to amend the regulations under section 987 to defer—again—the applicability date of certain final regulations under section 987 and certain related final regulations by one additional year.

Taxpayers should continue to consider the financial statement impact and tax implications when accounting for qualified business units.

Refer to the [KPMG Insights article](#) for further information. A 2017 [What's News in Tax article](#) summarizes the current accounting for income taxes implications of the future adoption of the regulations.

Public country-by-country reporting

On November 11, 2021, the European Parliament formerly adopted [Directive \(EU\) 2021/2101](#) on the disclosure of income tax information by certain undertakings and branches, commonly referred to as the public country-by-country reporting (CBCR) directive. Member states have 18 months from its entry into force on December 21, 2021 to transpose it into national law. Refer to the [KPMG Insights article](#) for further information.

Pillar Two: Global minimum taxation

On December 20, 2021, the Organisation for Economic Cooperation and Development (OECD) [published](#) model rules to assist in the implementation of a reform to the international tax system and is expected to release commentary relating to the model rules in the near term. The [Pillar Two model rules](#) provide governments a precise template for taking forward the two-pillar solution to address the tax challenges arising from digitalization and globalization of the economy agreed in October 2021 by 137 countries and jurisdictions under the OECD/G20 Inclusive Framework on BEPS. The rules define the scope and set out the mechanism for the so-called Global Anti-Base Erosion (GloBE) rules under Pillar Two, which will introduce a global minimum corporate tax rate set at 15 percent.

Refer to the KPMG [TaxNewsFlash](#) for further discussion on the model rules for Pillar Two of BEPS 2.0.

While the Pillar Two rules are anticipated to be brought into law in 2022 and take effect beginning in 2023, companies are reminded that the tax effect of changes in tax laws and rates are recognized in the period that includes the *enactment date* of the changes. The enactment date for a change in law or rate is the date that the legislation becomes law; as such, determining the enactment date will depend on the status of the legislation in the particular jurisdiction.

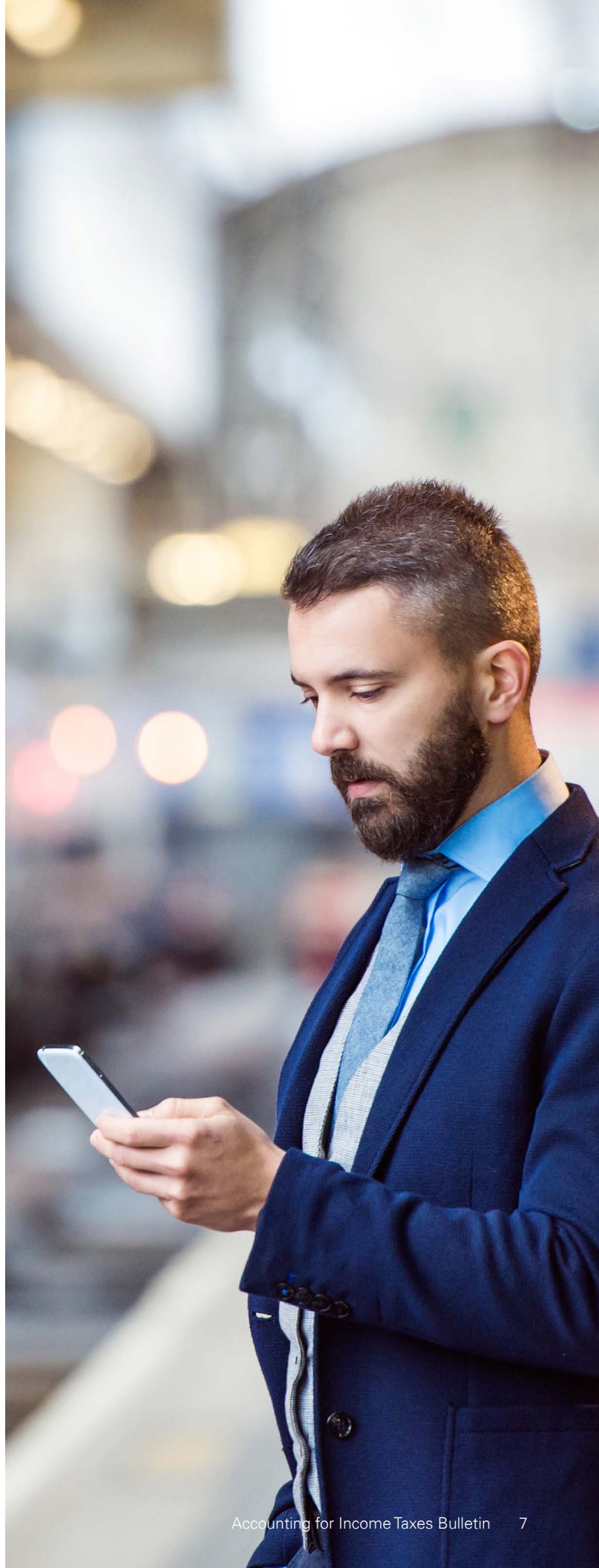
KPMG learning—executive education

KPMG offers digital self-studies, which are mobile-friendly and easily accessible at the learner's convenience. The CPE-eligible curriculum covers current and emerging technical accounting topics, including accounting for income taxes, to build skills and confidence in a variety of areas of accounting.

View the catalog of KPMG [virtual seminars](#) and digital [self-studies](#).

Resources

- KPMG's Accounting for Income Taxes Publication
- Financial Reporting View
- TaxNewsFlash
- Chief Tax Officer Insights
- KPMG Executive Education
- KPMG U.S.
- Insights into IFRS
- FRS compared to U.S. GAAP



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