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# Accounting for Income Taxes Bulletin

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## About this Publication

This publication is issued by KPMG's Accounting for Income Taxes group in Washington National Tax to highlight developments and other items of interest to professionals involved with accounting for income taxes matters.

### Featured items

[Updates on accounting matters](#)

[On the horizon](#)

[Other items of interest](#)

### Featured items

#### Exposure draft on simplification project

As part of the Financial Accounting Standards Board (FASB or the Board) simplification initiative, a [proposed Accounting Standards Update \(ASU\)](#) was issued on Simplifications to Accounting for Income Taxes. The objective of the project is to simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 and by clarifying and amending guidance that already exists within US generally accepted accounting principles (US GAAP). On May 14, 2019, the Board issued a proposed ASU.

The Board tentatively decided to remove the following exceptions in ASC 740:

- Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items;
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment;
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The Board also tentatively decided the following:

- An entity should recognize a franchise tax that is partially based on income in accordance with Topic 740 and account for any incremental amount as a non-income-based tax.
- An entity should evaluate when a step up in the tax basis of goodwill should be considered part of the initial recognition of book goodwill and when it should be considered a separate transaction.
- An entity may elect to allocate the consolidated amount of current and deferred tax expense to a legal entity that is disregarded by the taxing authority, but is not required to do so.
- An entity should reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.

The Board also tentatively decided to incorporate Codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

The Board tentatively decided that an entity should apply the amendments as follows:

- Retrospectively for franchise taxes that are partially based on income and the election to forgo the allocation of consolidated taxes to legal entities that are not subject to tax in separate company financial statements;
- Using a modified retrospective approach for ownership changes to a foreign equity method investment or subsidiary; and
- Prospectively for all other amendments to ASC 740.

Comments on the proposed ASU were due by June 28, 2019. Refer to [KPMG's summary](#) of the proposed ASU and [comment letter](#) for additional information.

### **Updates to KPMG's Accounting for Income Taxes handbook**

KPMG's Department of Professional Practice (DPP) recently updated its [Accounting for Income Taxes handbook](#) to add interpretive guidance on several tax matters and information about recently issued ASUs. The May 2019 update provides guidance about ongoing accounting questions that may arise after tax reform, updates to interpretive guidance on several tax matters, and information about new ASUs issued through May 2019. The publication includes a brief summary of the significant revisions since the November 2018 edition.

[▲ Back to top](#)

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## **Updates on accounting matters**

### **Insurance statutory accounting updates**

Insurance companies will need to comply with new and revised statutory accounting standards for 2018 and 2019 and later financial reporting. KPMG summarizes the new guidance in [Insurance Statutory Reporting Issues and Trends \(May 2019\)](#) and provides direction to additional information in KPMG publications and related NAIC meeting materials. Included within the publication and effective for 2018 reporting is statutory accounting and reporting requirements for the repatriation transition tax (RTT), the alternative minimum tax (AMT) credit and the global intangible low-taxed income tax (GILTI) from the TCJA.

**KPMG's DPP quarterly releases – June**

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

- [Quarterly Outlook - June 2019](#)

**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 2016-01, <a href="#">Recognition and Measurement of Financial Assets and Financial Liabilities</a>	The evaluation of a valuation allowance on deferred tax assets related to available for sale securities is performed along with the entity's other deferred tax assets	Fiscal years beginning after December 15, 2017, including interim periods within those fiscal years	Fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019
ASU 2016-16, <a href="#">Intra-Entity Transfers of Assets Other Than Inventory</a>	Requires an entity to recognize the income tax consequences of an intra-entity transfer of assets other than a transfer of inventory, when the transaction occurs	Annual reporting periods, including interim reporting periods in those annual reporting periods, beginning after December 15, 2017	Annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019
ASU 2017-15, <a href="#">Codification Improvements to Topic 995, U.S. Steamship Entities</a>	Eliminates an exception for steamship entities on the recognition of deferred taxes related to certain statutory reserve deposits	Fiscal years and first interim periods beginning after December 15, 2018.	Fiscal years and first interim periods beginning after December 15, 2018.
ASU 2018-02, <a href="#">Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</a>	Requires disclosure of an entity's policy for releasing stranded tax effects and allows entities to elect to reclassify certain stranded tax effects from AOCI to retained earnings	Fiscal years beginning after December 15, 2018, and interim periods within those fiscal years	Fiscal years beginning after December 15, 2018, and interim periods within those fiscal years
ASU 2018-09, <a href="#">Codification Improvements</a>	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, <a href="#">Simplifying the Test for Goodwill Impairment</a>	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,	Annual and interim impairment tests for periods beginning after December 15, 2021

		and after December 15, 2020 for other public business entities	
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Professionals should be mindful of the recently updated IFRS standards.

Updated Standard	Brief Description of Standard	Effective Date
<a href="#">IFRIC 23: Uncertainty over Income Tax Treatments</a>	Addresses how to reflect uncertainty in accounting for income taxes	Annual periods beginning on or after January 1, 2019
<a href="#">Annual Improvements to IFRS Standards 2015-2017 Cycle</a>	Clarifies recognition of income tax consequences of dividends, including payments on financial instruments	Annual periods beginning on or after January 1, 2019

[▲ Back to top](#)

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## On the horizon

### KPMG comments on proposals on income tax disclosures

KPMG has [commented](#) on the FASB [proposed ASU](#) on disclosures related to income taxes. KPMG generally believes the proposed amendments will result in more effective decision-useful information on income taxes; however, KPMG recommended removing the proposal to disclose the amount of valuation allowance on deferred tax assets for carryforwards. KPMG also advised clarifying certain aspects of the proposals to make them more operational and to reduce diversity in practice.

### FASB proposal as a result of SEC's disclosure update and simplification

The FASB issued a proposed [ASU](#) that would modify the disclosure or presentation requirements of a variety of Topics. The proposal is the result of a referral from the SEC as a result of its disclosure update and simplification initiative. The FASB's proposals would add disclosure of the tax status of distributions per unit (for example, ordinary income, capital gain, and return of capital) for a real estate investment trust. Read [KPMG's summary](#) of the proposed ASU for additional information.

### FASB projects

The Board's [disclosures by business entities about government assistance project](#) is in the exposure draft redeliberations stage.

The Board continues its [project on backwards tracing](#) to consider whether changes should be made to the prohibition on backwards tracing and may consider alternatives to backwards tracing. The project is in the research stage.

### Exposure drafts on amendments to SSAP 101 – Income Taxes

KPMG [reports](#) on actions taken on conference calls and at the spring 2019 meeting of the NAIC. During the meeting, the Statutory Accounting Principles Working Group (SAPWG) exposed revisions to SSAP No. 101's *Implementation Question and Answers* to update guidance for the federal Tax Cuts and Jobs Act of 2017 and clarify how to apply the requirements of the deferred tax admittance calculation.

Additionally, the SAPWG issued exposure draft [2019-10 Q&A Updates – DTA/DTL Offset](#) which includes revisions to the income tax *Implementation Question and Answers* to clarify the application of the deferred tax admittance calculation, particularly with regards to offsetting deferred tax liabilities.

Comments on both exposure drafts were due June 12, 2019.

### **IASB discusses income tax effect of management performance measure adjustments**

The IASB recently discussed how to determine the income tax effect of the differences between management performance measures (MPMs) and the most directly comparable IFRS subtotal or total, as well as disclosures related to MPM adjustments. The Board tentatively decided that the income tax effect of MPM adjustments should be determined based on a reasonable pro rata allocation of current and deferred tax of the entity in the tax jurisdiction concerned, or by another method that achieves a more appropriate allocation in the circumstance. The Board also tentatively decided to require entities to disclose how the income tax effect of MPM adjustments has been determined. The Board will discuss at a future meeting permission to begin the balloting process for the exposure draft.

### **IFRIC discusses presentation of liabilities or assets related to uncertain tax treatments**

The IFRS Interpretations Committee (the Committee) discussed the [presentation of liabilities or assets related to uncertain tax treatments](#) during the June meeting. The Committee observed that uncertain tax liabilities or assets recognized applying IFRIC 23 are liabilities (or assets) for current tax as defined in IAS 12, or deferred tax liabilities or assets as defined in IAS 12. The Committee tentatively decided that the requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of uncertain tax liabilities and assets and thus tentatively decided not to add this matter to its standard-setting agenda. Comments on the tentative agenda decision are due by August 20, 2019.

### **IFRIC projects**

In October 2018, the IASB decided to propose a [narrow-scope amendment](#) to IAS 12, Income Taxes, which would narrow the initial recognition exemption in paragraphs 15 and 24 of IAS 12 so that it would not apply to transactions that give rise to both taxable and deductible temporary differences to the extent the amounts recognized for the temporary differences are the same. The proposed amendment relates to the recognition of deferred tax when an entity accounts for transactions, such as leases or decommissioning obligations, by recognizing both an asset and a liability. An exposure draft is expected in the third quarter of 2019.

[▲ Back to top](#)

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## Other items of interest

### KPMG learning – executive education

The following [Accounting for Income Taxes](#) Executive Education classes will be offered:

- New York – August 20 – 21, 2019

This two-day seminar is designed to help participants understand and apply the income tax accounting guidance in ASC 740. It provides a conceptual foundation of accounting for income taxes. Relevant aspects of the new tax reform will be discussed throughout the seminar. This seminar explains how to reconcile differences between four sets of flows: cash flows, US GAAP income, taxable income, and more-likely-than-not taxable income. It will also cover valuation allowances, accounting for tax contingencies, interim tax allocations, business combinations, compensation, foreign operations and other challenging issues.

Additionally, the following [Advanced Accounting for Income Taxes](#) Executive Education classes will be offered:

- New York – August 22 – 23, 2019

This two-day seminar looks beyond the fundamentals of ASC 740 to examine some of the major implementation challenges that arise in applying the standard. It covers complex areas such as quarterly disclosures, intercompany transactions and equity investments. The seminar will also cover accounting for income taxes consequences of tax reform in detail.

[▲ Back to top](#)

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## 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](#)
- [IFRS compared to U.S. GAAP](#)

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