Accounting for Income Taxes Bulletin

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Featured items

U.S. tax legislation: IRA and CHIPS

The Inflation Reduction Act (IRA) of 2022 and the CHIPS Act of 2022 (CHIPS Act) were recently signed into law by President Biden. The legislation adds new, and modifies existing, tax credits and introduces new options for monetizing certain of those credits, creates a new corporate alternative minimum tax, and adds a stock repurchase excise tax.

Since the new laws do not include any change to the U.S. federal corporate statutory income tax rate, many entities may not have an adjustment to income taxes to recognize as of the date of enactment. However, for those entities that are impacted by the legislation, the most significant change to deferred taxes may be adjustments to the valuation allowance.

As it relates to deferred tax assets other than AMT credit carryforwards, we believe a company may elect to either consider or disregard its Corporate AMT status when evaluating its deferred tax assets under the regular tax system. For example, a company that forecasts reducing its regular tax with an existing net operating loss carryforward in a year that is subject to the Corporate AMT may not benefit at all from that deferred tax asset if it anticipates always being an AMT taxpayer. The election to consider (or disregard) AMT status when evaluating the realizability of deferred tax assets under the regular tax system is an accounting policy choice that must be consistently applied. An entity should also consider providing transparent disclosure of its policy election.

The intraperiod tax allocation of the tax effect of changes in tax laws on the measurement of deferred tax assets (liabilities), including the reevaluation of a valuation allowance for deferred tax assets, should be based on enactment date temporary differences, and allocated entirely to income tax expense (benefit) from continuing operations.

KPMG has a number of resources that can assist entities as they work through the accounting for the changes in tax laws. The following resources provide additional insight and considerations of accounting for the provisions included within the IRA and CHIPS legislation:

KPMG report	Analysis and observations: Tax law changes in the "Inflation Reduction Act of 2022"
KPMG report	Overview of investment tax credit for investments in semiconductor manufacturing
KPMG Hot Topic	IRA and CHIPS: Tax considerations
What's News in Tax	Accounting for Tax Credits
KPMG podcast series	IRA & CHIPS legislation

KPMG will be holding a webcast on the accounting considerations of the IRA and CHIPS Act on November 3, 2022. Please watch for upcoming announcements with details on how to register for the upcoming webcast.

Proposed accounting standards update:

Accounting for investments in tax credit structures using the proportional amortization method

On August 22, 2022, the FASB issued a proposed Accounting Standards Update (ASU) that would allow investments that are primarily for the purpose of receiving income tax credits and other income tax benefits and that meet certain conditions to have the election to apply the proportional amortization method. Under existing U.S. GAAP guidance, an entity can only currently elect to apply the proportional amortization method to investments in structures that generate low income housing credits. Other tax equity investments that generate income tax credits are typically accounted for using the equity or cost method.

Under the proportional amortization method, an entity amortizes the cost of its investment through income tax expense (benefit) as an offset to the nonrefundable income tax credits and other income tax benefits that it receives from the investment.

The proposed ASU permits a reporting entity to make an accounting policy election to apply the proportional amortization method on a tax-credit-by-tax-credit-program basis. The receipt of investment tax credits, for which the proportional amortization method has been elected, are accounted for under the flow-through method under ASC 740, even if a policy election to use the deferral method has been made for other investment tax credits. Non-income-tax-related benefits are recognized in pretax income when realized or realizable.

The amendments are proposed to be applied on either a modified prospective or a retrospective basis with an effective date to be determined after stakeholder feedback is obtained. Under either transition option, the assessment of whether the investment would qualify for the proportional amortization method would be performed as of the date the investment was entered into, after considering any modifications.

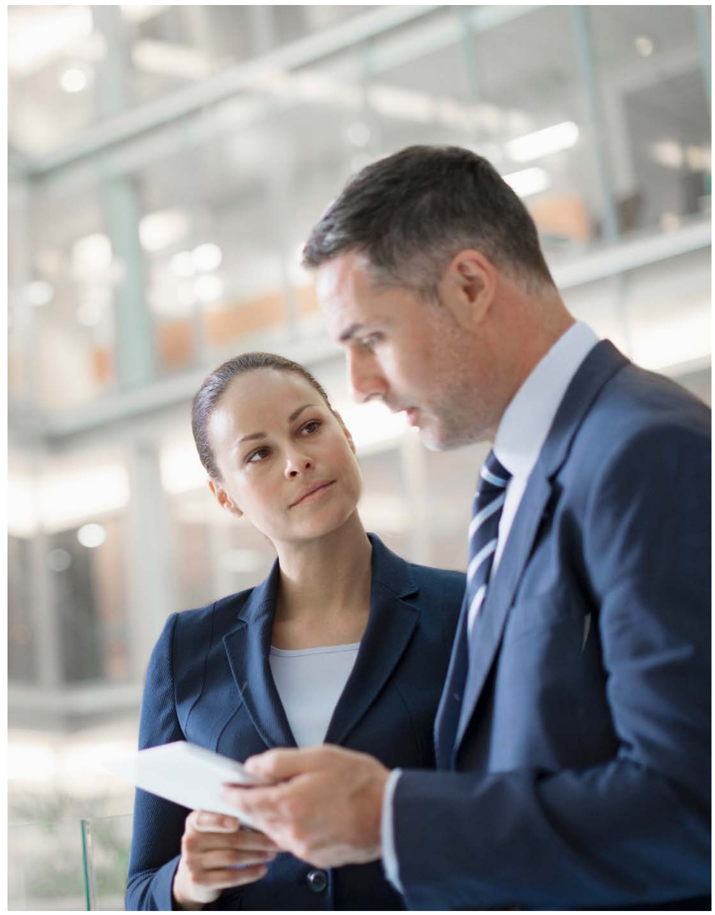
The comment period for the proposed ASU ends October 6, 2022. For additional information regarding the qualifying investment criteria, related disclosures, and transition, see the recently issued KPMG Defining Issues report Accounting for investments in certain tax credit structures.

Updates on accounting matters

Potential IFRS® standards disclosures

As a result of the Organisation for Economic Co-operation and Development's release of a draft framework for a global anti-base erosion (GloBE) regime, questions have been raised as to whether entities can estimate the potential impacts and whether entities need to provide disclosures in 2022 interim and annual financial statements under IFRS Standards. IFRS Standards do not require disclosure of possible future changes to tax laws unless they have been announced. However, paragraph 17(c) of IAS 1 Presentation of Financial Statements includes overarching requirements to provide additional disclosures when necessary to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and performance. These overarching requirements apply for both interim and annual financial statements.

Therefore, if entities that report under IFRS Standards expect GloBE to affect them and that information is relevant to the users of financial statements, then they should consider providing qualitative disclosures, where possible. Refer to the recent KPMG Global IFRS Institute article for more information.



IFRS standards updates

The KPMG International Standards Group (ISG) has published Insights into IFRS, 19th edition. This edition includes guidance on forthcoming requirements related to Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12. To learn more or for details on how to order the book, visit the web article.

KPMG DPP quarterly outlook

The September 2022 Quarterly Outlook summarizes major accounting and financial reporting developments that may affect companies in the current period or in the near term. The Q3 2022 publication addresses the recent tax legislation as well as the latest in environmental, social, and governance (ESG).

Remember recent pronouncements

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

Updated Standard	Brief Description of Standard	Public Business Entities Effective Date	Other Entities Effective Date
ASU 2017-04, Simplifying the Test for Goodwill Impairment	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, Simplifying the Accounting for Income Taxes	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, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance	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
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	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

Other FASB projects

The FASB's Targeted Improvements to Income Tax Disclosures project seeks to improve the transparency and decision usefulness of income tax disclosures. In May 2022, the Board directed the staff to further explore approaches to the disclosure of income taxes paid disaggregated by jurisdiction and the disclosure of individual reconciling items in the rate reconciliation on the basis of a quantitative threshold and specific categories of reconciling items, such as the foreign rate differential by jurisdiction.

The FASB's Accounting for Government Grants, Invitation to Comment project to solicit feedback on whether the requirements in IAS 20, Accounting for Government Grants and Disclosure of Government Assistance should be incorporated into U.S. GAAP continues in the research phase. The comment period ended September 12, 2022. The Board will consider comment letter feedback on the Invitation to Comment. Read the comment letter submitted by KPMG here.

Other IASB matters

The International Accounting Standards Board (IASB) staff is investigating the implications of the Organisation for Economic Co-ordination and Development's Global Anti-Base Erosion Model Rules and is considering whether urgent amendments to IFRS Standards might be needed concurrent with substantive enactment of tax legislation.

Other items of interest

Section 987 regulations

On August 15, 2022, the IRS released an advance version of Notice 2022-34, which further delays the applicability date of the 2016 final regulations (and certain related final regulations) under section 987 by an additional year. Taxpayers should continue to consider the financial statement impact and tax implications when accounting for QBUs.

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

KPMG learning – Executive education

The following Accounting for Income Taxes Executive Education courses will be offered:

- December 13 – 16, 2022

This live, virtual seminar is designed to help you understand and apply accounting for income taxes under ASC 740. This interactive course does more than describe technical requirements; the rationale and consequences of the relevant accounting standards will be explained using easy-to-follow examples with detailed journal entries.

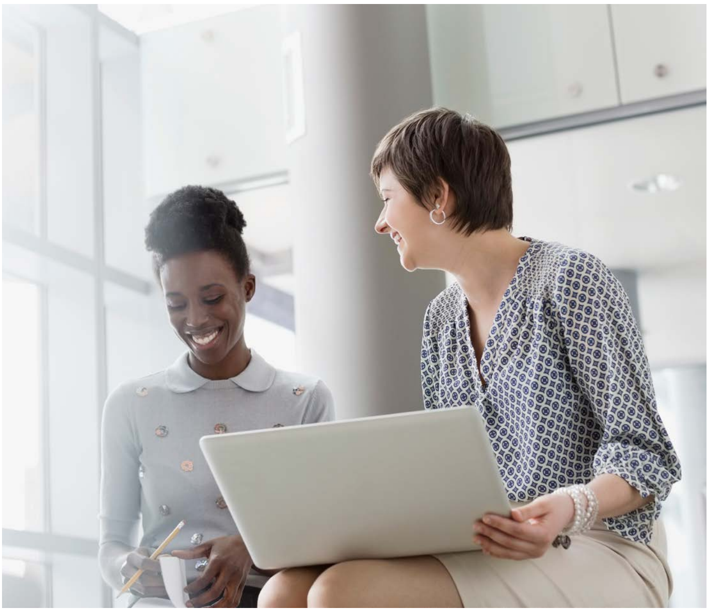
Additionally, the following Advanced Accounting for Income Taxes Executive Education courses will be offered:

- December 19 – December 21, 2022

This live, virtual seminar covers complex aspects of ASC 740 by building upon our intermediate level Accounting for Income Taxes course. For example, the intermediate seminar only covers acquisitions with no tax- deductible goodwill, while this seminar covers tax deductible goodwill, section 338 elections, contingent consideration, transaction costs, and measurement period adjustments. We go beyond describing the technical requirements; we explain the rationale and the consequences of these standards and use examples with journal entries.

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.



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