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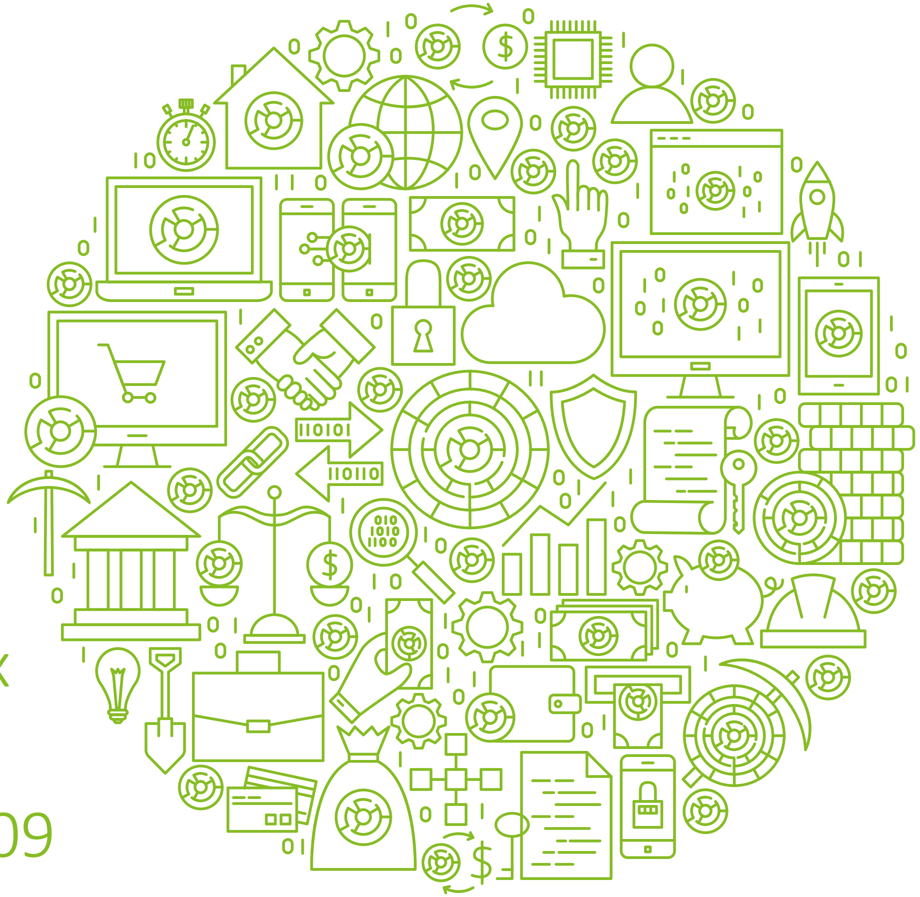


A new world in income tax footnote disclosures – understanding ASU 2023-09

Convergence 2024| May 10, 2024

Kemp Johnson, Partner, Deloitte Tax LLP
Alan Sandberg, Managing Director, Deloitte Tax LLP

MAKING AN IMPACT THAT MATTERS since 1845

ASU 2023-09 Improvements to income tax disclosures

Improvements to Income Tax Disclosure – ASU 2023-09

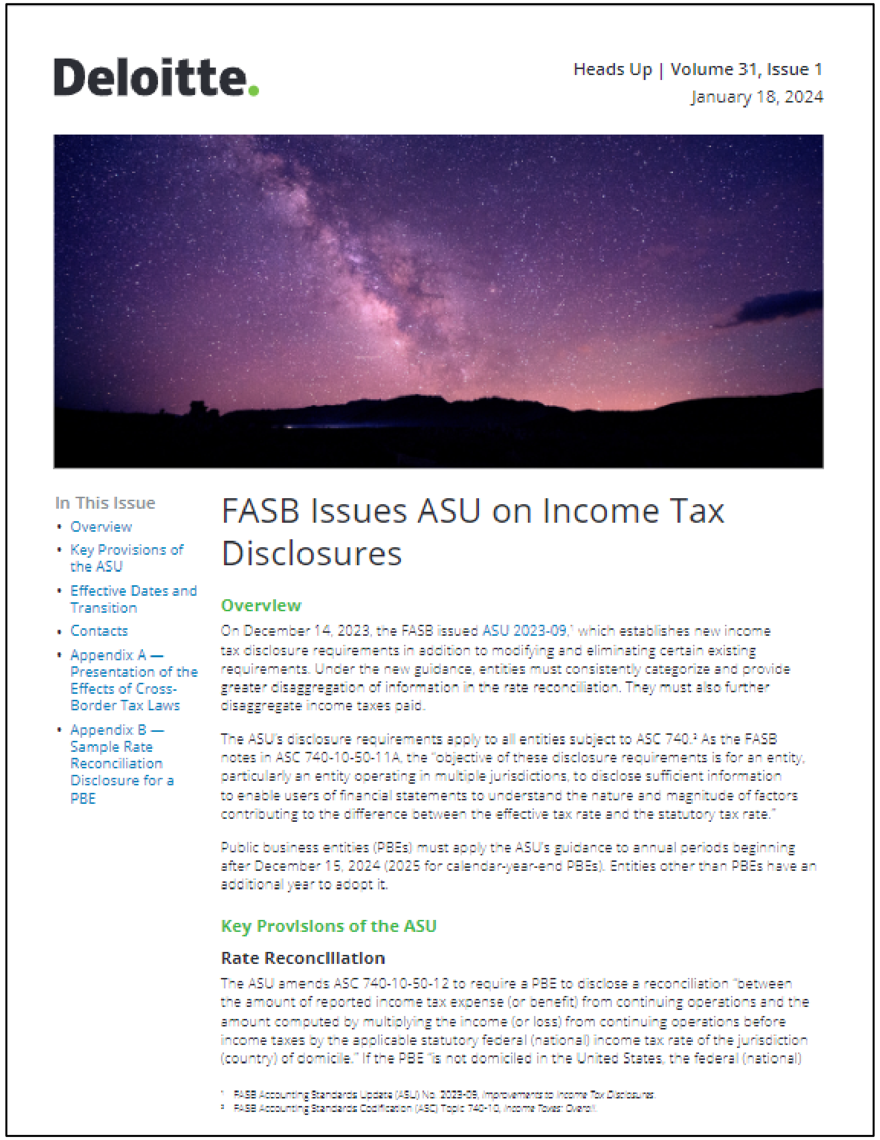
December 14, 2023
Final ASU issued (ASU 2023-09)

Scope
Public Business Entities (PBEs) and non-PBEs

Effective Date: *PBEs* - Annual periods beginning after 12/15/2024; *non-PBEs* – one year later

Early Adoption: Permitted

Transition: Prospective, with the option to retrospectively apply



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In This Issue

FASB Issues ASU on Income Tax Disclosures

Overview

On December 14, 2023, the FASB issued ASU 2023-09,[1] which establishes new income tax disclosure requirements in addition to modifying and eliminating certain existing requirements. Under the new guidance, entities must consistently categorize and provide greater disaggregation of information in the rate reconciliation. They must also further disaggregate income taxes paid.

The ASU's disclosure requirements apply to all entities subject to ASC 740.[2] As the FASB notes in ASC 740-10-50-11A, the "objective of these disclosure requirements is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate."

Public business entities (PBEs) must apply the ASU's guidance to annual periods beginning after December 15, 2024 (2025 for calendar-year-end PBEs). Entities other than PBEs have an additional year to adopt it.

Key Provisions of the ASU

Rate Reconciliation

The ASU amends ASC 740-10-50-12 to require a PBE to disclose a reconciliation "between the amount of reported income tax expense (or benefit) from continuing operations and the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile." If the PBE "is not domiciled in the United States, the federal (national)

[1] FASB Accounting Standards Update (ASU) No. 2023-09, *Improvements to Income Tax Disclosures.*
[2] FASB Accounting Standards Codification (ASC) Topic 740-10, *Income Taxes: Overall.*

Improvements to Income Tax Disclosure – ASU 2023-09

Rate Reconciliation

Objective: Improve the transparency and decision usefulness of income tax disclosures.

Income Taxes Paid

- Disclose rate reconciliation information using both percentages and dollar amounts.
- Requires that PBEs disclose rate reconciliation information by category, including consideration of eight specific categories with further disaggregation
- Provide a qualitative disclosure about the states that contribute to the majority of the effect
- Provide a qualitative disclosure of individual reconciling items
- Require nonpublic entities provide a qualitative disclosure about specific categories and individual jurisdictions

- Annual disclosure of income taxes paid, net of refunds received
- Income taxes paid disaggregated by individual jurisdictions
- Comparative disclosures are not required.

Notable Changes from proposed ASU:

- Eliminated proposed qualitative disclosure to explain significant year over year changes to the rate reconciliation.
- Eliminated proposed interim disclosure enhancements to both the rate reconciliation and income taxes paid

Rate Reconciliation – in more detail

State and local effects

Qualitative disclosure of state and local jurisdictions that constitute the majority of the effect of the category (greater than 50%).

Foreign tax effects

Disaggregate by jurisdiction (country) and by nature.
5% shall be assessed at the jurisdiction level in total.
Reconciling items within a jurisdiction that are equal to or greater than the 5% threshold shall be disclosed by nature, regardless of whether the jurisdiction meets the 5% threshold.

Enactment of new tax laws

Includes cumulative effects of a change in enacted tax law or rates on current or deferred tax assets and liabilities as of the enactment date.

Cross-border tax laws

Disaggregate by nature
Net presentation of the cross-border tax laws and resulting foreign tax credits is allowed where the credit is in the same jurisdiction, which is an inherent part of the calculation.

Rate Reconciliation – in more detail

Tax credits

Disaggregate by nature.

Valuation allowance

Disaggregate by jurisdiction.

Nontaxable or nondeductible items

Disaggregate by nature.
Effects of stock-based compensation windfalls may be reported in this category. An entity should consider disclosure under 740-10-50-12C of share-based compensation effects included in this category.

Unrecognized tax benefits

Disaggregate by jurisdiction and nature.

- Initial recognition and measurement may be netted against the associated reconciling item.
- Alternatively, permissible to aggregate across jurisdictions and present as one reconciling item.

Category not specified

Disaggregate by nature based on 5% threshold.

Rate Reconciliation—Public Business Entity Example

	Year Ended December 31, 20X2		Year Ended December 31, 20X1		Year Ended December 31, 20X0	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. Federal Statutory Tax Rate	$ AA	aa %	$ BB	bb %	$ CC	cc %
State and Local Income Taxes, Net of Federal Income Tax Effect [(a)]	AA	aa	BB	bb	CC	cc
Foreign Tax Effects						
United Kingdom						
Statutory tax rate difference between United Kingdom and United States	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Share-based payment awards	AA	aa	BB	bb	CC	cc
Research and development tax credits	(AA)	(aa)	(BB)	(bb)	CC	cc
Other	(AA)	(aa)	BB	bb	(CC)	(cc)
Ireland						
Statutory tax rate difference between Ireland and United States	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Changes in valuation allowances	(AA)	(aa)	(BB)	(bb)	CC	cc
Enacted changes in tax laws or rates	-	-	BB	bb	-	-
Other	AA	aa	(BB)	(bb)	(CC)	(cc)
Switzerland	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Mexico	AA	aa	BB	bb	CC	cc
Other foreign jurisdictions	(AA)	(aa)	(BB)	(bb)	CC	cc
Effect of Changes in Tax Laws or Rates Enacted in the Current Period	-	-	-	-	(CC)	(cc)
Effect of Cross-Border Tax Laws						
Global intangible low-taxed income	AA	aa	BB	bb	CC	cc
Foreign-derived intangible income	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Base erosion and anti-abuse tax	AA	aa	BB	bb	CC	cc
Other	AA	aa	-	-	-	-
Tax Credits						
Research and development tax credits	-	-	(BB)	(bb)	(CC)	(cc)
Energy-related tax credits	(AA)	(aa)	-	-	-	-
Other	-	-	(BB)	(bb)	-	-
Changes in Valuation Allowances	AA	aa	(BB)	(bb)	(CC)	(cc)
Nontaxable or Nondeductible Items						
Share-based payment awards	AA	aa	BB	bb	CC	cc
Goodwill impairment	AA	aa	BB	bb	-	-
Other	AA	aa	(BB)	(bb)	CC	cc
Changes in Unrecognized Tax Benefits	(AA)	(aa)	BB	bb	(CC)	(cc)
Other Adjustments	AA	aa	(BB)	(bb)	(CC)	(cc)
Effective Tax Rate	$ AA	aa %	$ BB	bb %	$ CC	cc %

[(a)] State taxes in California and New York made up the majority (greater than 50 percent) of the tax effect in this category.

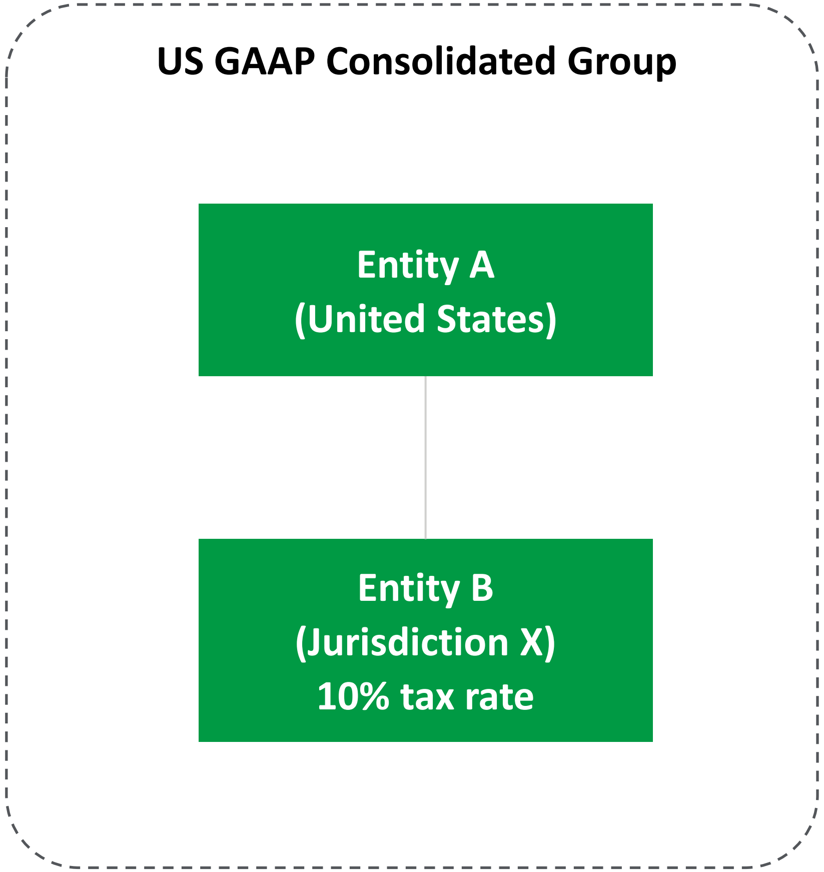
Cross-Border Presentation Example

Facts

Entity A has no income or loss on a standalone basis, and no FTC limitation.

Entity B has the following results:

- No permanent or temporary differences in Jurisdiction X
- Pre-Tax Income of $1,000
- Entity B income results in a Subpart F inclusion for Entity A



Cross-Border Presentation Example 1 (cont.)

Approach 1—Subpart F/FTC Gross Presentation

	$	%
Pre-tax income	**1,000**	
US Federal Statutory Tax Rate	210.00	21.0%
S&L Income Taxes, Net of Federal		
Foreign Tax Effects		
Country X		
Tax rate differential	(110.00)	-11.0%
Enactment of New Tax Laws		
Effect of Cross-Border Tax Laws		
Subpart F	210.00	21.0%
Tax Credits		
Foreign tax credits	(100.00)	-10.0%
Valuation Allowances		
Nontaxable or Nondeductible Items		
Changes in Unrecognized Tax Benefits		
Other Adjustments		
Effective Tax Rate	210.00	21.0%

(1,000 Pre-tax income)*(10% local-21% US federal statutory tax rate)

(1,000 Pre-tax income)*(21% federal statutory tax rate)

(1,000 Pre-tax income)*(10% Jurisdiction X statutory tax rate)

Sum of above adjustments

Cross-Border Presentation Example 1 (cont.)

Approach 2—Subpart F/FTC Net Presentation

Pre-tax income	**1,000**	
	$	**%**
US Federal Statutory Tax Rate	210.00	21.0%
S&L Income Taxes, Net of Federal		
Foreign Tax Effects		
Country X		
Tax rate differential	(110.00)	-11.0%
Enactment of New Tax Laws		
Effect of Cross-Border Tax Laws		
Subpart F	$\boxed{110.00}$	11.0%
Tax Credits		
Valuation Allowances		
Nontaxable or Nondeductible Items		
Changes in Unrecognized Tax Benefits		
Other Adjustments		
Effective Tax Rate	210.00	21.0%

(1,000 Pre-tax income)*(10% local-21% US federal statutory tax rate)

(1,000 Pre-tax income)*(21% federal statutory tax rate) - (1,000 Pre-tax income)*(10% Jurisdiction X statutory tax rate)

Sum of above adjustments – *no net difference between approach 1 and approach 2*

Cross-Border Presentation Example 1 (cont.)

	Approach 1—Subpart F/FTC Gross Presentation		Approach 2—Subpart F/FTC Net Presentation	
Pre-tax income	**1,000**		**1,000**	
	$	**%**	**$**	**%**
US Federal Statutory Tax Rate	210.00	21.0%	210.00	21.0%
S&L Income Taxes, Net of Federal				
Foreign Tax Effects				
Country X				
Tax rate differential	(110.00)	-11.0%	(110.00)	-11.0%
Enactment of New Tax Laws				
Effect of Cross-Border Tax Laws				
Subpart F	210.00	21.0%	110.00	11.0%
Tax Credits				
Foreign tax credits	(100.00)	-10.0%	0	0%
Valuation Allowances				
Nontaxable or Nondeductible Items				
Changes in Unrecognized Tax Benefits				
Other Adjustments				
Effective Tax Rate	210.00	21.0%	210.00	21.0%

No net difference between approach 1 and approach 2

Other changes included in the ASU

1

Disaggregation of Pretax Income and Expenses

- Requires disaggregation of income (or loss) from continuing operation before income tax expense (or benefit) disaggregated between domestic and foreign
- Requires disaggregation of income tax expense (or benefit) from continuing operations by federal (national), state, and foreign

3

Unrecognized Tax Benefits

- Eliminated required disclosure of tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease in the next twelve months
- Does not impact disclosures under Topic 275, which may require incremental disclosures of UTBs

2

Indefinitely Reinvested Foreign Earnings

- Removes requirement to disclose cumulative amount of each type of temporary difference for DTLs that are not recognized as a result of exceptions related to subsidiaries and corporate joint ventures (i.e., DTLs associated with entities for which the company has asserted to indefinitely reinvest foreign earnings)

4

Reconciliation with ASC Master Glossary

- Replaced the term “public entity” with “public business entity” throughout ASC 740

Contacts and questions

Contacts

Kemp Johnson
Partner
Deloitte Tax LLP
+1.214.840.1276

Alan Sandberg
Managing Director
Deloitte Tax LLP
+1.312.486.3106

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