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

FASB re-proposes revamped income tax disclosures

The Financial Accounting Standards Board (FASB or the Board) recently issued a revised proposed Accounting Standards Update (ASU) on disclosures related to income taxes. The proposed changes would require disaggregated disclosures regarding domestic and foreign pretax income (loss) from continuing operations; require disaggregated disclosures on federal, state and foreign income tax expense (benefit) from continuing operations and income taxes paid, and expand disclosures related to carryforwards, valuation allowances and unrecognized tax benefits, among various other additions. The Board is also proposing to eliminate the existing disclosure requirements associated with the amount of the taxable temporary difference on investments in subsidiaries that are indefinitely reinvested and the amount of unrecognized tax benefits that are reasonably possible to change within the next 12 months. The proposed changes impact all entities with additional specific disclosures for public business entities.

The revised proposed ASU also reflects the Board’s clarification that income tax expense (benefit) and income taxes paid on foreign earnings imposed by the jurisdiction of domicile should be included in the amount for that jurisdiction of domicile; for example, income tax expense associated with GILTI will be reflected with other U.S. income tax expense (benefit).

The Board is proposing to apply the amendments on a prospective basis and will determine the effective date and whether early adoption will be available upon obtaining stakeholder feedback. Comments are due by May 31, 2019.

KPMG's Department of Professional Practice (DPP) recently released a Defining Issues which discusses the proposed ASU.

Updates to KPMG's Q&A's: Tax Reform Supplement

KPMG's DPP continues to regularly update its tax reform Q&As: *Tax Reform, Supplement to KPMG's Handbook, Accounting for Income Taxes* (the Supplement), in consideration of the financial reporting implications of the *Tax Cuts and Jobs Act* (TCJA). The following items have recently been added to the current edition of the Supplement:

- Q&A 4.11 considers whether a U.S. parent that elects to recognize taxes on global intangible low-taxed income (GILTI) as a period cost should accrue amounts in 2018 for its non-calendar fiscal year-end controlled foreign corporations (CFCs).
- Q&A 5.25 addresses the IRS's announcement that it will not reduce alternative minimum tax (AMT) credit refunds resulting from tax reform for sequestration required by the Budget Control Act of 2011.
- Q&A 5.104 expands guidance on how proposed Treasury regulations would affect the recognition and measurement of benefits related to tax positions with uncertainty.

Please refer to the latest Supplement for details regarding these updates and be mindful of future updates to the Supplement. The January 23, 2019 version of the Supplement is now also included as Appendix D of KPMG's Accounting for Income Taxes Handbook.

Accounting guidance effective in Q1 2019

The following selected accounting standards, which may have a significant impact on accounting for income taxes, are effective beginning in Q1 2019 for certain calendar year-end entities. Refer to KPMG's DPP Quarterly Releases in the Updates on Accounting Matters section below for a comprehensive listing of other accounting matters that may affect an entity's financial statements for Q1 2019 or in future periods.

Releasing income tax effects from accumulated other comprehensive income

ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, provides entities an option to reclassify stranded tax effects related to the TCJA within accumulated other comprehensive income (AOCI) to retained earnings and is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. Companies should apply the amendments either as of the beginning of the annual or interim period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized.

Upon adoption, the ASU requires financial statement preparers to disclose whether an entity elects to reclassify the stranded (residual) income tax effects from the TCJA and information about the other income tax effects that are reclassified.

Companies are reminded that, regardless of whether a reclassification is elected to be made, all entities are required to disclose a description of the accounting policy for releasing income tax effects from accumulated other comprehensive income.

Leases

Accounting Standards Codification (ASC) 842, Leases, requires most leases to be recognized on the balance sheet and requires enhanced disclosures about leasing arrangements and is effective for interim and annual periods in fiscal years beginning after December 15, 2018. The adoption of ASC 842 will likely impact a company's calculation of deferred tax assets and liabilities, including valuation allowance considerations. See Chapter 10 of KPMG's Accounting for Income Taxes Handbook for additional information.

SEC and FASB comments on accounting for income taxes

During the 2018 AICPA Conference on Current SEC and PCAOB Developments, representatives of the US Securities and Exchange Commission (SEC) emphasized the need for the same diligence in preparing non-GAAP financial measures, including the impact of income taxes, as in preparing audited financial statements. Additionally, the SEC observed a wide range of disclosures related to Brexit and requested issuers provide more robust disclosures on the impacts of Brexit, which may include income taxes considerations.

Refer to this What's News in Tax article for more on the conference, as well as examples of comments related to income taxes recently issued by the SEC to registrants around selected areas of concern that represent trends or areas of focus by the staff.

Adoption of guidance on uncertainty over income tax treatments under IFRS

Companies are reminded that *IFRIC 23, Uncertainty over Income Tax Treatments*, which clarifies the recognition and measurement requirements in IAS 12, *Income Taxes*, when the tax law or its application is unclear, is effective for companies using International Financial Reporting Standards (IFRS) for annual periods beginning on or after January 1, 2019, with earlier application permitted. For additional information on the standard, refer to KPMG's *Tax uncertainties in the United States*.

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Updates on accounting matters

Critical audit matters (CAM)

As a reminder for large accelerated filers with fiscal years ending on or after June 30, 2019, the Public Company Accounting Oversight Board adopted a new auditing standard that requires auditors to include in the auditor's report a discussion of the critical audit matters (CAMs). CAMs are matters that are required to be communicated to the audit committee related to accounts or disclosures that are material to the financial statements and involved especially challenging, subjective, or complex auditor judgment. The communication of each CAM includes identification of the CAM, description of the principal considerations that led the auditor to determine that the matter was a CAM, description of how the CAM was addressed in the audit, and reference to the relevant financial statement accounts or disclosures. The auditor's report will incorporate CAMs for audits of fiscal years ending on or after June 30, 2019 for large accelerated filers, and audits of fiscal years ending on or after December 15, 2020 for all other companies. KPMG's DPP released Defining Issues No. 17-13 which discusses the new standard.

IFRS updates

On January 16, 2019, the IFRS Interpretations Committee made a final agenda decision in regards to a request about how to account for deposits relating to taxes that are outside the scope of IAS 12 *Income Taxes* (in other words, deposits relating to taxes other than income taxes). The Committee concluded that the right arising from the tax deposit meets the definition of an asset under IFRS Standards because the tax deposit gives the entity a right to obtain future economic benefits, either by receiving a cash refund or by using the payment to settle the tax liability. The nature of the tax deposit, whether voluntary or required, does not affect this right and therefore does not affect the conclusion that there is an asset. The Committee concluded that the requirements in IFRS Standards and concepts in the *Conceptual Framework for Financial Reporting* provide an adequate basis for an entity to account for deposits relating to taxes other than income tax. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

KPMG's DPP quarterly releases - March

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

- Quarterly Outlook – March 2019

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 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*	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, *Intra-Entity Transfers of Assets Other Than Inventory*	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, *Codification Improvements to Topic 995, U.S. Steamship*	Eliminates an exception for steamship entities on the recognition of deferred taxes related to certain statutory	Fiscal years and first interim periods beginning after December 15, 2018.	Fiscal years and first interim periods beginning after December 15, 2018

Entities	reserve deposits		
ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*	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, *Codification Improvements*	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, *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, and after December 15, 2020 for other public business entities	Annual and interim impairment tests for periods beginning after December 15, 2021

Engagement teams should be mindful of the recently updated IFRS standards.

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

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On the horizon

FASB discusses government assistance disclosure project

The Board continued redeliberations on the proposed ASU, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*.

The Board discussed comments received from the external review of the draft of the final

ASU as well as next steps in the project. The Board directed the staff to conduct additional outreach to gain information about the expected costs and benefits if the draft were issued in final form.

IASB discusses initial recognition exemption

The International Accounting Standards Board (IASB) discussed the transition requirements and other particular aspects of a proposed amendment to IAS 12 *Income Taxes* related to the initial recognition exemption. The proposed amendments would narrow the initial recognition exemption in paragraphs 15 and 24 of IAS 12 such that the exemption would no longer apply to the extent that, on the initial recognition of a transaction, an entity would recognize equal amounts of deferred tax assets and liabilities. 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.

The Board decided to require retrospective application of the amendments; however, entities would be permitted to assess whether the requirements to recognize deferred tax assets are only met at the date of transition. Further, earlier application of the proposed amendments is expected to be permitted.

The Board also discussed the due process steps for the forthcoming exposure draft of proposed amendments to IAS 12. The Board tentatively decided that the comment period for the proposed amendments to IAS 12 should be at least 120 days. The Board plans to issue an exposure draft during the second quarter of 2019.

FASB projects

The Board continues its research project on Simplifications to Accounting for Income Taxes to make narrow-scope targeted improvements to reduce unnecessary complexity while maintaining or improving the usefulness of information for financial statement users. The project is in the research stage.

The Board continues its research project on backwards tracing. The research project is 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.

The Board continues to monitor the financial reporting implications of the TCJA as questions are brought forward from practice and keep the Board informed of potentially pervasive financial reporting issues.

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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 – May 14 – 15, 2019
- Las Vegas – June 11 – 12, 2019
- Chicago – June 24 – 25, 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, U.S. 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 – May 16 – 17, 2019
- Las Vegas – June 13 – 14, 2019
- Chicago – June 26 – 27, 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.

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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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