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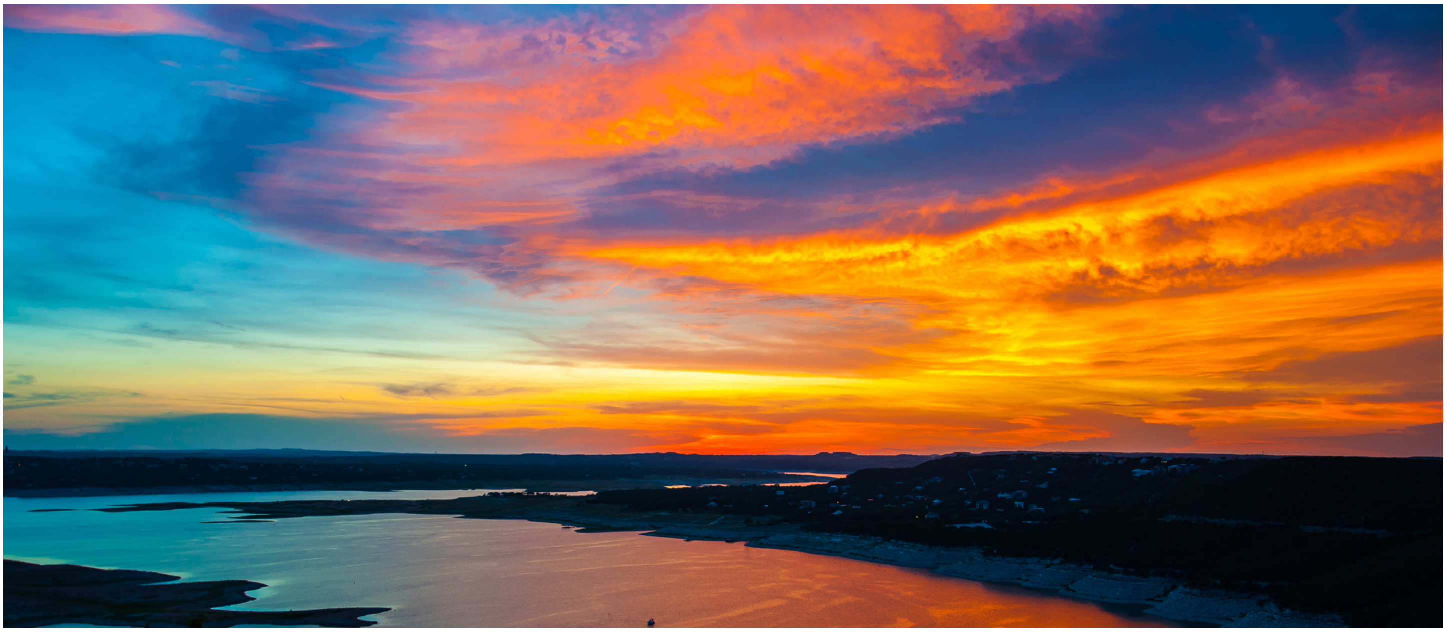

In This Issue

- Overview
- Key Provisions of the ASU
- Effective Dates and Transition
- Contacts
- Appendix A — Presentation of the Effects of Cross-Border Tax Laws
- Appendix B — Sample Rate Reconciliation Disclosure for a PBE

Income Tax Disclosure Considerations Related to the Adoption of ASU 2023-09

Overview

This *Heads Up* discusses an entity's presentation and disclosure requirements upon its adoption of ASU 2023-09.[1] The ASU, which the FASB issued in December 2023, requires entities to 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."

For public business entities (PBEs), the ASU is effective for annual periods beginning after December 15, 2024 (i.e., 2025 for calendar-year-end PBEs). Entities other than PBEs have an additional year to adopt the ASU. Early adoption is permitted.

Materiality

In developing the ASU, the Board decided against clarifying in ASC 740 whether an entity should consider materiality when evaluating the required disclosures. Instead, the Board notes in paragraph BC22 of the ASU that it "observed that the guidance in paragraph 105-10-05-6, which states that the provisions of the Codification need not be applied to immaterial

[1] FASB Accounting Standards Update (ASU) No. 2023-09, *Improvements to Income Tax Disclosures*.
[2] FASB Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. For titles of other *FASB Accounting Standards Codification* references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

items, is applicable to the amendments in [the ASU], as it is to all Codification guidance. Therefore . . . an entity does not need to separately disclose the required specific categories or reconciling items if they are immaterial, even if the quantitative threshold is met." Since the ASU does not define materiality, entities must apply judgment to determine whether an item is immaterial and should consider both quantitative and qualitative factors.

Application of Judgment

In the ASU's Basis for Conclusions, the FASB acknowledges that entities will need to use judgment when applying certain of the ASU's disclosure requirements. The Board states in paragraph BC29 that in situations in which judgment has been applied, "an entity should assess whether the disclosure objective in paragraph 740-10-50-11A is met [and] consider whether an accompanying explanation is needed in accordance with paragraph 740-10-50-12C." An entity may be required to use judgment in situations in which, for example, (1) it has certain reconciling items that may not clearly fall into a single rate reconciliation category or might have characteristics of multiple categories or (2) it operates at or near the break-even point.

Key Provisions of the ASU

Rate Reconciliation — Overview

ASU 2023-09 amends ASC 740-10-50-12, which requires 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) income tax rate in that entity's jurisdiction (country) of domicile shall normally be used in the rate reconciliation." The amendments prohibit the use of different income tax rates for subsidiaries or segments. Further, PBEs that use an income tax rate in the rate reconciliation that is other than the U.S. income tax rate must disclose the rate used and the basis for using it.

The ASU also adds ASC 740-10-50-12A, which requires entities to annually disaggregate the income tax rate reconciliation between the following eight categories by both percentages and reporting currency amounts:

1. State and local income tax, net of federal (national) income tax effect
2. Foreign tax effects
3. Effect of changes in tax laws or rates enacted in the current period
4. Effect of cross-border tax laws
5. Tax credits
6. Changes in valuation allowances
7. Nontaxable or nondeductible items
8. Changes in unrecognized tax benefits.

Categories 3 through 7 include only reconciling items attributable to the impact of federal (national) income taxes for the jurisdiction (country) of domicile. For example, changes in valuation allowances related to a federal, state, or foreign jurisdiction must be disclosed in category 6, category 1, or category 2, respectively.

Category 8 includes reconciling items resulting from changes related to tax positions taken in prior annual reporting periods for all jurisdictions. In addition, entities may elect to present unrecognized tax benefits (UTBs) for tax positions taken in the current annual reporting period within this category, as discussed further below. Entities may disclose reconciling items presented within category 8 on an aggregated basis for all jurisdictions (i.e., further disaggregation within this category is not required).

Categories 2, 4, 5, and 7 must be further disaggregated on the basis of a quantitative threshold of 5 percent "of the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate." For a reporting entity that is domiciled in the United States, a reconciling item meets the quantitative 5 percent threshold if the tax effect of the reconciling item is greater than 1.05 percent (21% × 5%) of income from continuing operations.

If a reconciling item does not fall within any of the eight prescribed categories but meets the conditions for disaggregation on the basis of the 5 percent threshold, it must be "disaggregated by nature." Similarly, an item that does not fall within any of the eight prescribed categories but does not meet the 5 percent threshold would be aggregated with any additional such reconciling items in an "other adjustments" category. See Appendix B for an illustration of the rate reconciliation.

For SEC registrants that are required to provide comparative financial statements, if a reconciling item meets the 5 percent threshold for one, but not all, of the years presented within the rate reconciliation, we generally recommend that the reconciling item be disclosed separately for all years presented.

An entity should present all reconciling items on a gross basis, except for UTBs and cross-border tax effects (i.e., an entity may choose to present current-year UTBs net of the underlying position taken and the effect of cross-border tax laws net of the related tax credits). See additional discussion below in the Effect of Cross-Border Tax Laws Category section and the Changes in UTBs Category section.

In addition, the ASU adds ASC 740-10-50-12C, which states that a PBE must "provide an explanation, if not otherwise evident, of individual reconciling items required by paragraph 740-10-50-12A, such as the nature, effect, and underlying causes of the reconciling items and the judgment used in categorizing the reconciling items." Entities should consider whether explanatory disclosure is appropriate when more than one presentation may be permissible.

Each of the eight rate reconciliation categories is further discussed below.

State and Local Income Taxes Category

This category reflects income taxes imposed at the state and local income tax level within the jurisdiction (country) of domicile, except for certain reconciling items related to changes in state and local UTBs that are included in the changes in UTBs category (see the Changes in UTBs Category section for additional details about presentation within that category). While further disaggregation of the state and local income taxes category is not required on the basis of a quantitative threshold of 5 percent, ASC 740-10-50-12B states, in part, that PBEs must supplementally "provide a qualitative description of the states and local jurisdictions that make up the majority (greater than 50 percent) of the effect of the state and local income tax category." In other words, a PBE starts by disclosing the state or local jurisdiction whose effect within this category is the largest and, if that jurisdiction does not represent greater than 50 percent of the total amount in the state and local income tax category, the PBE discloses the state or local jurisdiction whose effect is the next largest, and so on, until the aggregated effect is greater than 50 percent.

Foreign Tax Effects Category

This category includes reconciling items attributable to the impact of income taxes imposed by foreign jurisdictions (i.e., jurisdictions outside the country of domicile), except for certain reconciling items related to changes in foreign UTBs included in the changes in UTBs category (see the Changes in UTBs Category section for additional details on presentation within that category). Further disaggregation of reconciling items within the foreign tax effects category is required by jurisdiction and by nature on the basis of the 5 percent threshold discussed above.

Connecting the Dots

As shown in the example in Appendix B, if the taxes imposed by a particular foreign jurisdiction create reconciling items with respect to the jurisdiction that, in the aggregate, exceed the 5 percent threshold, that jurisdiction should be disclosed separately as a reconciling item within the category. Any individual reconciling item within that jurisdiction that also exceeds the 5 percent threshold should be separately disclosed by nature (i.e., by jurisdiction and by nature). In addition, ASC 740-10-50-12A specifies that "[w]ithin any foreign jurisdiction (regardless of whether it meets the 5 percent threshold), the reconciling item shall be separately disclosed by nature if [it] meets the 5 percent threshold." This may happen when a particular foreign jurisdiction has a reconciling item or items that individually trigger the 5 percent threshold but are offset by other reconciling items that have an opposite impact on the rate reconciliation (i.e., the net impact of a foreign jurisdiction is below the 5 percent threshold in the aggregate).

Effect of Changes in Tax Laws or Rates Enacted in the Current Period Category

This category includes the cumulative tax effects of a change in enacted tax law or rates in the jurisdiction (country) of domicile on current or deferred tax assets and liabilities as of the enactment date.

Effect of Cross-Border Tax Laws Category

This category "reflects the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions." For a U.S.-domiciled PBE, this category includes the incremental tax impacts of the global intangible low-taxed income (i.e., GILTI), base erosion and anti-abuse tax (i.e., BEAT), and foreign-derived intangible income (i.e., FDII) rules.

Connecting the Dots

We believe that the incremental U.S. tax impact of the rules under Subpart F of the Internal Revenue Code and the U.S. tax on branch income (or loss) would also be included in this category.

Further, PBEs are permitted, but not required, to reflect the effect of incremental taxes presented in this category net of their related foreign tax credits (e.g., an entity would be permitted to present the effects of GILTI taxes net of associated foreign tax credits). Alternatively, PBEs may report the impacts of the incremental taxes separately from the related tax credits, which would be presented in the tax credits category. See Appendix A for illustrative examples.

Tax Credits Category

This category includes the impacts of federal income tax credits earned in the jurisdiction (country) of domicile (e.g., R&D tax credits or energy-related tax credits) that are not reflected as part of the effect of cross-border tax laws. In addition, see the Changes in UTBs Category section below for considerations related to UTBs associated with tax credits and the potential impacts to this category.

Changes in Valuation Allowances Category

This category reflects the initial recognition and subsequent changes to the federal (national) valuation allowance in the jurisdiction (country) of domicile that occur during the current year.

Nontaxable or Nondeductible Items Category

This category consists of items that are either nontaxable or nondeductible for federal (national) tax purposes in the jurisdiction (country) of domicile. The FASB acknowledged in paragraph BC29 of the ASU that entities may need to apply judgment when assessing (1) "how to categorize certain income tax effects that do not clearly fall into a single category" or that have "characteristics of multiple categories" and (2) "the nature of reconciling items for further disaggregation. . . . For example, an entity may decide to include the tax effects of share-based payment awards (such as nondeductible expenses, shortfalls, and windfalls) in [this] category" even though windfalls might not be viewed as belonging to this category. In such a case, the entity should consider whether, in accordance with ASC 740-10-50-12C, it must describe the types of tax effects related to share-based payments that it has included in this category. See the Application of Judgment section above.

Changes in UTBs Category

This category includes reconciling items resulting from changes in judgment related to tax positions taken in prior annual reporting periods. When an entity records a UTB in the current annual reporting period for a tax position taken or expected to be taken in the same reporting period, the entity may present such UTB and its related tax position on a net basis in the category in which the tax position is presented. Alternatively, the entity may present such UTB in the changes in UTBs category. Other presentations may also be acceptable depending upon the specific facts and circumstances.

Entities may disclose reconciling items presented within the changes in UTBs category on an aggregated basis for all jurisdictions (i.e., further disaggregation within this category is not required).

Connecting the Dots

If an entity intends to claim $100 of federal R&D tax credits on its "as-filed" tax return but, after considering the recognition and measurement guidance in ASC 740, determines that it can only recognize $75 of benefit for such tax credits, the entity may report in the rate reconciliation a net $75 benefit in the tax credits category. It would report any subsequent changes in the recognition or measurement of such credits in the changes in UTBs category. Alternatively, an entity may present the $100 of federal R&D tax credits in the tax credits category and the related $25 UTB in the changes in UTBs category.

Rate Reconciliation — Other Considerations

Statutory Tax Rate

As stated above, ASC 740-10-50-12 requires 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 by the "applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile."

Further, ASU 2023-09 adjusts ASC 740-10-50-12 to align with the requirements in SEC Regulation S-X, Rule 4-08(h)(2).[3] In paragraph BC38 of the ASU, the FASB notes that if "an entity (a) is domiciled in a jurisdiction with an income tax rate significantly lower than the U.S. statutory income tax rate or (b) operates at or around break even, the entity would be expected to apply judgment in determining the appropriateness of using a different statutory income tax rate and evaluating the materiality of reconciling items." See the Rate Reconciliation section above for a discussion of the disclosures required when a tax rate other than the U.S. income tax rate is used.

[3] SEC Regulation S-X, Rule 4-08(h), "General Notes to Financial Statements; Income Tax Expense."

Subnational Income Taxes

Subnational income taxes represent taxes imposed by jurisdictions (e.g., provinces, cantons) in addition to the income taxes already levied by the federal (national) government, which are similar to state income taxes in the United States. Certain foreign (non-U.S.) jurisdictions that have subnational income taxes include Canada and Switzerland, among others.

Foreign (non-U.S.) domiciled entities that have subnational income taxes should use the federal (national) rate as the starting point for the rate reconciliation and should not use a blended rate that includes both the federal (national) rate and the subnational rates. Accordingly, such foreign domiciled entities must separately disclose the impact of subnational income taxes in the jurisdiction of domicile within the state and local tax effects category.

Entities that have foreign operations in jurisdictions with subnational income taxes will also need to consider the appropriate presentation for such tax effects within the category for foreign tax effects. When disclosing reconciling items in the foreign tax effects category within the rate reconciliation, an entity should present all subnational tax effects included in the foreign tax effects category (including changes in valuation allowances, effects of changes in tax laws or rates, etc.) as a separate line item (subject to the 5 percent quantitative threshold) within the applicable foreign jurisdiction. All other reconciling items within that foreign jurisdiction would include the federal (national) tax effects only.

Return-to-Provision Adjustments

Return-to-provision adjustments are made when estimates used for the income tax provision in the financial statements differ from the amounts reported on an entity's income tax returns. Entities should assess such adjustments to determine whether they result from a change in accounting estimate or the correction of an error. See Section 12.6.1 of Deloitte's Roadmap *Income Taxes* for additional guidance.

Entities may have varying return-to-provision adjustments related to reconciling items within different categories of the rate reconciliation. We believe that the determination of the appropriate category for presentation of return-to-provision adjustments depends on the specific facts and circumstances associated with the adjustment. Accordingly, entities should apply judgment to determine the most useful presentation for the users of the financial statements. Factors to consider in determining how to categorize an entity's return-to-provision adjustments within the rate reconciliation may include, among others, an assessment of whether the adjustment:

- Is material.
- Is related to a category that must be further disaggregated on the basis of the 5 percent threshold.
- Affects the historical trend line of the category to which the underlying adjustment is related.

Withholding Taxes Within the Scope of ASC 740

We believe that with respect to an entity's rate reconciliation, withholding taxes are attributable to the jurisdiction that imposes the tax. Therefore, the appropriate category in which to present withholding taxes will depend on the jurisdiction that imposes the tax.

Withholding taxes that are within the scope of ASC 740 and imposed by a foreign jurisdiction should be presented in the foreign tax effects category in the jurisdiction imposing the tax.

If withholding taxes are imposed by the jurisdiction of domicile, we believe that it is generally appropriate to present them in an "other adjustments" category. However, if an entity has an existing policy to disclose the foreign and domestic components of pretax income or loss related to intra-entity transactions by using a pre-elimination presentation (see Section 14.6.2 of Deloitte's Roadmap *Income Taxes*), the entity may find it more meaningful to present the withholding taxes in the effect of cross-border tax laws category. For example, assume that a U.S.-domiciled parent earns $100 of income before intercompany payments. In the same year, the U.S. parent pays a royalty of $100 to a foreign subsidiary and remits withholding taxes to the U.S. government when the payment is made. The foreign subsidiary has no other items of income or expense. If the entity has a policy to disclose the foreign and domestic components of pretax income or loss related to intra-entity transactions by using a pre-elimination presentation, the entity's pretax income disclosure would reflect foreign pretax income of $100 (i.e., the foreign subsidiary received $100) and no domestic pretax income (i.e., the U.S. parent had income of $100 offset by the payment of $100). In such circumstances, because the income is reflected in the entity's disclosure as foreign and the related withholding taxes are imposed by the United States, presenting the withholding taxes within the effect of cross-border tax laws category may be more meaningful.

Pillar Two Top-Up Taxes

The Pillar Two model rules developed by the Organisation for Economic Co-operation and Development establish a global minimum corporate tax rate of 15 percent. Under such rules, multinational entities may be subject to top-up taxes that may be imposed as a result of the application of a jurisdiction's qualified domestic minimum top-up tax (QDMTT) or in accordance with the income inclusion rule (IIR) or the undertaxed profits rule (UTPR). See Deloitte's March 5, 2024 (updated November 8, 2024), *Financial Reporting Alert* for discussions of frequently asked questions about Pillar Two.

An entity must consider its specific facts and circumstances when determining the appropriate category in which to present the top-up taxes associated with Pillar Two. In general, we believe that IIR top-up taxes that are attributable to foreign income and are paid in the ultimate parent entity's jurisdiction (i.e., the jurisdiction of domicile) should be classified within the effect of cross-border tax laws category. By contrast, any Pillar Two top-up taxes (i.e., IIR, UTPR, or QDMTT) paid in a jurisdiction other than that of the ultimate parent entity (i.e., a foreign jurisdiction) should be classified within the foreign tax effects category in the jurisdiction imposing the tax.

Interest and Penalties Associated With UTBs

Under the ASU, changes in UTBs related to tax positions taken in prior years should be presented within the changes in UTBs category. However, the ASU does not specify how to categorize interest and penalties related to prior-year UTBs. While interest and penalties are not UTBs by definition under U.S. GAAP and are not included in an entity's UTB tabular reconciliation, we note that interest and penalties are related to UTBs and, if an entity has elected to classify interest and penalties as income taxes as permitted by ASC 740-10-45-25, it would present such interest and penalties in the same manner as it presents UTBs within its income statement and balance sheet.

Accordingly, assuming that an entity has a policy to present interest and penalties within income taxes, we believe that it would be acceptable for an entity to present interest and penalties related to prior-year UTBs within the changes in UTBs category. Alternatively, the entity could choose to present interest and penalties related to prior-year UTBs outside such category. In this circumstance, one acceptable approach would be to present the interest and penalties within an "other adjustments" category, subject to further disaggregation on the basis of the 5 percent threshold.

Entities Other Than PBEs

Entities other than PBEs are required to qualitatively disclose the nature and effect of the specific categories of reconciling items listed in ASC 740-10-50-12A(a) as well as individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. A numerical reconciliation is not required.

Income Taxes Paid

Income taxes paid must be disaggregated by foreign, domestic, and state taxes, with further disaggregation by jurisdiction on the basis of a quantitative threshold of 5 percent "of total income taxes paid (net of refunds received)."[4]

The FASB specifically addresses whether comparative disclosures are required for income taxes paid by jurisdiction in paragraph BC74 of the ASU, which states that the Board "considered but decided not to require disclosure of comparative information by jurisdiction for all years presented. The Board noted that requiring comparative information for income taxes paid could result in operability challenges and may be contrary to the guidance on materiality in Topic 105 (such as when a jurisdiction meets the quantitative threshold and is material in the current period but was not presented in previous periods because the amount of income taxes paid was not material)."

Accordingly, one acceptable presentation of an entity's disclosure for income taxes paid under the ASU is illustrated below. It is assumed in this illustration that the entity is U.S.-domiciled.

	20X3	20X2	20X1
Federal	$ 100	$ 110	$ 95
State	5	10	15
Foreign	50	75	60
Total	**$ 155**	**$ 195**	**$ 170**

Income taxes paid (net of refunds) exceeded 5 percent of total income taxes paid (net of refunds) in the following jurisdictions:

	20X3	20X2	20X1
State			
California	$ *	$ 10	$ 12
Foreign			
United Kingdom	25	18	*
Ireland	15	*	10

* Jurisdiction below the threshold for the period presented.

ASU 2023-09 does not specify whether such disclosures of income taxes paid should be included on the face of an entity's statement of cash flows or within the notes to the financial statements. Accordingly, we believe that disclosure in either location is acceptable.

[4] The FASB notes in paragraph BC59 of the ASU that the 5 percent threshold for disaggregation is consistent with the requirement in SEC Regulation S-X, Rule 4-08(h)(1).

Disaggregation of Pretax Income and Expense

The ASU adds ASC 740-10-50-10A and 50-10B, which, in a manner consistent with existing disclosure requirements for PBEs under SEC Regulation S-X, Rule 4-08(h), require all entities to disclose for each annual reporting period:

- "Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign."
- "Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign. . . . Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile (that is, the jurisdiction imposing the tax)."

Indefinitely Reinvested Foreign Earnings

The ASU removes the requirement in ASC 740-30-50-2(b) to disclose the "cumulative amount of each type of temporary difference [when in accordance with ASC 740-30-50-2] a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures."

Connecting the Dots

While removing the requirement in ASC 740-30-50-2(b), the ASU does not remove the guidance in ASC 740-30-50-2(c) under which an entity must (1) disclose the "amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration" or (2) provide "a statement that [such] determination is not practicable."

Unrecognized Tax Benefits

The ASU eliminates the requirement in ASC 740-10-50-15(d) that entities must disclose details of tax positions for which it is reasonably possible that the total amount of UTBs will significantly increase or decrease in the next 12 months.

Connecting the Dots

In paragraph BC90 of the ASU, the Board notes that an entity must still apply the guidance in ASC 275-10-50-8 when considering whether it must provide additional disclosures related to UTBs.

Reconciliation With ASC Master Glossary

The ASU replaces the term "public entity" throughout ASC 740 with the term "public business entity" as defined in the ASC master glossary.

Effective Dates and Transition

Effective Dates

ASU 2023-09's amendments are effective for PBEs for fiscal years beginning after December 15, 2024 (2025 for calendar-year-end PBEs). Entities other than PBEs have an additional year to adopt the guidance. Early adoption is permitted.

Transition

Entities may apply the amendments prospectively or may elect retrospective application.

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Appendix A — Presentation of the Effects of Cross-Border Tax Laws

The following examples illustrate acceptable approaches for presenting the effect of cross-border tax laws under ASU 2023-09. In the examples, it is assumed that all reconciling items are material and that there are no relevant reconciling items for rate reconciliation categories that are not presented.

Example 1

Entity A is a U.S. parent entity. Entity A has no income or loss on a stand-alone basis, no foreign tax credit limitation, and consolidates Entity B for financial reporting purposes. Entity B is a foreign subsidiary (operating in Jurisdiction Y). Entity B generated pretax income of $1,000 and has no permanent or temporary differences in Jurisdiction Y. Jurisdiction Y has a tax rate of 10 percent. All of B's income results in a Subpart F inclusion for A.

Approach 1 (Subpart F/Foreign Tax Credit Gross Presentation)

Pretax income	$ 1,000	
	Dollars	**Percentages**
U.S. federal statutory tax rate	210	21.0%
Foreign tax effects		
Jurisdiction Y		
Tax rate differential	(110)*	(11.0)%
Effect of cross-border tax laws		
Subpart F	210**	21.0%
Tax credits		
Foreign tax credits	(100)***	(10.0)%
Effective tax rate	210	21.0%

* ($1,000 pretax income) × (10% Jurisdiction Y tax rate – 21% U.S. federal statutory tax rate).

** ($1,000 pretax income) × (21% U.S. federal statutory tax rate).

*** ($1,000 Jurisdiction Y taxable income) × (10% Jurisdiction Y statutory tax rate).

Approach 2 (Subpart F/Foreign Tax Credit Net Presentation)

Pretax income	$ 1,000	
	Dollars	**Percentages**
U.S. federal statutory tax rate	210	21.0%
Foreign tax effects		
Jurisdiction Y		
Tax rate differential	(110)†	(11.0)%
Effect of cross-border tax laws		
Subpart F	110‡	11.0%
Effective tax rate	210	21.0%

† ($1,000 pretax income) × (10% Jurisdiction Y tax rate – 21% U.S. federal statutory tax rate).

‡ ($1,000 pretax income) × (21% U.S. federal statutory tax rate) – ($1,000 Jurisdiction Y taxable income) × (10% Jurisdiction Y statutory tax rate).

We note that if B is a disregarded entity, presentation of the rate reconciliation is expected to be substantially similar to the example above.

Example 2

Assume the same facts as in Example 1, except that instead of Entity B's income resulting in a Subpart F inclusion for Entity A, its income results in a GILTI inclusion for A, subject to a 50 percent deduction.

Approach 1 (GILTI/Foreign Tax Credit Gross Presentation)

	Dollars	Percentages
Pretax income	$ 1,000	
U.S. federal statutory tax rate	210	21.0%
Foreign tax effects		
Jurisdiction Y		
Tax rate differential	(110)*	(11.0)%
Effect of cross-border tax laws		
GILTI	105**	10.5%
Tax credits		
Foreign tax credits	(80)***	(8.0)%
Effective tax rate	125	12.5%

* ($1,000 pretax income) × (10% Jurisdiction Y tax rate – 21% U.S. federal statutory tax rate).

** ($1,000 tested income – $500 GILTI Section 250 deduction) × 21%.

*** ($1,000 Jurisdiction Y taxable income) × (10% Jurisdiction Y statutory tax rate) × (80% GILTI foreign tax credit limitation).

Approach 2 (GILTI/Foreign Tax Credit Net Presentation)

	Dollars	Percentages
Pretax income	$ 1,000	
U.S. federal statutory tax rate	210	21.0%
Foreign tax effects		
Jurisdiction Y		
Tax rate differential	(110)†	(11.0)%
Effect of cross-border tax laws		
GILTI	25‡	2.5%
Effective tax rate	125	12.5%

† ($1,000 pretax income) × (10% Jurisdiction Y – 21% U.S. federal statutory tax rate).

‡ ($1,000 tested income – $500 GILTI section 250 deduction) × 21%) – ($100 foreign tax taxes × 80% GILTI foreign tax credit limitation).

Appendix B — Sample Rate Reconciliation Disclosure for a PBE

The example below is reproduced from Case A in ASC 740-10-55-231.

	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.

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