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FASB Proposes Amendments to Income Tax Disclosure Requirements

Background

On March 15, 2023, the FASB issued a [proposed ASU](#)¹ that would modify or eliminate certain existing income tax disclosure requirements in addition to establishing new requirements. The proposal is intended to improve the usefulness of income tax information for financial statement users while addressing investors' requests for greater transparency in, and enhancements to, disclosures related to the rate reconciliation and income taxes paid. Comments on the proposed ASU, which retains certain proposed amendments from the FASB's 2019 exposure draft, *Changes to the Disclosure Requirements for Income Taxes*, are due by May 30, 2023.

For reference, the proposed ASU's questions for respondents are reproduced in [Appendix A](#) of this *Heads Up*, and a sample rate reconciliation disclosure is reproduced in [Appendix B](#).

Key Changes Under the Proposed ASU

Scope

The proposed amendments affect public business entities as well as organizations other than public business entities that are subject to income taxes.

Rate Reconciliation

ASC 740-10-50-12² currently requires a public business entity to disclose a reconciliation of the reported amount of income tax expense (or benefit) from continuing operations to the amount of income tax expense (or benefit) that would result from multiplying the pretax

¹ FASB Proposed Accounting Standards Update (ASU), *Improvements to Income Tax Disclosures*.

² FASB Accounting Standards Codification Topic 740, *Income Taxes*.

income (or loss) from continuing operations by the domestic federal statutory tax rate. The proposed ASU would retain this reconciliation guidance; however, it would (1) now require a public business entity to provide a tabular reconciliation annually by using both percentages and dollars (or other reporting currency) and (2) add the following requirements under ASC 740-10-50-12A:

- a. The following specific categories shall be disclosed:
 1. State and local income tax, net of federal (national) income tax effect
 2. Foreign tax effects
 3. Enactment of new tax laws
 4. Effect of cross-border tax laws
 5. Tax credits
 6. Valuation allowances
 7. Nontaxable or nondeductible items
 8. Changes in unrecognized tax benefits.
- b. Separate disclosure shall be required for any reconciling item listed below in which the effect of the reconciling item is equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate of the jurisdiction of domicile. When disaggregating the following reconciling items by nature, an entity should consider the reconciling item's fundamental or essential characteristics, such as the event that caused the reconciling item and the activity with which the reconciling item is associated.
 1. If the reconciling item is within the effect of cross-border tax laws, tax credits, and nontaxable or nondeductible items categories, it shall be disaggregated by nature.
 2. If the reconciling item is within the foreign tax effects category, it shall be disaggregated by jurisdiction (country) and by nature. If a foreign jurisdiction meets the 5 percent threshold, it shall be separately disclosed as a reconciling item. Within any foreign jurisdiction (regardless of whether it meets the 5 percent threshold), the reconciling item shall be separately disclosed by nature if its gross amount (positive or negative) meets the 5 percent threshold.
 3. If the reconciling item is not within any of the categories listed in (a), it shall be disaggregated by nature.
- c. For the purpose of categorizing reconciling items, the state and local income tax category reflects income taxes imposed at the state or local level within the jurisdiction (country) of domicile, the foreign tax effects category reflects income taxes imposed by foreign jurisdictions, and the remaining categories listed in (a) reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile.



Connecting the Dots

A reporting entity that is domiciled in the United States would be required to separately disclose any reconciling item whose tax effect is greater than 1.05 percent ($21\% \times 5\%$) of income from continuing operations.³

Public business entities would also be required to qualitatively describe the state and local jurisdictions that contribute the “majority of the effect” with respect to the state and local income tax effect category in ASC 740-10-50-12A(a). In addition, if not otherwise evident, a public business entity will need to provide an explanation of the individual reconciling items disclosed pursuant to ASC 740-10-50-12A, such as the nature, effect, recurrence, and year-over-year changes of such reconciling items.

³ This is consistent with the existing disclosure requirement for public business entities under SEC Regulation S-X, Rule 4-08(h), “Income Tax Expense.”



Connecting the Dots

While the proposed ASU uses the term “majority of the effect,” it is currently unclear how this guidance would be interpreted in practice because such term is not defined in the proposal or in U.S. GAAP.

Under the proposed ASU, public business entities would be required to qualitatively disclose, on an interim basis, reconciling items that result in significant changes to the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period.

Entities other than public business entities would, on an annual basis, have to qualitatively disclose, for each category listed in ASC 740-10-50-12A(a), the nature and effect of items and 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

The proposed ASU would require all entities to provide (1) interim and annual disclosures of the year-to-date amount of income taxes paid (net of refunds received), disaggregated by federal (national), state, and foreign amounts and (2) annual disclosures of the amount of income taxes paid (net of refunds received), further disaggregated by individual jurisdictions in which the total income taxes paid for the year (net of refunds received) are equal to or greater than 5 percent.

Previously Exposed Amendments

Disaggregation of Pretax Income and Expense

Under the proposed ASU, all entities would be required to disclose:

- The amount of “income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign.”⁴
- The amount of “[i]ncome tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign shall be disclosed. 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).”⁵

Indefinitely Reinvested Foreign Earnings

The Tax Cuts and Jobs Act of 2017 introduced provisions under which U.S. shareholders were required to pay a tax on certain post-1986 undistributed and previously untaxed foreign earnings and profits, and it generally allows entities to repatriate earnings from foreign subsidiaries without incurring U.S. federal income taxes. In keeping with the reduction introduced by the Act related to previously untaxed foreign earnings, the proposed ASU would remove 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 the proposed ASU would eliminate the disclosure required by ASC 740-30-50-2(b), it would retain the guidance in ASC 740-30-50-2(c) under which an entity must (1) disclose the amount of unrecognized deferred tax liability related to investments in foreign subsidiaries and corporate joint ventures that are essentially permanent in

⁴ See [footnote 3](#).

⁵ See [footnote 3](#).

duration or (2) provide a statement that determination of such deferred tax liability is not practicable.

Unrecognized Tax Benefits

The proposal would eliminate the requirement in ASC 740-10-50-15(d) for all entities to disclose details 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 12 months.

Reconciliation With ASC Master Glossary

Under the proposed ASU, the term “public entity” would be replaced throughout ASC 740 with the term “public business entity” as defined in the ASC master glossary.

Transition and Effective Date

Entities would apply the proposed amendments retrospectively. The FASB will determine an effective date and whether to permit early adoption after it considers feedback from stakeholders.

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Appendix A — Questions for Respondents

The proposed ASU's questions for respondents are reproduced below.

Rate Reconciliation

Question 1: The amendments in this proposed Update would require that public business entities disclose specific categories in the rate reconciliation, with further disaggregation of certain reconciling items (by nature and/or jurisdiction) that are equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate.

- a. Should any of the proposed specific categories be eliminated or any categories added? Please explain why or why not.
- b. Should incremental guidance be provided on how to categorize certain income tax effects in the proposed specific categories? If so, please describe the specific income tax effect and explain how it should be categorized and why.
- c. Do you agree with the proposed 5 percent threshold? Please explain why or why not.

Question 2: The proposed amendments would require that public business entities provide a qualitative description of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category. A qualitative description of state and local jurisdictions was selected over a quantitative disclosure because state and local tax provisions are often calculated for multiple jurisdictions using a single apportioned tax rate. Do you agree with the proposed qualitative disclosure as opposed to providing a quantitative disaggregation? Please explain why or why not.

Question 3: The proposed amendments would require that public business entities provide an explanation, if not otherwise evident, of individual reconciling items in the rate reconciliation, such as the nature, effect, and significant year-over-year changes of the reconciling items. Do you agree with the proposed disclosure? Please explain why or why not.

Question 4: For investors, would the proposed amendments to the rate reconciliation disclosure result in more transparent and decision-useful information? If so, how would that information help assess income tax risks and opportunities and how would it influence investment and capital allocation decisions? If not, what additional information about rate reconciliation should the Board require?

Question 5: For preparers and practitioners, would the proposed amendments to the rate reconciliation disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between onetime costs and recurring costs.

Question 6: Are the proposed amendments to the rate reconciliation disclosure clear and operable? Please explain why or why not.

Question 7: The Board decided not to provide incremental guidance for the rate reconciliation disclosure for situations in which an entity operates at or around break even or an entity is domiciled in a jurisdiction with no or minimal statutory tax rate but has significant business activities in other jurisdictions with higher statutory tax rates. Do you agree with that decision? Please explain why or why not, and if not, what incremental guidance (including the relevant disclosures) would you recommend?

Question 8: The proposed amendments would require that public business entities provide quantitative disclosure of the rate reconciliation on an annual basis and a qualitative description of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period on an interim basis. Do you agree with that proposed frequency? Please explain why or why not.

Income Taxes Paid

Question 9: The proposed amendments would require that all entities disclose the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, on an annual and interim basis, with further disaggregation on an annual basis by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received). Do you agree with the proposed 5 percent threshold? Please explain why or why not. Do you agree that income taxes paid should be disclosed as the amount net of refunds received, rather than as the gross amount? Please explain why or why not.

Question 10: For investors, would the proposed amendments to the income taxes paid disclosure result in more transparent and decision-useful information? If so, how would that information help assess income tax risks and opportunities and how would it influence investment and capital allocation decisions? If not, what additional information about income taxes paid should the Board require?

Question 11: For preparers and practitioners, would the proposed amendments to the income taxes paid disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between onetime costs and recurring costs.

Question 12: Are the proposed amendments to the income taxes paid disclosure clear and operable? Please explain why or why not.

Question 13: The proposed amendments would require that all entities disclose (a) income taxes paid disaggregated by federal (national), state, and foreign taxes on an interim and annual basis and (b) income taxes paid disaggregated by jurisdiction on an annual basis. Do you agree with that proposed frequency? Please explain why or why not.

Private Company Considerations

Question 14: Would the proposed amendments to the income taxes paid disclosure, the rate reconciliation disclosure for entities other than public business entities, and the disclosure of pretax income (or loss) and income tax expense (or benefit) provide decision-useful information for private company investors? Please explain why or why not.

Question 15: Are those proposed amendments for entities other than public business entities clear and operable? Please explain why or why not.

Transition and Effective Date

Question 16: The proposed amendments would be required to be applied on a retrospective basis. Would the information disclosed by that transition method be decision useful? Please explain why or why not. Is that transition method operable? If not, why not and what transition method would be more appropriate and why?

Question 17: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain your response.

Appendix B — Sample Rate Reconciliation Disclosure for a Public Business Entity

The example below is reproduced from the proposed ASU's Case A in ASC 740-10-55-231. See below the table for key assumptions made.

	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 Effects⁽¹⁾	AA	aa		BB	bb		CC	cc	
Foreign Tax Effects									
United Kingdom									
Tax rate differential	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Share-based payment awards	AA	aa		BB	bb		CC	cc	
Changes in unrecognized tax benefits	(AA)	(aa)		(BB)	(bb)		CC	cc	
Other	(AA)	(aa)		BB	bb		(CC)	(cc)	
Ireland									
Tax rate differential	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Valuation allowances adjustments	(AA)	(aa)		(BB)	(bb)		CC	cc	
Enactment of new tax laws	—	—		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	
Enactment of New Tax Laws									
Change in tax rate	—	—		—	—		(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)		—	—		—	—	
Foreign tax credits	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Other	—	—		(BB)	(bb)		—	—	
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	\$ <u>AA</u>	<u>aa</u>	<u>%</u>	\$ <u>BB</u>	<u>bb</u>	<u>%</u>	\$ <u>CC</u>	<u>cc</u>	<u>%</u>

(1) State taxes in California and New York contributed to the majority of the tax effect in this category.

The following assumptions apply to the above table:

- The “entity is domiciled in the United States and presents comparative financial statements.”
- The “5 percent threshold, computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate of the jurisdiction of domicile, is met:
 - a. For Ireland, both at the jurisdiction level and for certain individual reconciling items of the same nature within Ireland
 - b. For the United Kingdom, for certain individual reconciling items of the same nature within the United Kingdom, but not at the jurisdiction level
 - c. For Switzerland and Mexico, at the jurisdiction level, but not for any individual reconciling items of the same nature within each jurisdiction.”

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