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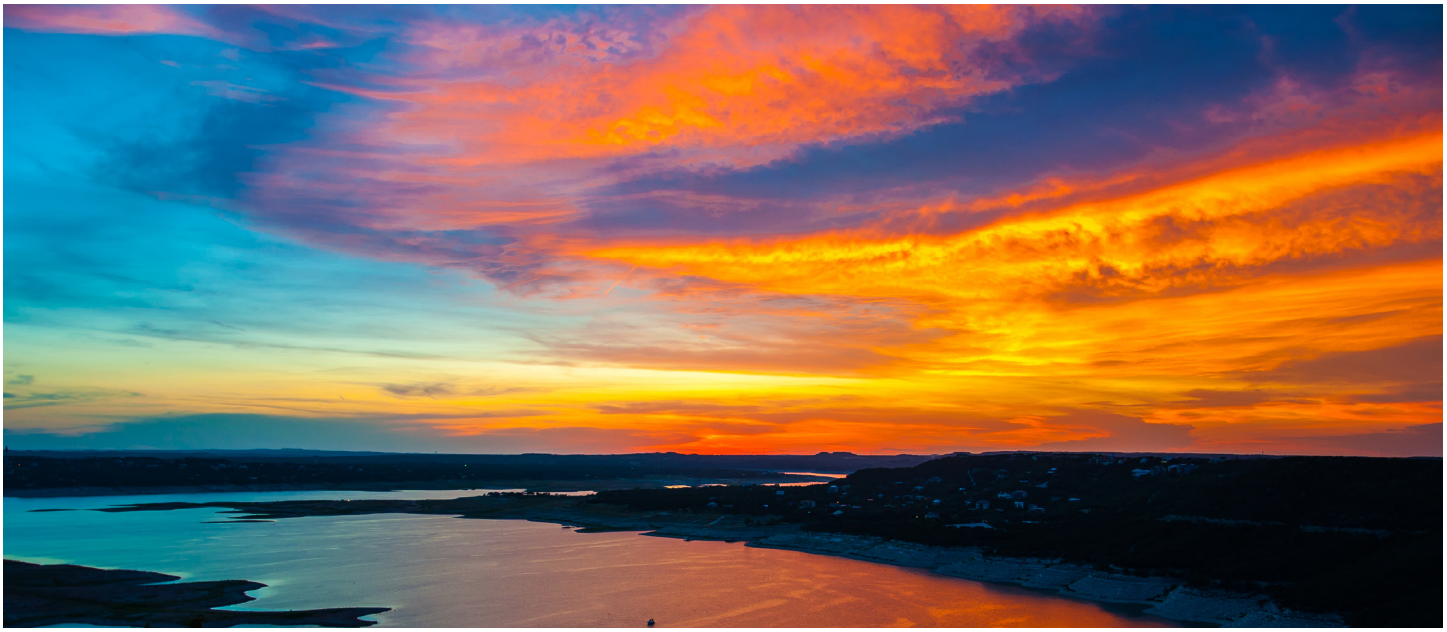

In This Issue

Accounting Considerations Related to the New U.S. Tax Legislation

Background

On July 4, 2025, President Trump signed into law the legislation formally titled "An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14" ("the Act") and commonly referred to as the One Big Beautiful Bill Act. The centerpiece of the bill is the extension of expiring — and in some cases expired — provisions of the 2017 Tax Cuts and Jobs Act ("2017 TCJA"). While many of the Act's provisions focused on tax changes for individuals, such as extending current individual tax rates originally put in place in the 2017 TCJA, the Act also adjusted a number of provisions affecting businesses that were similarly subject to sunsets, phase-outs, or phase-ins that would have taken effect in the absence of action by Congress or that have already taken effect. For example, recent years have seen the loss of the ability to immediately expense R&D costs; a new, more restrictive calculation of the extent to which net interest expenses are deductible; and a phase-down of bonus depreciation. Moreover, barring action by Congress, 2026 would have witnessed an increase in the tax rate applied to the Base Erosion and Anti-Abuse Tax (BEAT) and a lower deduction for both the Global Intangible Low-Taxed Income (GILTI) and Foreign-Derived Intangible Income (FDII) regimes.

The Act's net cost was somewhat reduced by the addition of some revenue-raising provisions, including phase-outs of and restrictions on several clean energy tax incentives. Further, the new law makes various broadly applicable changes to the GILTI and FDII regimes. While many are taxpayer friendly, they are paired with lower deduction amounts for GILTI and FDII, meaning that the combined impact is very likely to depend on an individual company's facts and circumstances.

While most of the changes made by the Act are effective in future tax years, some of its provisions are effective in the current tax year. In certain cases, the changes introduced by the Act may also affect prior tax years. For details about specific provisions of the Act, see Deloitte's *A Closer Look: Inside the New Tax Law*.

Financial Statement Considerations Under ASC 740

ASC 740[1] requires entities to recognize the effects of new income tax legislation in the interim and annual reporting periods in which the legislation is enacted. Accordingly, an entity with an annual or interim reporting period ending before July 4, 2025 (e.g., the second quarter for calendar-year-end entities), should not recognize the income tax effects of the Act in the financial statements for such interim or annual periods. However, entities should consider the subsequent-event guidance in ASC 855 as well as SEC disclosure requirements related to material events and uncertainties to determine the extent of disclosures required in interim and annual financial statements issued or available to be issued after July 4, 2025, as discussed further below.

The income tax effects of the Act should be recognized in interim and annual periods ending on or after July 4, 2025. The accounting for income tax effects of the Act depends on an entity's facts and circumstances and may be complex. Note also that the provisions of the Act should be evaluated comprehensively given their many interdependencies, which may affect an entity's overall income tax accounting. This publication highlights our current views and understanding of the business tax provisions of the Act that may have a more substantive impact on financial statements in the period of enactment. It does not, however, address every scenario in which an entity's financial statements could be affected by the Act and may be subject to change if new information becomes available.

Current Taxes Payable

As noted above, while many of the Act's provisions affect future tax years, some may have an impact on an entity's current taxes on current-year ordinary income. The income tax effects of a change in tax law on taxes that are currently payable or refundable related to current-year ordinary income are included in the annual effective tax rate (AETR) beginning in the period of enactment. See Section 7.3.2 of Deloitte's Roadmap *Income Taxes* for more information.

Provisions that could affect an entity's current payable on current-year ordinary income may include, but are not necessarily limited to, the following:

- Immediate expensing of domestic research and experimental expenditures ("R&E") under Internal Revenue Code (IRC) Section 174 for amounts paid or incurred in taxable years beginning after December 31, 2024.
- An election to deduct the remaining unamortized balance of capitalized domestic R&E paid or incurred after December 31, 2021, and before January 1, 2025.
- Reinstatement of full expensing (commonly referred to as "bonus depreciation") for qualified business property acquired and placed in service after January 19, 2025.
- Modification of the limitation on the business interest deduction under IRC Section 163(j) (i.e., the Act makes permanent the calculation of adjusted taxable income that corresponds with earnings before interest, taxes, depreciation, and amortization for periods beginning after December 31, 2024).
- Termination of the qualified commercial clean vehicle credit for vehicles acquired after September 30, 2025 (IRC Section 45W), and termination of the energy credit for certain energy property for which construction begins on or after June 16, 2025 (IRC Section 48).

Once applied, the Act's provisions may result in additional effects to current taxes payable. For example, an entity may be subject to a higher amount of tax under the Corporate Alternative Minimum Tax (CAMT) regime as a result of a lower amount of regular tax. An entity should consider the comprehensive effect of the Act on current taxes payable with respect to

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

ordinary income when estimating the impact of the Act on the AETR in the interim period of enactment.

In addition, the Act includes provisions that may be retroactive to a prior taxable year, depending on an entity's annual period-end. For example, entities with tax years ending between January 20, 2025, and July 4, 2025, may see bonus depreciation changes affect the preceding year's taxes payable. The effect of a retroactive change in tax law on current taxes payable for a prior tax year should be recognized discretely as of the date of enactment.

Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities should be adjusted for the effect of a change in tax laws or rates. As a result of such change, entities may also be required to update their assessment of realizability of existing deferred tax assets. The effect of a change in tax laws or rates on a deferred tax liability or asset is allocated to continuing operations and not apportioned among interim periods through an adjustment of the AETR.[2] Conversely, the income tax effects of a change in tax law on deferred taxes arising after the enactment date and related to ordinary income are included in the AETR. The provisions of the Act have the potential to affect both. For example:

- *Book-tax differences* — The amounts of taxable or deductible temporary differences as of the date of enactment and arising in the current year after the date of enactment could change as a result of immediate expensing of domestic R&E, reinstatement of bonus depreciation, or modification of the limitation on business interest.
- *Measurement* — The Act could affect the measurement of a deferred tax asset or liability. For example, for taxpayers that previously elected the GILTI deferred policy, the Act could affect the measurement of those deferred tax assets and liabilities (see Section 3.4.10.4 of Deloitte's Roadmap *Income Taxes*). The Act made several modifications to the GILTI tax regime, now referred to as Net Controlled Foreign Corporation (CFC) Tested Income (NCTI), including:
    - Removing the reduction to GILTI related to a taxpayer's qualified business asset investment.
    - Increasing the NCTI deduction under IRC Section 250 for taxable years beginning after December 31, 2025, over the amount of the deduction that would have been allowed for such years in the Act's absence.
    - Reducing the haircut for foreign income taxes deemed paid with respect to an NCTI inclusion from 20 percent to 10 percent.

  While many of these changes are not effective until a future taxable year, deferred tax assets and liabilities that are expected to reverse after the new tax provisions are effective should be remeasured in the period of enactment.
- *Exceptions* — The Act could affect whether an entity meets an exception to the requirement to comprehensively recognize deferred income taxes. For example, the Act permanently extends the CFC "look-thru rule" under IRC Section 954(c)(6), which generally excludes from U.S. federal income taxation certain dividends, interest, rents, and royalties received or accrued by one CFC of a U.S. multinational enterprise from a related CFC that would otherwise be taxable in accordance with the Subpart F regime. As a result of the extension of the look-thru rule, entities may need to reevaluate whether the exception in ASC 740-30-25-18(a) applies. See Section 3.4.8 of Deloitte's Roadmap *Income Taxes*.

[2] A retrospective change in tax law that only affects the timing of a deduction may, in some cases, not have a tax effect under ASC 740-270 since the total income tax expense (or benefit) for the period contemplated by ASC 740-270-25-1 is unchanged as of the date of enactment.

- *Valuation allowance* — The Act may require a reassessment of a valuation allowance for deferred tax assets. For example:
  - Changes to the GILTI regime may have an impact on the realizability of deferred tax assets. There are two acceptable views regarding how an entity should consider future NCTI inclusions when assessing the realizability of deferred tax assets (see Section 5.7.2 of Deloitte's Roadmap *Income Taxes*). Regardless of an entity's policy choice, the collective changes to GILTI may affect the amount of valuation allowance required.
  - The Act changes the computation of the deduction limits for net business interest expense. This may affect the valuation allowance assessment of interest carryforward deferred tax assets under IRC Section 163(j) and other deferred tax assets, including estimates of future taxable income or loss. Two acceptable approaches have developed in practice for the quantification of available sources of future taxable income for assessing the realizability of deferred tax assets when there are (1) reversing deferred tax liabilities, (2) an expectation of future interest expense, and (3) an expectation of future taxable income. See Section 5.7.12 of Deloitte's Roadmap *Income Taxes*.
  - In certain circumstances, changes as a result of the Act may increase the amount of current-period taxes payable and the CAMT tax credit carryforward. These changes could also affect an entity's valuation allowance assessment on CAMT tax credit carryforward and other DTAs. See Section 5.7.1 of Deloitte's Roadmap *Income Taxes*.

Disclosures

An entity with an annual or interim reporting period that ends before July 4, 2025 (e.g., the second quarter for calendar-year-end entities), should not recognize the income tax effects of the Act in the financial statements for such interim or annual period; however, the entity should consider whether subsequent-event disclosures may be appropriate. ASC 855-10-50 indicates that an entity must disclose some nonrecognized subsequent events to keep the financial statements from being misleading. In such cases, the entity should disclose both "[t]he nature of the event" and "[a]n estimate of its financial effect, or a statement that such an estimate cannot be made."

In addition, SEC Regulation S-K, Item 303(a),[3] requires SEC registered entities to provide certain forward-looking information in Forms 10-Q and 10-K outside of the financial statements related to "material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition." Accordingly, entities with periods ending both before and after the enactment date should consider disclosing, when material, the anticipated future impact of the income tax effects of the Act on their results of operations, financial position, liquidity, and capital resources.

An entity with an interim reporting period ending after July 4, 2025 (e.g., the third quarter for a calendar-year-end entity), should consider the impact of the enactment on its disclosures for the interim reporting periods ending on or after July 4, 2025. ASC 740-270-50-1 notes that the application of the interim-period requirements for reporting income taxes may result in "significant variations in the customary relationship between income tax expense and pretax accounting income." Entities must disclose the reasons behind such variations in their interim-period financial statements if the differences are not readily apparent from the financial statements themselves or from the nature of the business entity.

[3] SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In addition, for entities that are subject to SEC reporting requirements, management should consider the requirements in SEC Regulation S-X, Rule 10-01(a)(5),[4] which states, in part:

> The interim financial information shall include disclosures either on the face of the financial statements or in accompanying footnotes sufficient so as to make the interim information presented not misleading. Registrants may presume that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context.

Accordingly, if any annual disclosures have significantly changed since the most recently completed fiscal year, management should update them in a manner sufficient to ensure that the interim information presented is not misleading.

Entities that have adopted ASU 2023-09[5] must, in accordance with ASC 740-10-50-12A, separately disclose, within the rate reconciliation, the effect of adjustments to deferred tax assets and liabilities for enacted changes in federal or national tax laws or rates in the jurisdiction of domicile. In addition, there may be related impacts for other jurisdictions that would be presented in a separate line of the rate reconciliation (e.g., state or local conformity). Irrespective of whether the entity has adopted ASU 2023-09, disclosure may be appropriate in certain circumstances. For example, ASC 740-10-50-14 requires entities to disclose "the nature and effect of any other significant matters affecting comparability of information for all periods" if not evident from the disclosures otherwise required.

State Tax Considerations

An entity should carefully consider the state tax effects of the Act given the differences in state tax conformity to the federal tax law. An entity should evaluate its tax accounting consequences on the basis of the enacted tax law in each state in which the entity has a tax filing obligation.

Other Related Matters

The accelerated phase-out of certain clean energy credits may affect an entity's ability to apply the proportional amortization method (PAM) as a result of a reduction in tax credits that it expects to receive related to a clean energy investment. As a result, an entity may no longer believe that substantially all of the projected benefits of its investment will come from income tax credits and other income tax benefits or that the entity's projected yield that is based solely on cash flows from the income tax credits and other income tax benefits will be positive. Accordingly, entities may need to reassess any tax equity investments affected by the Act and, if warranted, discontinue the use of PAM and apply the applicable provisions of ASC 323 or ASC 321, prospectively, to such investment. See Section 12.7 of Deloitte's Roadmap *Income Taxes* and Section D.6.4 of Deloitte's Roadmap *Equity Method Investments and Joint Ventures*. In addition, the phase-out of certain clean energy credits may result in an impairment if such phase-out is an indicator that it is more likely than not that the carrying amount of the investment will not be realized. See Section D.6.5 of Deloitte's Roadmap *Equity Method Investments and Joint Ventures*.

[4] SEC Regulation S-X, Rule 10-01(a), "Interim Financial Statements: Condensed Statements."

[5] FASB Accounting Standards Update (ASU) No. 2023-09, *Improvements to Income Tax Disclosures*.

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