

Snapshot

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FASB improves income tax disclosures

The amendments in FASB ASU 2023-09, *Improvements to Income Tax Disclosures*, are designed to increase the transparency and decision-usefulness of income tax disclosures for financial statement users. Prompted by investors' requests for additional information about jurisdictional tax exposures and increased granularity, the amendments revise the existing disclosure guidance in ASC 740, *Income Taxes*, related to (1) the rate reconciliation table, (2) income taxes paid in various jurisdictions, and (3) unrecognized tax benefits and certain temporary differences.

Definition of a 'public business entity'

The existing disclosure requirements in ASC 740 distinguish between public and nonpublic entities in several different respects, utilizing a definition of "public entity" described in ASC 740-10-20 that is specific only to this Topic.

Public Entity

An entity that meets any of the following criteria:

- a. Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally)
- b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets)
- c. Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities

The amendments replace the definition of a "public entity" that is unique to ASC 740 with the definition of a "public business entity" (PBE) commonly used elsewhere in the FASB Codification.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit nor an employee benefit plan is a business entity.

- a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or over-the-counter market.
- e. It has issued one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

As the FASB noted in the ASU's Basis for Conclusions, a subset of reporting entities that did not qualify as public entities as previously defined in ASC 740 may now qualify as PBEs, making them subject to the incremental disclosure guidance in ASC 740 applicable to public companies.

Specifically, ASC 740 provides for incremental disclosure requirements for public companies compared to the requirements for nonpublic companies related to

- Temporary differences;
- Rate reconciliation; and
- Unrecognized tax benefits.

Additionally, the existing guidance requires public entities that are not subject to income taxes to include specific disclosures in the financial statements.

Rate reconciliation disclosure

The FASB considers the rate reconciliation table, which reconciles an entity's effective tax rate to its statutory rate, to be one of the most useful tax disclosures for investors, providing them with an understanding of a reporting entity's risks and opportunities. In ASU 2023-09, the FASB decided to

enhance the rate reconciliation disclosures by providing an overall disclosure objective and prescribing greater disaggregation of information presented in the rate reconciliation table.

Objective of the rate reconciliation

In ASC 740-10-50-11A, the FASB added an overall objective for the rate reconciliation table to clarify that financial statement preparers may present more information than what is prescribed in ASC 740-10-50-12 through 50-13 if the reporting entity determines that such information is necessary for investors in understanding the drivers of differences between the entity's current effective tax rate and its statutory tax rate. Accordingly, reporting entities should take care to ensure that they have considered whether additional information is necessary for financial statement users to obtain that understanding and should provide additional information if they determine it is necessary.



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.

Disaggregation in the rate reconciliation

PBEs are required to provide a tabular rate reconciliation, while entities other than PBEs are required only to provide a qualitative, narrative disclosure describing the nature of the items driving a difference between the entity's effective tax rate and its statutory rate. Prior to the amendments in ASU 2023-09, U.S. GAAP required reporting entities to use judgment when determining which categories of reconciling items to present in their rate reconciliation table. To enhance transparency, comparability and consistency, the amendments now require PBEs to disclose prescribed categories of reconciling items for each annual reporting period as part of the rate reconciliation between income tax expense (or benefit) and statutory expectations.

Public business entities

The amendments require PBEs to disclose both the dollar amount and percentage for each item presented in the rate reconciliation table. The categories and related presentation and disclosure requirements under the amendments are summarized in the table below. In addition to the required categories, reporting entities are now required to disclose other reconciling items unique to the entity's particular circumstances. Entities should consider whether they need to disclose additional categories of reconciling items to meet the new objective for the rate reconciliation disclosure. If a rate other than the U.S. federal corporate income tax rate is used, an entity should disclose the rate used and the basis for using such rate.

Rate reconciliation disclosures required for PBEs			
Categories	Gross/ Net presentation	Disaggregation	Jurisdiction
State and local income tax, net of federal (national) income tax effect¹	Gross	Not required	Jurisdiction of domicile (state or local)
Foreign tax effects	Gross	By jurisdiction and nature ²	Income taxes imposed by foreign jurisdictions
Effect of changes in tax laws or rates enacted in the current period	Gross ³	Not required	Jurisdiction of domicile (federal taxes only)
Effect of cross-border tax laws	Gross/ Net ⁴	By nature	Jurisdiction of domicile (federal taxes only)
Tax credits	Gross	By nature	Jurisdiction of domicile (federal taxes only)
Changes in valuation allowances	Gross	Not required	Jurisdiction of domicile (federal taxes only)
Nontaxable or nondeductible items	Gross	By nature	Jurisdiction of domicile (federal taxes only)
Changes in unrecognized tax benefits⁵	Net	Aggregated for all jurisdictions	May include all jurisdictions

¹ A PBE must provide a qualitative description of the state and local jurisdictions that make up at least 50 percent of the state and local income tax category. Entities should start with the state or local jurisdiction that has the largest effect and continue to add state and local jurisdictions with the next largest effect until the 50 percent threshold is met.

² Except for reconciling items related to changes in unrecognized tax benefits. If the gross amount (positive or negative) of any reconciling item meets the 5 percent threshold within any foreign jurisdiction, the reconciling item should be separately disclosed, even if the foreign jurisdiction does not meet the 5 percent threshold.

³ Cumulative effect of change in tax law on deferred tax items is reflected in the period of enactment in the rate reconciliation table.

⁴ If cross-border taxes exist in the jurisdiction of domicile and a tax credit is also given for the same income during the same reporting period, the tax and tax credit may be presented on a net basis.

⁵ Includes reconciling items from changes in judgment related to tax positions taken in prior annual reporting periods.

Rate reconciliation disclosures required for PBEs			
Categories	Gross/ Net presentation	Disaggregation	Jurisdiction
Other reconciling items ⁶	Gross	By nature	Jurisdiction of domicile (federal taxes)

Additionally, the amendments align the existing income tax disclosure guidance with the requirements of Rule 4-08(h)(2) of SEC Regulation S-X by requiring disclosure of any reconciling item, including other reconciling items not captured by the prescribed categories in 740-10-50-12A(a), whose absolute value is equal to or greater than 5 percent of the absolute value of the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal or national income tax rate. The requirement for disaggregated disclosures is included in the “Disaggregation” column. The reporting entity must also explain the nature, effect, and underlying causes of individual reconciling items, as well as the judgment used in categorizing the items in the rate reconciliation table. Refer to page 7 for an example rate reconciliation table.

An entity should use judgment in determining materiality for purposes of disaggregation if either (1) the entity is domiciled in a jurisdiction with a tax rate significantly lower than the U.S. statutory tax rate, or (2) the entity operates at or near breakeven.

Entities other than public business entities

The amendments require entities other than PBEs to qualitatively disclose the nature and effect of the specific categories listed in the table above. Additionally, entities other than PBEs are required to disclose individual jurisdictions that have a significant difference between the statutory tax rate and the effective tax rate. Numerical rate reconciliation is not required but is permitted for entities other than PBEs.

Disclosure of income taxes paid by jurisdiction

All entities must now disclose income taxes paid (net of refunds received), disaggregated by federal (national), state, and foreign taxes for each annual reporting period. Further, all entities are required to disclose income taxes paid to individual jurisdictions if the income taxes paid (net of refunds received) are equal to or greater than 5 percent of total income taxes paid (net of refunds received) for each annual reporting period.

Other updates

The amendments also revise the disclosure guidance in ASC 740 for certain income statement amounts, unrecognized tax benefits, and temporary differences.

⁶ Includes any items that do not belong to any of the other categories of reconciling items.

Income statement amounts

The amendments in the ASU require the following income statement–related disclosures for each annual reporting period for all reporting entities:

- 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 taxes. Income taxes on foreign earnings that are imposed by the reporting entity's jurisdiction of domicile should be included in the amount for the jurisdiction of domicile that is imposing the tax.

Unrecognized tax benefits

The amendments eliminate the requirement for all entities to disclose either (1) the nature and estimate of the range of reasonably possible changes in the unrecognized tax benefits within the next 12 months, or (2) include a statement indicating that an estimate of the range cannot be made.

Temporary differences

The amendments also eliminate the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to the comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures. However, entities should consider whether additional disclosures apply under ASC 275, *Risks and Uncertainties*.

Materiality

The Board emphasized in the ASU's Basis for Conclusions that the guidance in ASC 105-10-05-6, which states that entities need not apply U.S. GAAP to immaterial items, also applies to all disclosures required by ASC 740, including those introduced or amended by ASU 2023-09. As a result, a reconciling item that meets quantitative thresholds under ASC 740 but is immaterial to the financial statements does not require separate disclosure. Entities must consider, however, whether the disclosure objective in ASC 740-10-50-11A is met, especially if the entity uses judgment in determining that a reconciling item is immaterial.

Effective date and transition

The amendments are effective for public business entities for annual periods beginning after December 15, 2024 and for entities other than public business entities for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or been made available for issuance.

Entities may use a prospective method to adopt the amendments in ASU 2023-09; however, retrospective application is also allowed.



ASC 740-10-55-231

The following illustrates the specific categories and the reconciling items disclosed by a public business entity in its tabular rate reconciliation in accordance with paragraphs 740-10-50-12A through 50-12B. The entity is domiciled in the United States and presents comparative financial statements. For the disclosure of foreign tax effects in accordance with paragraph 740-10-50-12A(b)(2), it is assumed that the 5 percent threshold, computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate of the United States, 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.

	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	<u>\$ AA</u>	<u>aa</u>	<u>%</u>	<u>\$ BB</u>	<u>bb</u>	<u>%</u>	<u>\$ CC</u>	<u>cc</u>	<u>%</u>

^(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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