Accounting for Income Taxes Bulletin

April, 2022

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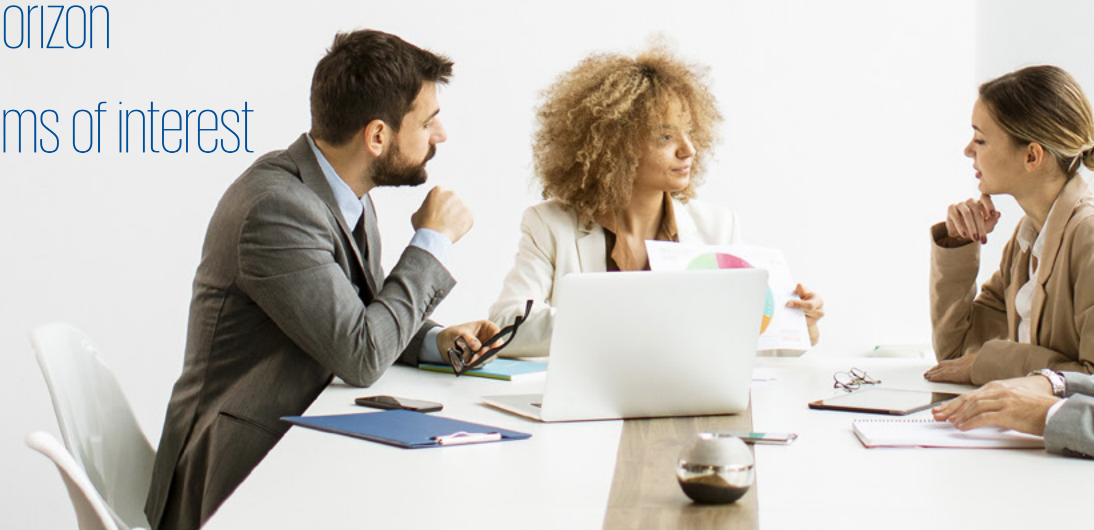
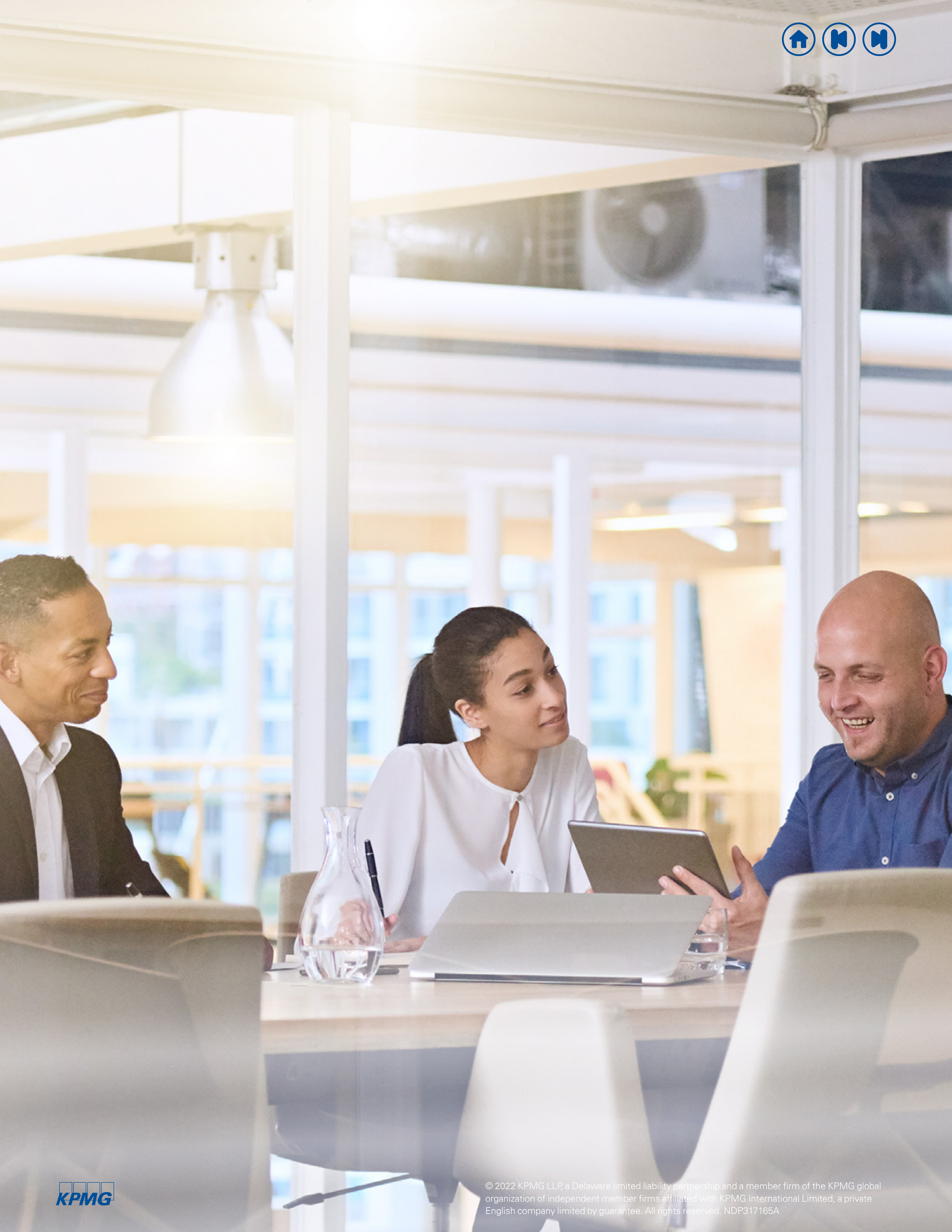
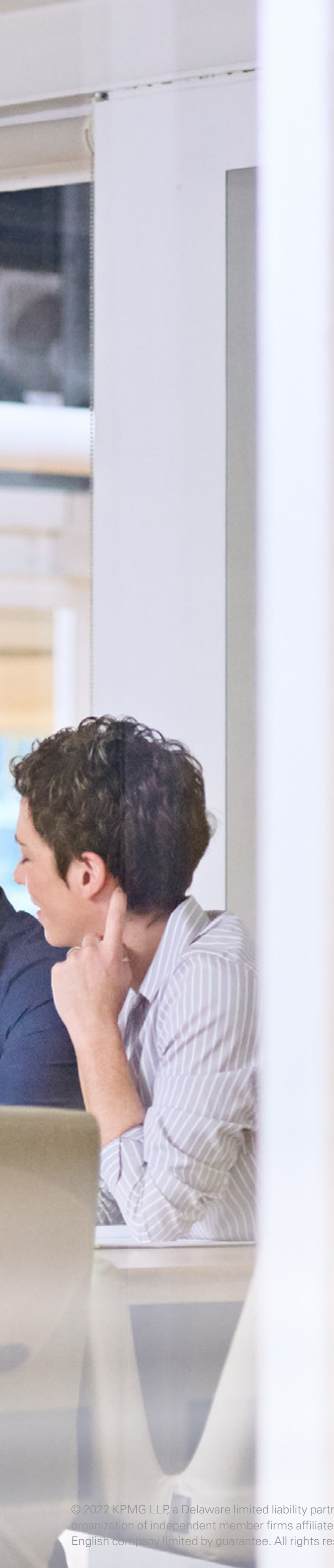
Updates on accounting matters

On the Horizon

Other items of interest







Featured items

Q1 2022 reminders

As calendar year-end companies prepare financial statements for the interim period ended March 31, 2022, below are selected reminders on accounting for income taxes considerations that may be relevant to this interim period's income taxes calculations.

ASU 2020-06 adoption

Accounting Standards Update (ASU) 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, simplifies the accounting for convertible instruments and is effective for certain public business entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the guidance to financial instruments outstanding at the beginning of its annual fiscal year using either a full retrospective (cumulative effect adjustment to the opening balance of the appropriate components of equity as of the beginning of the first comparative reporting period presented) or a modified retrospective (cumulative effect adjustment to the opening balance of the appropriate components of equity as of the beginning of the fiscal year of adoption) method of transition.

Upon adoption of the ASU, adjusting entries are reflected as if the instrument were always accounted for as a single unit, including income taxes related considerations; in other words, the conversion feature and related deferred tax consequences originally recognized are reversed through a combination of adjusting entries to the liability, retained earnings and other equity components to adjust the financial statements as if ASU 2020-06 had always been followed.

Refer to the May 2021 What's News in Tax article for further information, including an example to illustrate the accounting for income taxes consequences of adopting the ASU.

Impact of delayed effective dates for tax law changes related to interest and research or experimental expenditures

Certain changes to US federal tax law included in the Tax Cuts and Jobs Act had a delayed effective date and are scheduled to take effect for tax years beginning after December 31, 2021. Thus, Q1 2022 may be the first period in which the impact of these tax law changes is reflected in the current tax calculations or within the estimated annual effective tax rate.

Those changes include the limitation on net business interest expense deductions under section 163(j) no longer being increased by deductions for depreciation, amortization or depletion, and, under section 174, specified research and experimentation (R&E) expenditures being capitalized and amortized. Refer to the December 2021 KPMG report for additional section 174 considerations. The changes may affect items such as an entity's reported foreign derived intangible income (FDII) or global intangible low-tax income (GILTI). The changes may also affect an entity's valuation allowance judgment, among other potential implications.

Although entities have been considering these changes since the law was enacted in 2017 for matters such as evaluating the realizability of deferred tax assets, the changes will likely have further implications beginning in 2022. Refer to section 4 of the KPMG Handbook, *Accounting for income taxes* for additional considerations on the need for a valuation allowance.

Considerations of the final FTC regulations

Final foreign tax credit regulations (FTC Final Regulations) were published in the Federal Register on January 4, 2022. Among other provisions, the FTC Final Regulations may reduce the amount of foreign taxes that will be creditable, which may affect an entity's estimated annual effective tax rate. Additionally, a reduction in the amount of foreign tax credits that may be generated in future years may affect the expected realizability of existing foreign tax credit carryforwards when evaluating the need for a valuation allowance.

ASU 2019-12 adoption required for certain companies

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, was issued in December 2019 with the objective to simplify the accounting for income taxes by removing certain exceptions to general principles in ASC 740 and by clarifying and amending existing guidance within US generally accepted accounting principles (US GAAP). ASU 2019-12 is effective for entities other than public business entities and certain Emerging Growth Companies for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. As such, Q1 2022 may be the period of adoption for certain calendar year-end entities that did not choose to early adopt the standard.

Refer to the December 2019 Defining Issues for further information on changes included in the ASU.

Potential impacts of Russia-Ukraine war on accounting for income taxes

The Russian invasion of Ukraine on February 24, 2022 and the response to that invasion by other nations in the form of sanctions and voluntary actions may result in significant considerations related to the financial reporting of income taxes. Below are some accounting for income taxes considerations to keep in mind when considering the potential financial reporting consequences.

Interim period considerations

Entities with operations that are affected by the war and related events may conclude that they cannot reliably determine the estimated annual effective tax rate. In that case, the actual year-to-date effective tax rate may be used as the best estimate of the annual effective tax rate.

Although multinational entities generally calculate one overall estimated annual effective tax rate, some entities may need to exclude certain jurisdictions depending on the effects of the war. A separate calculation of the effective tax rate in an individual jurisdiction is generally needed if the jurisdiction has experienced year-to-date losses (or expects losses for the year) for which no benefits can be recognized, or the company is unable to reliably estimate the effective tax rate for that jurisdiction.

Additionally, significant unusual or infrequently occurring items and the related tax effects that entities may identify in connection with the war may need to be recognized entirely in the interim period in which they occur.

See Section 10, Interim Period Tax Calculations, of the KPMG Handbook, *Accounting for income taxes*, for additional considerations.

Valuation allowances

Entities that are experiencing unexpected ordinary losses due to the war or capital losses due to the war's effect on the markets may need to analyze whether those conditions result in the inability to realize deferred tax assets. Further, a valuation allowance may affect the determination of the carrying amount of a reporting unit when evaluating impairment of goodwill.

Companies may also disclose the significant assumptions leading to a conclusion that deferred tax assets would be realized and therefore a valuation allowance is not required for all or a portion of the deferred tax assets and the potential for those assumptions changing.

Refer to Section 4, Valuation of Deferred Tax Assets, of the KPMG Handbook, *Accounting for income taxes*, for additional detail.

Investments in subsidiaries

As a result of the war and related events, an entity may reevaluate its global cash needs and expected manner of recovery of its investments and revise its plans to repatriate or reinvest foreign earnings. Those plans may be impacted either by a desire repatriate foreign earnings or by remittance restrictions imposed by governments. Changes in repatriation plans should be evaluated based on the specific facts and circumstances to determine how those changes affect the recognition and measurement of income taxes, including potential deferred tax liabilities on investments in subsidiaries, and whether those changes in plans affect an entity's assertions related to the application of the indefinite reinvestment criteria.

Alternatively, an entity may be contemplating taking a worthless stock deduction or otherwise realizing a loss on an entity that is affected by the war. A tax benefit associated with an investment in the stock of a subsidiary should not be recognized unless it is apparent to reverse in the foreseeable future.

Refer to Section 7, Foreign Operations, of the KPMG Handbook, *Accounting for income taxes*, for additional detail.

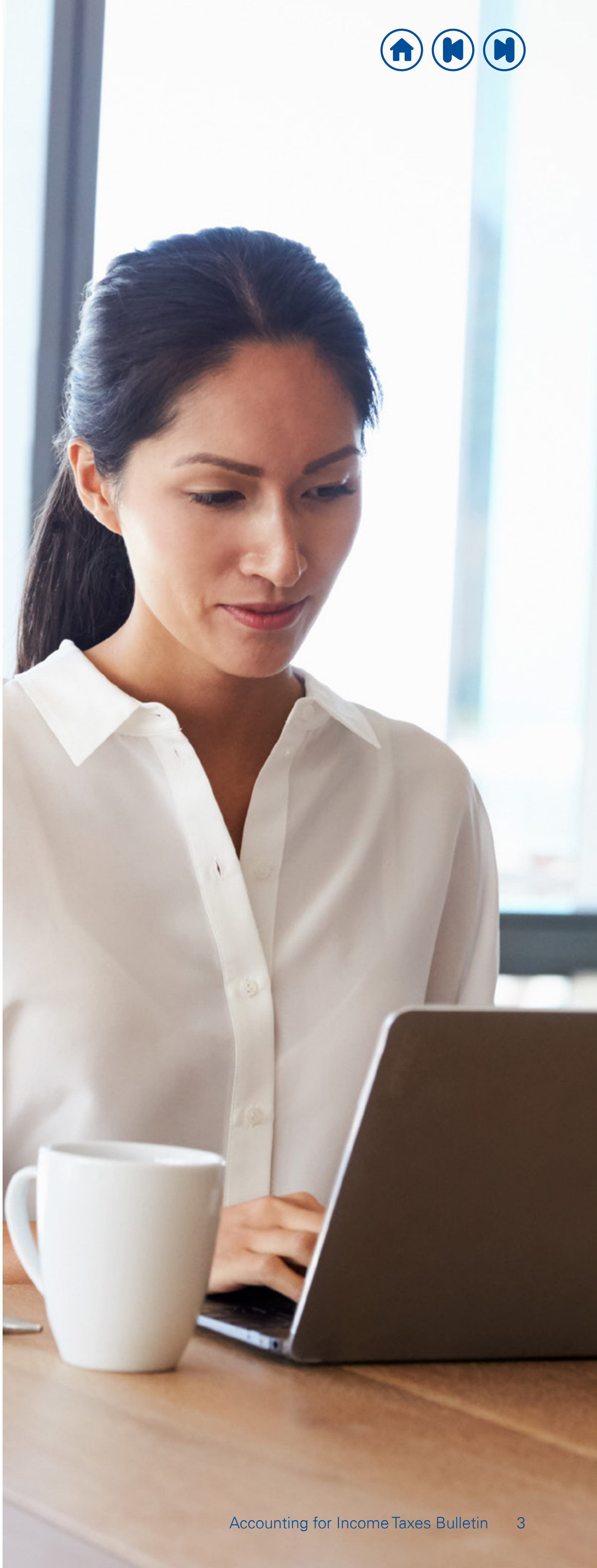
For additional potential accounting and financial reporting issues created by the war and related economic sanctions, refer to the KPMG Hot Topic.

New guide: Energy tax credits

A recently issued KPMG guide provides an explanation of the diverse accounting for energy tax credits, which has its foundation in the accounting for investment tax credits (ITCs), and the array of policy choices that are applied in practice, which can lead to varied financial reporting results.

An entity chooses its accounting methods for recognizing ITCs under ASC 740 and applies either the flow-through method or the deferral method. However, the foundational policy choice may be followed by a series of other policy choices as an entity follows the steps necessary to recognize and present the effects of the ITC over the life of the qualifying property. In addition, the steps and policy choices sometimes differ depending on whether an entity has a direct investment in qualifying property or an indirect noncontrolling investment via an equity method investee.

The guide provides an in-depth look at the accounting for investment tax credits and investments in tax credit structures.



Updates on accounting matters

KPMG DPP quarterly releases

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

— Quarterly Outlook—March 2022

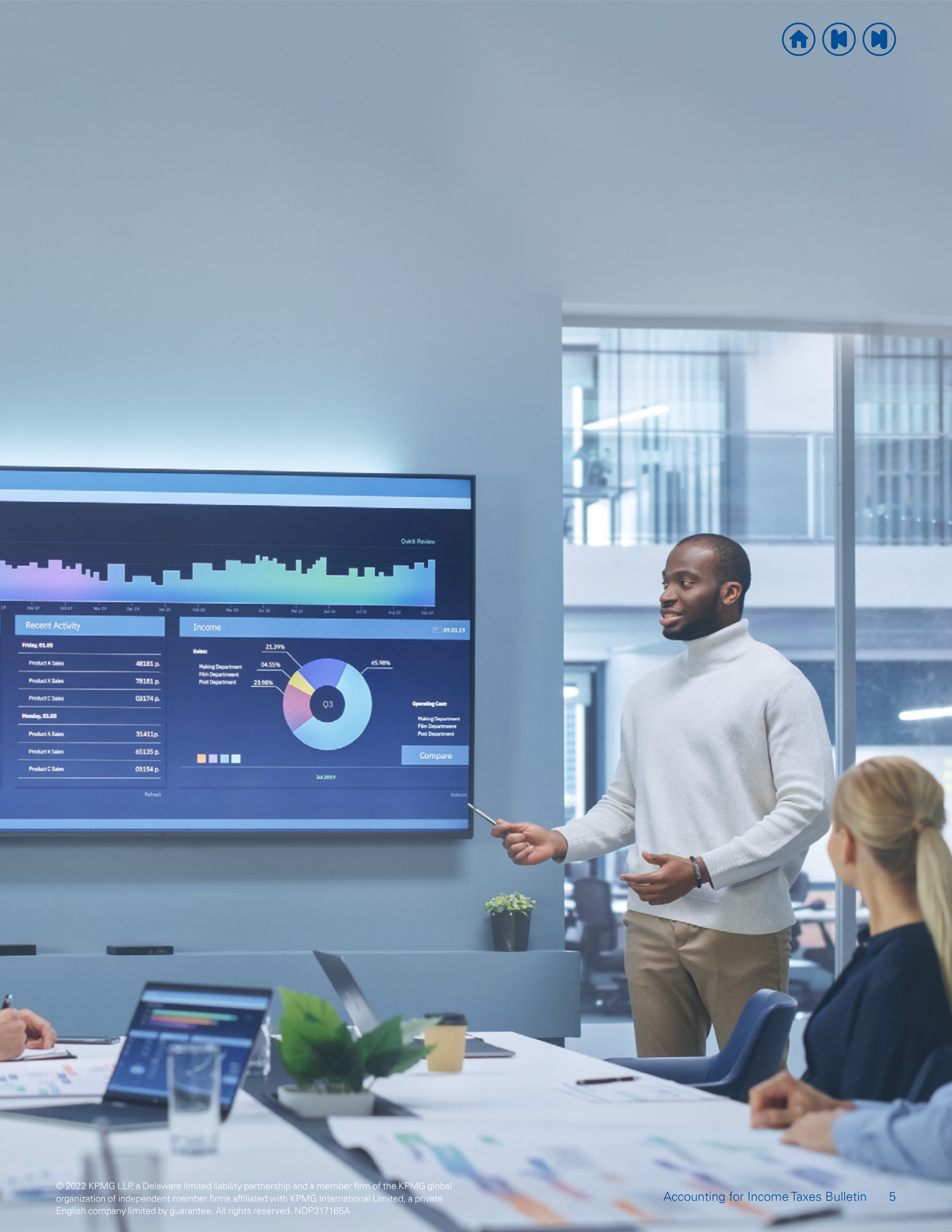
Remember recent pronouncements

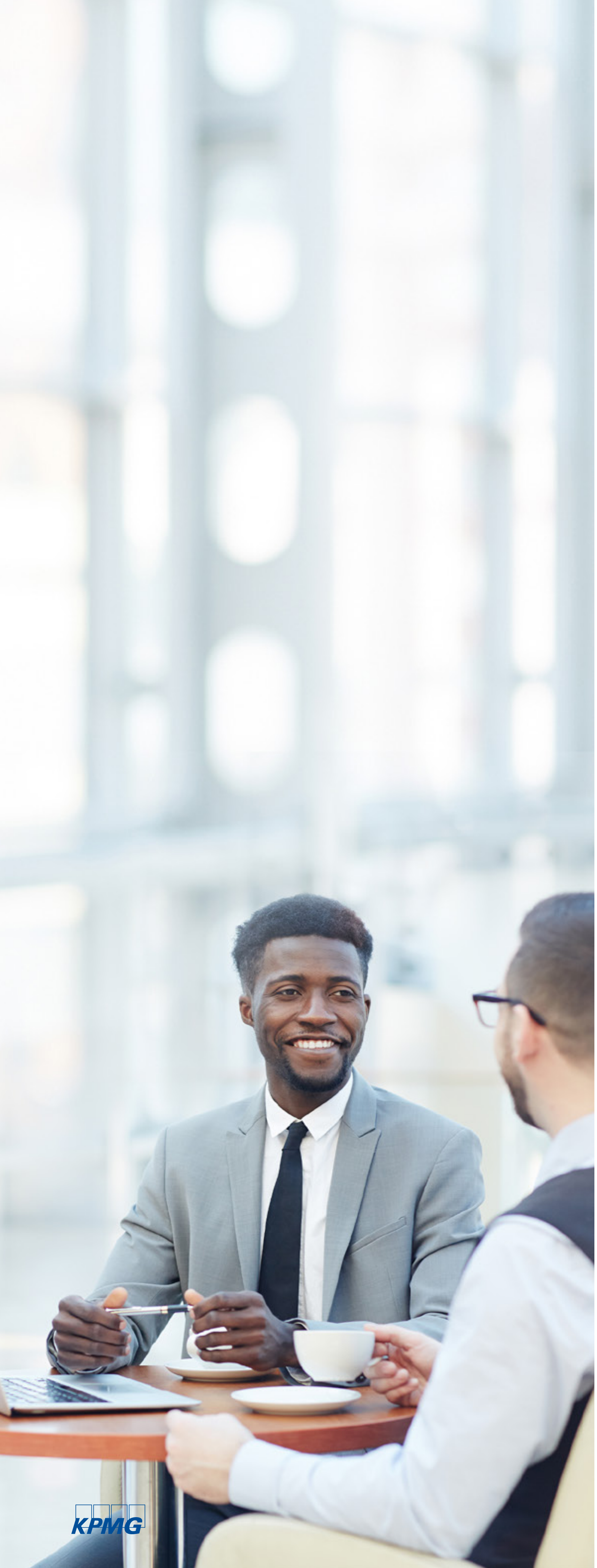
Professionals should be mindful of certain recently updated US GAAP standards, listed by order of required application.

Updated Standard	Brief Description of Standard	Public Business Entities Effective Date	Other Entities Effective Date
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 other than smaller reporting companies	Annual and interim impairment tests for periods beginning after December 15, 2022
ASU 2019-12, *Simplifying the Accounting for Income Taxes*	Removes specific exceptions to the general principles of ASC 740 and improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for certain income tax items	Fiscal years beginning after December 15, 2020, and interim periods within those fiscal years	Fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022
ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*	Requires certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy	Annual periods beginning after December 15, 2021	Annual periods beginning after December 15, 2021

Professionals should be mindful of the recently updated IFRS Standards.

Updated Standard	Brief Description of Standard	Effective Date
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	Narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences (for example, leases and decommissioning provisions)	Annual reporting periods beginning on or after January 1, 2023, with earlier application permitted


Quick Review
Recent Activity
Friday, 01.05
Product A Sales 48181 p.
Product X Sales 78181 p.
Product C Sales 03174 p.
Monday, 03.05
Product A Sales 31411p.
Product X Sales 65135 p.
Product C Sales 03154 p.
Refresh
Income
09.03.19
Sales:
Making Department
Film Department
Post Department
21.39%
04.55%
23.98%
65.98%
Q3
Operating Cost:
Making Department
Film Department
Post Department
Compare
Jul 2019



On the Horizon

Targeted improvements to income tax disclosures (formerly the disclosure framework: disclosure review-income taxes project)

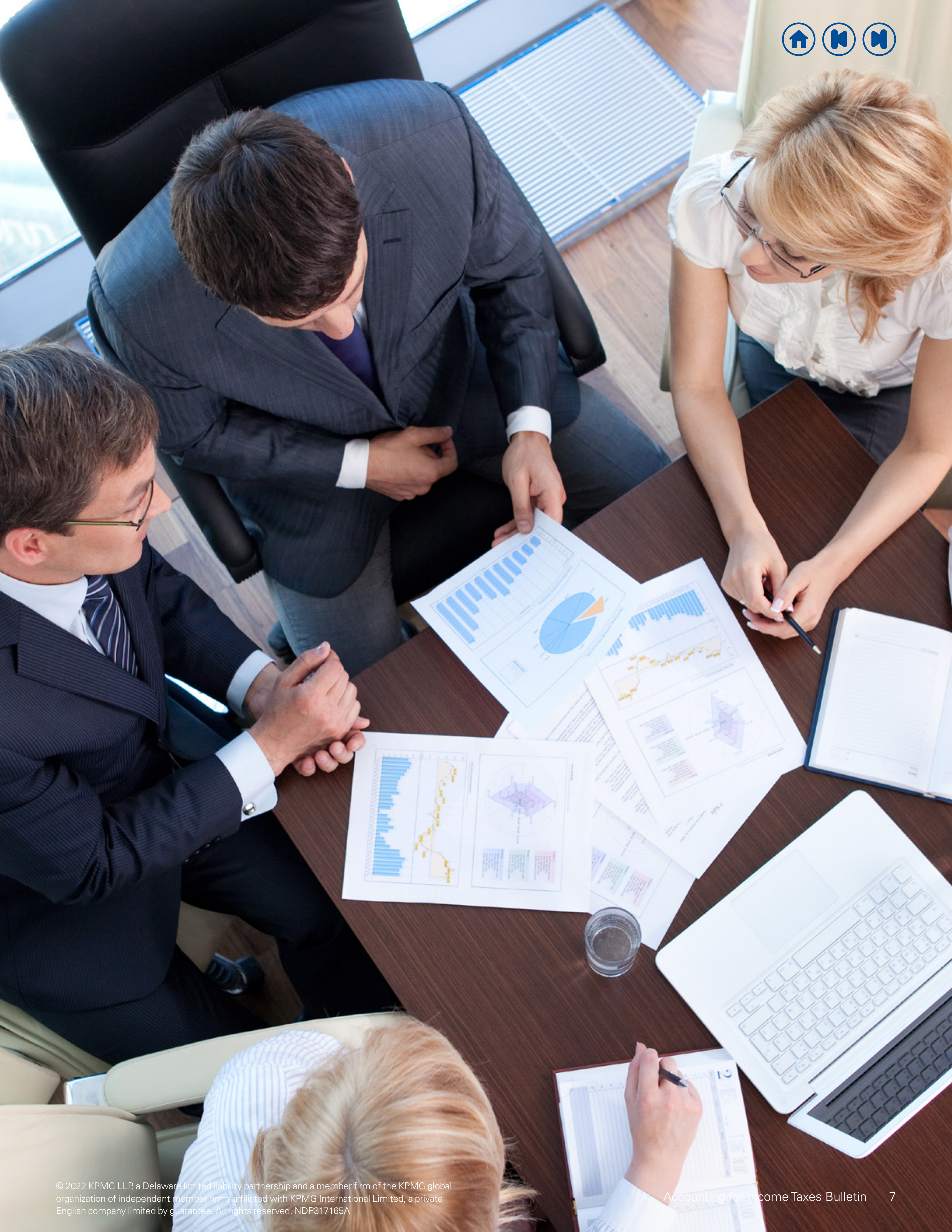
At a March FASB Board meeting, the Board tentatively decided to revise the project objective, scope and name for the former Disclosure Review: Income Taxes project. The new objective is to improve the transparency and decision usefulness of income taxes disclosures. The board also tentatively decided to make the primary scope of the project the disclosure of income taxes paid and the rate reconciliation. The discussion in the meeting on scope was focused on the appropriate level of disaggregation for the disclosure of income taxes paid and on making the disclosure of the foreign rate differential in the effective tax rate reconciliation more useful to users of the financial statements. The board directed the staff to begin research on the income tax information under this revised scope.

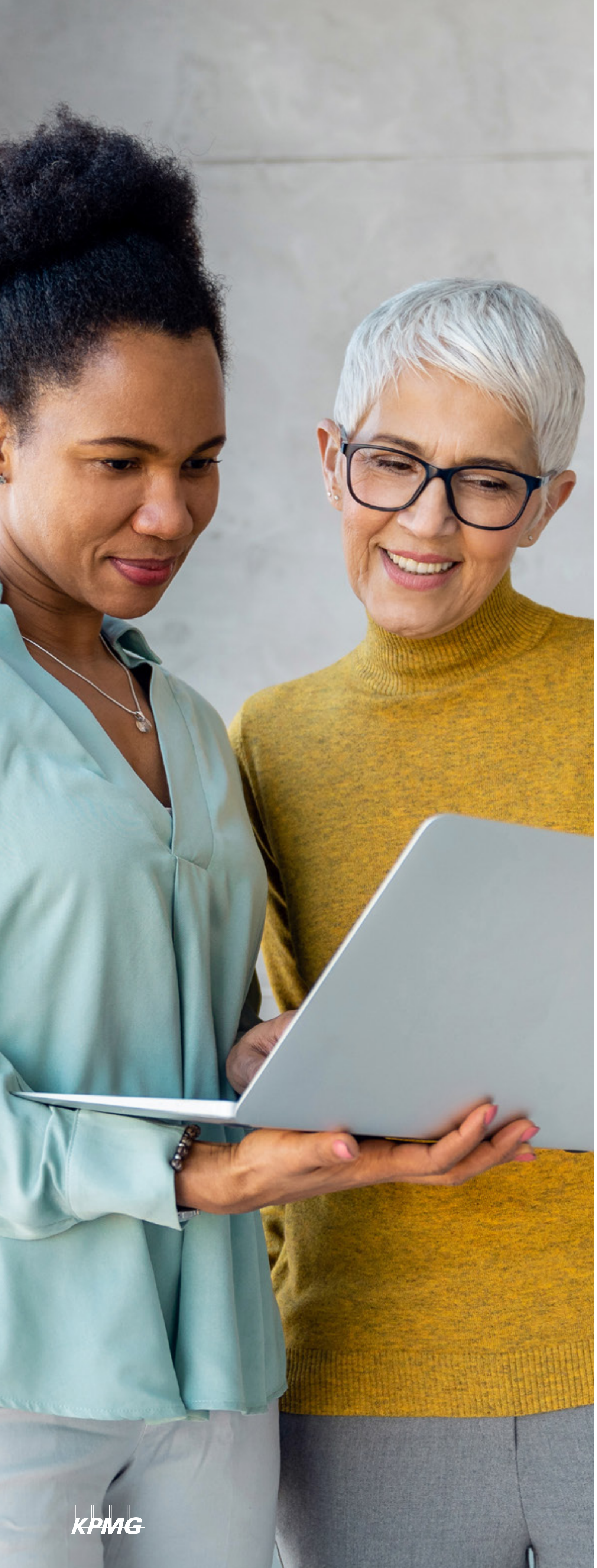
EITF 21-A, Accounting for investments in tax credit structures using the proportional amortization method

Issue No. 21-A, *Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, was discussed at a March Emerging Issues Task Force (EITF) meeting. At the meeting, the EITF tentatively decided to expand the proportional amortization method beyond low-income housing tax credit (LIHTC) investments to all investments in tax credit structures that meet the current criteria for investments to be accounted for using the proportional amortization method outlined in ASC 323-740-25-1. Additionally, the EITF tentatively decided the related accounting policy election to use the proportional amortization method would apply to all investments in tax credit structures that meet the criteria. The EITF plans to continue discussing this matter at a future meeting.

Other FASB projects

The FASB's *Accounting for Government Grants, Invitation to Comment* project to solicit feedback on whether the requirements in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* should be incorporated into US GAAP continues in the research phase.





Other items of interest

US Treasury Department release of the Green Book

KPMG has released various reports summarizing the Biden Administration's tax proposals provided in the General Explanations of the Administration's Fiscal Year 2023 Revenue Proposals (Green Book) prepared by the Department of the Treasury and released in March 2022.

As a reminder, the tax effects of changes in tax laws and rates are generally reflected in the financial statements beginning with the date of enactment. Refer to sections 5 and 10 of the KPMG Handbook, *Accounting for income taxes*, for additional discussion on the accounting for changes in tax laws or rates in interim and annual periods.

KPMG learning—executive education

KPMG offers digital self-studies, which are mobile-friendly and easily accessible at the learner's convenience. The CPE-eligible curriculum covers current and emerging technical accounting topics, including accounting for income taxes, to build skills and confidence in a variety of areas of accounting.

The Accounting for Income Taxes virtual Executive Education classes will be offered:

— June 13–15, 2022

The Advanced Accounting for Income Taxes virtual Executive Education classes will be offered:

— June 21–24, 2022

View the catalog of KPMG virtual seminars and digital self-studies.

Resources

— KPMG's Accounting for Income Taxes Publication

— Financial Reporting View

— TaxNewsFlash

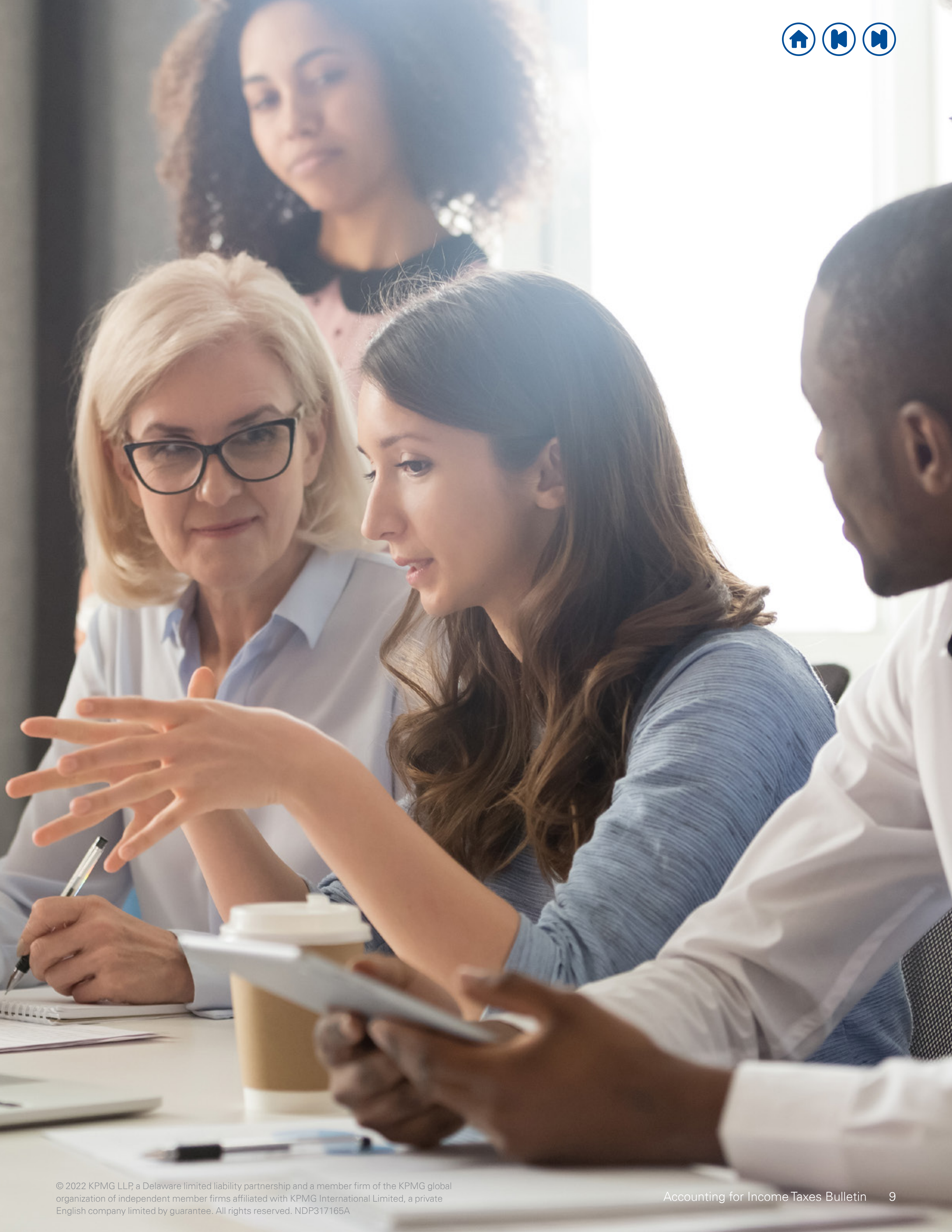
— Chief Tax Officer Insights

— KPMG Executive Education

— KPMG U.S.

— Insights into IFRS

— IFRS compared to U.S. GAAP



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