



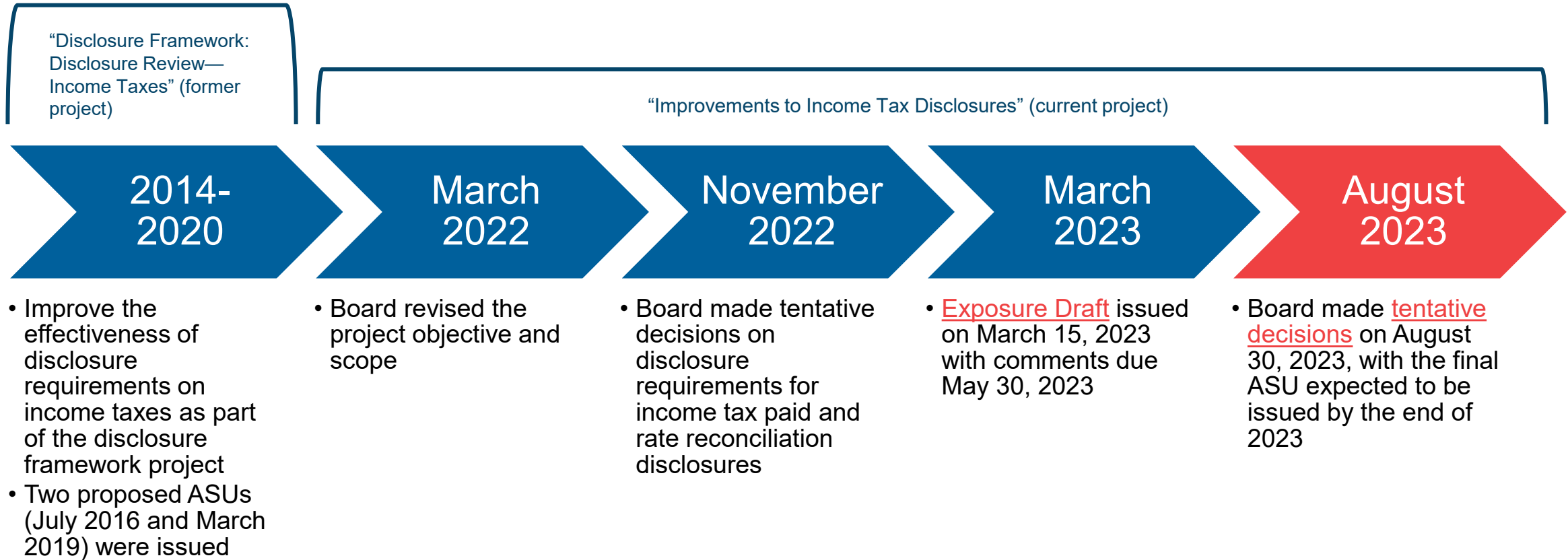
FASB | IASB Education Meeting

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Improvements to Income Tax Disclosures

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Improvements to Income Tax Disclosures— Background



Project Objective and Scope

Project Objective

To improve the transparency and decision usefulness of income tax disclosures

Project Scope

Focus primarily on the following income tax information:

- (a) the rate reconciliation table**
- (b) income taxes paid.**

Retains several generally supported amendments in the 2019 revised proposed Update

Rate Reconciliation

Public Business Entities

are required to disclose, on an annual basis, tabular rate reconciliation information (both percentages and reporting currency) by the specific categories, with accompanying qualitative disclosures and further disaggregation:

- **State and local income tax, net of federal income tax effect**
 - Qualitative disclosure about the states that contribute to the majority of the effect
- **Foreign tax effects**
 - Separately disclose reconciling items by jurisdiction (country) and by nature, based on a quantitative threshold of 5 percent
 - Except: the tax effects related to changes in unrecognized tax benefits are permitted to be disclosed in aggregate for all jurisdictions
- **Enactment of new tax laws**
- **Effect of cross-border tax laws***
- **Tax credits***
- **Valuation allowances**
- **Nontaxable or nondeductible items***
- **Changes in unrecognized tax benefits**

*Separately disclose reconciling items by nature, based on a quantitative threshold of 5 percent, within these categories and for other items that do not fall within any specific category

Entities other than public business entities will be required to qualitatively disclose the nature and effect of specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate

Rate Reconciliation – Illustrative Example*

	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 ⁽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	
Research and development tax credits	(AA)	(aa)		(BB)	(bb)		CC	cc	
Other	(AA)	(aa)		BB	bb		(CC)	(cc)	
Ireland									
Tax rate differential	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Valuation allowance 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)		-	-		-	-	
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	\$ AA	aa %		\$ BB	bb %		\$ CC	cc	

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

The rate reconciliation table shows what drives the difference between a company's actual income tax rate and the statutory tax rate (such as the 21% federal rate). This is an example of the annual rate reconciliation table disclosed by a multinational company that is domiciled in the United States.

Income Taxes Paid

All entities will be required to disclose, on an annual basis, the amount of income taxes paid:

- Disaggregated by federal (national), state, and foreign taxes.
- Disaggregated by individual jurisdiction on the basis of a quantitative threshold of 5 percent of total income taxes paid.
- Net of refunds received.

Illustration of Board's Decision:

	Year Ended December 31, 202X										Total
	U.S. Federal	U.S. States				Foreign				Subtotal	
		California	New York	Other States	Subtotal	Mexico	UK	Singapore	Other Jurisdictions		
Income taxes paid (refunded), net	X	X	X	X	X	(X)	X	X	X	X	X

Current Guidance:

Disclosure of the **total** amount of income taxes paid, either in the cash flow statement or in the footnotes.

Supplemental disclosures of cash flow information

	2019	2020	2021
Cash paid for income taxes, net of refunds	X	X	X

Certain Disclosures Previously Exposed for Comment

The Board made the following decisions:

- Replace the term *public entity* with the term *public business entity*.
- Remove the requirement to disclose the nature and estimate of range of reasonably possible change in unrecognized tax benefits in next 12 months.
- Remove the requirement to disclose cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of indefinite reinvestment assertion.

The Board decided to require the following income tax disclosures that were referred by the SEC for all 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, state, and foreign taxes.

Transition and Effective Date

Transition

- Require prospective transition with a retrospective option

Effective Date

- Public business entities: Fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025
- Entities other than public business entities: Fiscal years beginning after December 15, 2025, and interim periods within fiscal years beginning after December 15, 2026
- Early adoption will be permitted