



BDO BULLETIN

FASB ISSUES FINAL ASU TO IMPROVE INCOME TAX DISCLOSURES

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SUMMARY

In response to feedback from the investor community reflecting the desire for the disclosure of additional information pertaining to income taxes, the Financial Accounting Standards Board (FASB) has been developing guidance; that effort culminated in the December 14 issuance of Accounting Standards Update (ASU) No. [2023-09](#), “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.”

This Alert summarizes the salient points of the ASU, including new disclosure requirements, previously required disclosures that have been eliminated, other items for consideration, and effective dates for the changes.

BACKGROUND

One of the overarching themes of the ASU is the disaggregation of information that may have been aggregated or commingled in the past, which is expected to provide greater transparency and consistency in practice. In particular, the disclosure requirements seek to increase visibility into various income tax components that affect the rate reconciliation based on the applicable taxing jurisdictions, as well as the qualitative and quantitative aspects of those components.

In finalizing the ASU, the FASB affirmed many of the positions set forth in its proposal issued in March and in [tentative board decisions](#) (most recently in August), while enhancing and changing some positions to incorporate stakeholder feedback.

MAIN PROVISIONS

In brief, the ASU requires public business entities (PBEs, which replaces the term “public entities”) to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate (the rate reconciliation) for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold.

In addition to new disclosures associated with the rate reconciliation, the ASU requires information pertaining to taxes paid (net of refunds received) to be disaggregated for federal, state, and foreign taxes and further disaggregated for

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specific jurisdictions to the extent the related amounts exceed a quantitative threshold. For entities that are not PBEs, the ASU generally requires additional disclosures of a qualitative nature for the specified categories of information.

The quantitative threshold established by the ASU essentially emulates the requirement in SEC Regulation S-X. That 5% threshold is determined by multiplying 5% by the product of pretax income (or loss) from continuing operations and the applicable federal statutory rate.

The ASU also describes items that need to be disaggregated based on their nature, which is determined by reference to the item's fundamental or essential characteristics, such as the transaction or event that triggered the establishment of the reconciling item and the activity with which the reconciling item is associated.

The ASU clarifies that nothing in the ASC 740 subtopic is intended to discourage the reporting of additional information specific to an entity's income tax rate reconciliation or income taxes paid that would further an understanding of the entity and its related tax disclosures.

UPDATED ANNUAL DISCLOSURE REQUIREMENTS

RATE RECONCILIATION

ASU 2023-09 sets forth specific categories for which disclosures associated with the rate reconciliation are required, and each category has varying degrees of qualitative and/or quantitative disclosure.

PBEs

The following categories must be included in annual disclosures in the rate reconciliation in tabular form in both percentages and amounts in the applicable reporting currency:

- ▶ State and local income taxes in the country of domicile net of related federal income tax effects
- ▶ Foreign tax effects, including state or local income taxes in foreign jurisdictions
 - Reflects income taxes imposed by foreign jurisdictions.
 - Disaggregation required when individual reconciling items equal or exceed the 5% threshold. This would include the statutory rate differential between the foreign jurisdiction and that of the county of domicile.
 - If an individual foreign jurisdiction meets the 5% threshold, it must be separately disclosed as a reconciling item. Further disaggregation is required for such jurisdiction for cross-border tax laws, tax credits, and nontaxable or nondeductible items that meet the 5% threshold.
- ▶ Effects of changes in tax laws or rates enacted in the current period
 - Applies to federal taxes of the country of domicile.
 - Reflects the cumulative tax effects of a change in enacted tax laws or rates on current or deferred tax assets and liabilities at the date of enactment.
- ▶ Effect of cross-border tax laws
 - Applies to incremental income taxes imposed by the jurisdiction of domicile on income earned in foreign jurisdictions. When the country of domicile taxes cross-border income but also provides a tax credit on the same income during the same reporting period, the tax effect of both the cross-border tax and its related tax credit may be presented on a net basis in this category.
 - Disaggregation required when individual reconciling items equal or exceed the 5% threshold.
 - Disaggregation required by nature of the item.
- ▶ Tax credits
 - Applies to federal taxes of the country of domicile.
 - Disaggregation required when individual reconciling items equal or exceed the 5% threshold.
 - Disaggregation required by nature of the item.
 - For these purposes, foreign tax credits are not in this category.
- ▶ Changes in valuation allowances
 - Applies to federal taxes of the country of domicile. For example, any change in valuation allowance in a foreign jurisdiction would be included in the foreign tax effects category and separately disclosed as a reconciling item if greater than the 5% threshold.
- ▶ Nontaxable or nondeductible items
 - Applies to federal taxes of the country of domicile.

- Disaggregation required when individual reconciling items equal or exceed the 5% threshold.
 - Disaggregation required by nature of the item.
- ▶ Changes in unrecognized tax benefits
 - Aggregate disclosure of changes in unrecognized tax benefits is permitted for all jurisdictions.
 - Reconciling items resulting from changes in judgment related to tax positions taken in prior annual reporting periods are reflected in this category.
 - When an unrecognized tax benefit is recorded in the current annual reporting period for a tax position taken or expected to be taken in the same reporting period, the unrecognized tax benefit and its related tax position may be presented on a net basis in the category where the tax position is presented.

The FASB has determined that all reconciling items should be presented on a gross basis. However, as indicated above, the FASB will allow net presentation of the effects of specific cross-border tax laws and the associated impacts of foreign tax credits (one example would be the U.S. global intangible low-taxed income regime) and current year uncertain tax positions and current year tax positions to be netted against the relevant category. Reconciling items in the foreign tax effects category are to be disaggregated by jurisdiction and nature. If a foreign jurisdiction meets the 5% threshold, it must be disclosed as a reconciling item. Irrespective of whether any foreign jurisdiction satisfies the 5% threshold, any individual reconciling item meeting the 5% threshold must be disclosed by nature.

Reconciling items that are not among some of those listed above but that meet the 5% threshold must be disaggregated by their nature. One example would be windfalls associated with share-based compensation in the jurisdiction of domicile. PBEs must also disclose the state and local jurisdictions that contribute to the majority (intended to mean greater than 50%) of the effect of the state and local income tax category. In determining the state and local jurisdictions that make up the majority of the effect, a PBE is to begin with the state or local jurisdiction having the largest effect then add in descending order states or local jurisdictions with the next largest effects until the aggregated effect is greater than 50%. Finally, if the information is not otherwise evident, PBEs must explain any disclosed reconciling items in the categories above, including their nature, effect, and underlying causes, as well as the judgment used in categorizing them.

It is also noteworthy that the FASB decided to align the disclosure requirements with those in SEC Regulation S-X Rule 4-08(h)(2). The federal income tax rate for a foreign entity should normally be that of the entity's jurisdiction of domicile. However, if that rate is other than the U.S. corporate rate, both the rate used and the basis for its use must be disclosed.

Entities Other Than PBEs

For entities other than PBEs, a qualitative disclosure of the nature and effect of the categories of items discussed above is required along with the 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 ASU requires that all entities annually disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign jurisdictions. Further disaggregation is required for any jurisdiction where the amount of income taxes paid (net of refunds received) is at least 5% of the total income taxes paid (net of refunds received). In quantifying the 5% threshold for income taxes paid, the numerator of the fraction should be the absolute value of any net income taxes paid or income taxes received for each jurisdiction and the denominator should be the absolute value of total income taxes paid or refunds received for all jurisdictions in the aggregate.

INCOME STATEMENT

The ASU made some minor changes to the required income statement disclosures relating to income taxes, stipulating that income (loss) from continuing operations before income tax expense (benefit) be disclosed and disaggregated between domestic and foreign sources. Also required is the disclosure of income tax expense (benefit) from continuing operations disaggregated by federal, state, and foreign jurisdictions. Income tax expense and taxes paid relating to foreign earnings that are imposed by the entity's country of domicile would be included in tax expense and taxes paid for the country of domicile.

ELIMINATED DISCLOSURES

ASU 2023-09 eliminates the historic requirement that entities disclose information concerning unrecognized tax benefits having a reasonable possibility of significantly increasing or decreasing in the 12 months following the reporting date.

Also removed is 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 comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures. Entities should continue to disclose the types of temporary differences for which deferred tax liabilities have not been recognized under ASC 740-30-50-2(a), (c), and (d).

EFFECTIVE DATES AND TRANSITION

The ASU indicates that all entities will apply its guidance prospectively with an option for retroactive application to each period in the financial statements. For PBEs, the guidance will be effective for fiscal years beginning after December 15, 2024, and for interim periods for fiscal years beginning after December 15, 2025. For entities other than PBEs, the guidance will be effective for fiscal years beginning after December 15, 2025, and for interim periods beginning with fiscal years beginning after December 15, 2026. Early adoption is allowed.

The table (which assumes retroactive application) summarizes rate reconciliation disclosures under the ASU.

	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	\$ AA	aa	%	\$ BB	bb	%	\$ CC	cc	%

^(a) State taxes in California and New York made up the majority (greater than 50 percent) of the tax effect in this category.

Source: FASB, ASU 2023-09 at 16.

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ASU [2023-09](#), “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.”

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