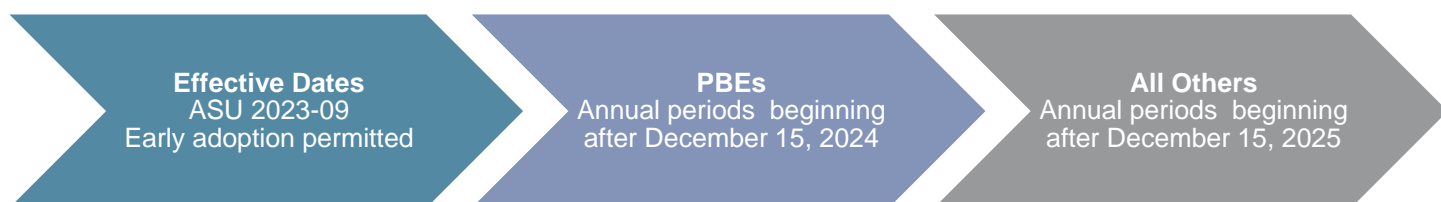


## FASB Finalizes New Income Tax Disclosures

In response to investor demands, FASB issued [Accounting Standards Update \(ASU\) 2023-09](#) on December 14, 2023, which adds new income tax disclosures for all entities. Highlights:

- Public business entities (PBEs) would be required to prepare an annual detailed, tabular tax rate reconciliation. All other entities would be required to provide qualitative disclosure on specific categories and individual jurisdictions that result in significant differences between the statutory and effective tax rates.
- All entities would be required to annually disclose taxes paid disaggregated by federal, state, and foreign taxes, as well as disaggregating taxes by individual jurisdiction if taxes paid exceed 5% of total income taxes paid.
- All entities also must include the income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, as well as the income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign.



### Background

The issuance of ASU 2023-09 marks the fruition of a project that began in 2014 to address requests by investors and creditors for enhanced income tax disclosures. Currently under Accounting Standards Codification (ASC) 740, public entities must reconcile (using either dollars or percentages) from the statutory tax rate to the effective tax rate with disclosures about each significant reconciling item. Nonpublic entities are required to disclose the nature of significant reconciling items but may omit a numerical reconciliation. All entities must disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented if it is not evident from other disclosures. SEC Regulation S-X, Rule 4-08(h) requires disaggregation of reconciling items if they individually exceed 5% of the amount of pre-tax income multiplied by the applicable statutory rate.

**The ASU notes that in addition to the below mandatory disclosures, an entity can provide additional information specific to its income taxes paid and rate reconciliation for improved investor understanding.**

### 1. Rate Reconciliation

An entity, particularly an entity operating in multiple jurisdictions, should disclose sufficient information to enable financial statement users to understand the nature and magnitude of factors contributing to the difference between the effective and statutory tax rates of the jurisdiction (country) of domicile. When the rate used by a PBE is not the U.S. federal corporate income tax rate, the PBE must disclose the rate used and the basis for using that rate. All reconciling items should be reported on a gross basis unless specific guidance permits net presentation.

## PBEs

PBEs would be required to disclose annually a tabular reconciliation including the following eight specified categories, using both percentages and reporting currency amounts.

- **State and local income tax, net of federal (national) income tax effect.** This category is intended to reflect the difference between an entity's statutory rate and effective tax rate resulting from an entity's state and local income tax. This includes current and deferred taxes for state and local jurisdictions.
- **Foreign tax effects.** This category is intended to reflect the differences between the statutory rate of the country of domicile and the tax rates of other jurisdictions. If a foreign jurisdiction meets the 5% threshold, it would be separately disclosed as a reconciling item. Within any foreign jurisdiction (regardless of whether it meets the 5% threshold), the reconciling item would be separately disclosed by nature if its gross amount (positive or negative) meets the 5% threshold. In some cases, a foreign jurisdiction in total may not meet the 5% threshold, but there could be individual reconciling items, which meet the 5% threshold, disclosed for that foreign jurisdiction. As highlighted in the [Appendix](#), there could be different reconciling items by nature presented for different foreign jurisdictions or there could be no reconciling items by nature presented for certain foreign jurisdictions, depending on the application of the 5% threshold.
- **Enactment of changes in tax laws or rates enacted in the current period.** This category 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. The effects of changes in tax laws or rates are typically required to be accounted for through income tax expense or benefit from continuing operations in the period of enactment.
- **Effect of cross-border tax laws.** This category reflects the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions. When the jurisdiction (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 the effect of cross-border tax laws category. For example, the tax effect related to the global intangible low-taxed income and its related foreign tax credits may be presented on a **net basis** as one reconciling item in the effect of cross-border tax laws category.
- **Tax credits.** This category is intended to reflect the difference resulting from the receipt of tax credits, such as domestic or foreign tax credits, and research and development (R&D) credits. The final ASU provided additional clarity over the exposure draft on items such as global intangible low-taxed income (GILTI) credits and state tax credits that are included in other categories.
- **Changes in valuation allowances.** This category is intended to reflect differences resulting from changes in valuation allowances on deferred tax assets. This includes valuation allowances initially recognized or subsequently adjusted in the reporting period. The final ASU clarifies that this category is intended to capture changes in the primary or federal jurisdiction, whereas changes for state or foreign jurisdictions would be accounted for in the other respective categories.

- **Nontaxable or nondeductible items.** This category is intended to reflect the permanent differences between an entity's book basis and tax basis, such as the difference related to share-based compensation, amortization of goodwill, and goodwill impairment.
- **Changes in unrecognized tax benefits.** This category is intended to reflect reconciling items due to changes in judgments related to tax position taken in prior reporting periods such as subsequent recognition, derecognition, and change in measurement of unrecognized tax benefits. Unrecognized tax benefits for positions taken in the current year would be accounted for in the applicable respective categories, e.g., a position related to an R&D tax credit, or a state tax position, etc.

FASB acknowledges these categories may not cover all income tax effects and management's judgment may be needed for items that do not fall into a single category or have characteristics of multiple categories. Management also should consider if an accompanying explanation is warranted.

Separate disclosure is required for the reconciling items listed below if the reconciling item is equal to or greater than 5% of the amount computed by multiplying the income/loss from continuing operations before tax by the applicable statutory income tax rate:

- If the reconciling item is within the effect of cross-border tax laws, tax credits, and nontaxable or nondeductible items categories, it must be disaggregated by nature.
- If the reconciling item is within the foreign tax effects category, it must be disaggregated by jurisdiction (country) and by nature except for changes related to changes in unrecognized tax benefits. If a foreign jurisdiction meets the 5% threshold, it shall be separately disclosed as a reconciling item. Within any foreign jurisdiction (regardless of whether it meets the 5% threshold), the reconciling item shall be separately disclosed by nature if its gross amount (positive or negative) meets the 5% threshold.
- If the reconciling item does not fall into any of the eight categories listed above, it must be disaggregated by nature.

## Unrecognized Tax Benefits

For reconciling items related to changes in unrecognized tax benefits:

- Reconciling items resulting from changes in judgment related to tax positions taken in prior annual reporting periods (such as subsequent recognition, derecognition, and change in measurement of unrecognized tax benefits) are reflected in the changes in unrecognized tax benefits 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.
- Reconciling items presented in the changes in unrecognized tax benefits category may be disclosed on an aggregated basis for all jurisdictions.

PBEs also would be required to disclose:

- For the state and local category, a **qualitative** description of the state and local jurisdictions that contribute to the majority (greater than 50%) of the effect of the state and local income tax category. To identify the states and local jurisdictions that make up the majority of the effect, a PBE would begin with the state or local jurisdiction that has the largest effect and in descending order add states or local jurisdictions with the next largest effect until the aggregated effect is greater than 50%.

- An explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, and underlying causes of the reconciliation and the judgment used in categorizing the reconciling item.

### All Other Entities (Non PBEs)

All other entities would **qualitatively** disclose the nature and effect of the eight reconciling items noted above and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. **A numerical reconciliation is not required.**

### All Entities (PBE & Non PBE)

All entities also should provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature and effect of any significant matters impacting the comparability of information for all periods presented.

See the [Appendix](#) for examples of required reconciliation disclosures.

## 2. Income Taxes Paid – Statement of Cash Flows

All entities would disclose the following information annually about income taxes paid:

- The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes.
- The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5% of total income taxes paid (net of refunds received).

## 3. Income Statement Disclosures

All entities also would be required to disclose the following information:

- Income/loss from continuing operations before income tax expense/benefit disaggregated between domestic and foreign.
- Income tax expense/benefit from continuing operations disaggregated by federal (national), state, and foreign. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile, *i.e.*, the jurisdiction imposing the tax.

## Other Updates

### Disclosures No Longer Required

ASU 2023-09 eliminates the following disclosures:

- The nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or a statement that an estimate of the range cannot be made.
- 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.

## Public Entity vs. Public Business Entity

Over the years, FASB has used several different definitions in determining effective dates, applicability to private companies, and certain private company accounting alternatives in its standard-setting process. ASU 2023-09 replaces “public entity” with “public business entity” in ASC 740.

### Public Entity

- 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.
- It is a conduit bond obligor for conduit debt securities that are traded in a public market.
- Its financial statements are filed with a regulatory agency in the preparation for the sale of any class of securities.

### Public Business Entity

- Required by the 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).
- Required by the *Securities Exchange Act of 1934* to file or furnish financial statements with a regulatory agency other than the SEC.
- Required to file or furnish financial statements with a foreign or domestic regulatory agency for the sale of securities or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- Issued, or is a conduit bond obligor for securities traded, listed, or quoted on an exchange or an over-the-counter market.
- Its securities are not subject to contractual restrictions on transfer and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements, including footnotes, to be made publicly available on a periodic basis. Both of these conditions must be met for this criterion to apply.

## Transition & Effective Date

ASU 2023-09 is effective for PBEs, for annual periods beginning after December 15, 2024. For all other entities, the ASU is effective for annual periods beginning after December 15, 2025.

Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance.

An entity shall apply the ASU on a prospective basis to financial statements for annual periods beginning after the effective date. Retrospective application to each period presented in the financial statements is permitted.

## Conclusion

**FORVIS** delivers extensive experience and skilled professionals to assist with your objectives. Our proactive approach includes candid and open communication to help address your financial reporting needs. At the end of the day, we know how important it is for you to be able to trust the numbers; our commitment to independence and objectivity helps provide the security and confidence you desire. Whether you are publicly traded or privately held, FORVIS can help provide an independent and objective view into your financial reporting. We leverage the latest technologies and process automation tools to provide companies assurance on their financial statements to help meet stakeholders' needs.

For more information, visit [forvis.com](https://forvis.com).

## Contributors

**Peter Chae**

Senior Manager

[peter.chae@forvis.com](mailto:peter.chae@forvis.com)

**Anne Coughlan**

Assurance Director

[anne.coughlan@forvis.com](mailto:anne.coughlan@forvis.com)

**Phil Laminack**

Tax Director

[phil.laminack@forvis.com](mailto:phil.laminack@forvis.com)

## Appendix – Sample Rate Reconciliation

FASB’s proposal includes the following rate reconciliation examples for both a PBE and a non-PBE.

### PBE

	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 <sup>(a)</sup>	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	%

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

This example (Case A) includes tax effects related to GILTI, base erosion and anti-abuse tax (BEAT), and foreign-derived intangible income (FDII) in the cross-border tax laws category. FASB received feedback that the illustration should not include FDII in the cross-border tax laws category because some stakeholders view FDII as a special deduction rather than a cross-border tax law. FASB considered the feedback but retained the reference to FDII in the illustration under the effect of cross-border tax laws category to provide a more consistent disclosure of that information. However, FASB acknowledges that judgment may be necessary when identifying the reconciling items to be included in this category, including the categorization of special deductions such as FDII, for both U.S.-domiciled entities and entities domiciled in a foreign jurisdiction.

FASB declined to provide specific guidance where other reconciling items such as proportional amortization should be categorized. An entity will need to use judgment to determine the appropriate category. If the entity decides that the

reconciling item does not fall into any specific category, the entity is required to disclose the reconciling item separately as other adjustments in the rate reconciliation if it meets the 5% threshold.

## Non-PBE

In Case B, the difference between Entity W's effective tax rate and its statutory tax rate is primarily attributed to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of Entity W's operations in Ireland had a decreasing effect on its effective tax rate, while the foreign tax effects of Entity W's operations in France had an increasing effect on its effective tax rate. Entity W received federal R&D tax credits, which decreased its effective tax rate, while state taxes in California increased its effective tax rate.