Accounting for Income Taxes Bulletin

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Featured items

Q1 2021 reminders

As calendar year-end companies prepare financial statements for the interim period ended March 31, 2021, below are select reminders on the accounting for income taxes considerations that may be relevant to this interim period's income taxes calculations.

Reminder on the adoption of ASU 2019-12 as of Q1 2021

Accounting Standards Update (ASU) 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. As such, Q1 2021 may be the period of adoption for calendar year-end entities that did not choose to early adopt the standard. ASU 2019-12 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).

Refer to the December 2019 Defining Issues for further information on the amendments and adoption guidance included in the ASU.

Accounting for new tax laws

As a result of recent legislative and tax developments in the U.S., entities should consider if and when it is appropriate to reflect the effects of changes in tax laws and rates in the financial statements. ASC 740 requires entities to reflect the impact of such changes, including adjustments to current and deferred taxes, along with the related disclosures, in the annual or interim financial statements that include the date of enactment.

Given the significant volume of regulations issued in recent months, and to the extent that such regulations had a future effective date for periods beginning after December 31, 2020, the 2021 income taxes calculations may be the first period in which the impact of many new regulations are reflected in the current income tax calculations or within the estimated annual effective tax rate. Refer to the TaxNewsFlash for a discussion of some of the corporate income tax related provisions of the American Rescue Plan Act of 2021 (ARPA), including modifications to section 162(m) limitation on excessive employee remuneration and the repeal of section 864(f) worldwide interest allocation rules. Also, refer to this Hot Topic for updates on the key accounting and reporting impacts of the ARPA and other COVID-19 legislative relief.

Refer to sections 5 and 10 of KPMG's Handbook, *Accounting for Income Taxes*, for additional discussion on the accounting for changes in tax laws in interim and annual periods.

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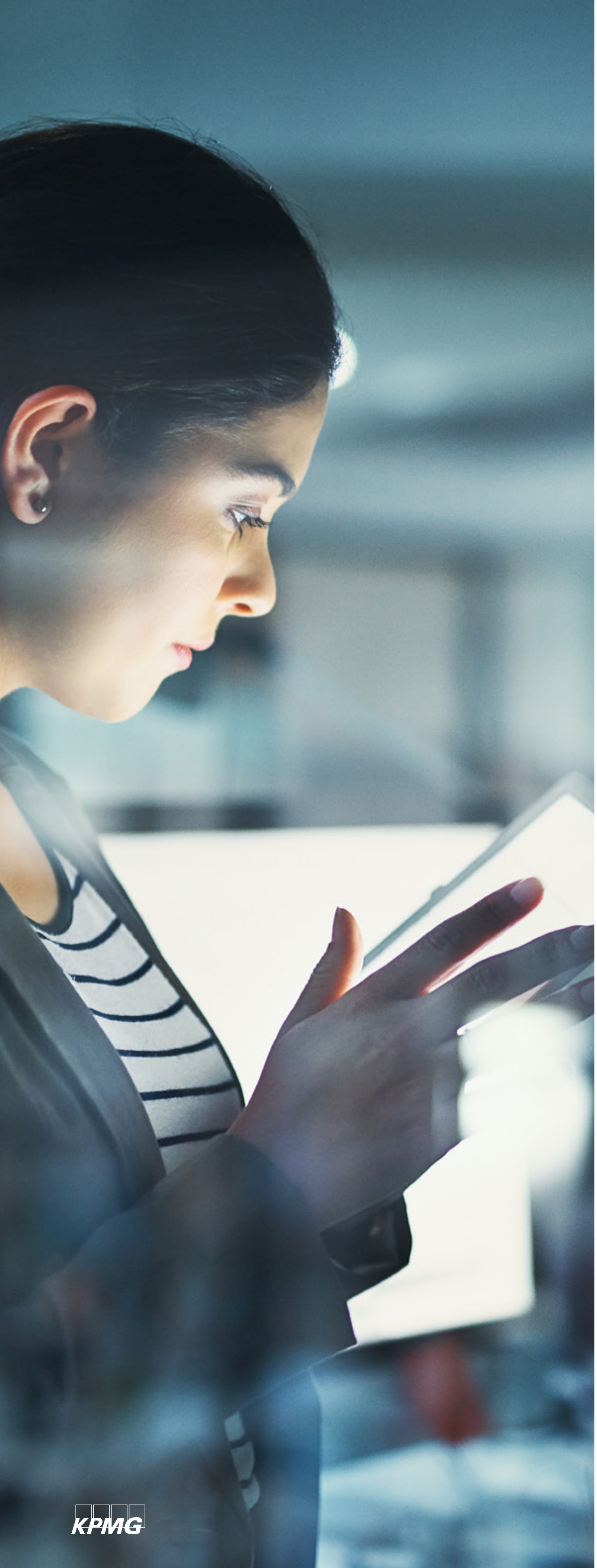

Brexit reminders

On December 31, 2020, the United Kingdom (UK) completed its transition period as part of its separation from the European Union (EU). At the conclusion of the transition period and the execution of the EU-UK Trade and Cooperation Agreement, the existing relationships, including certain tax exemptions and reliefs on intra-European transactions (such as the Interest and Royalty Directive and the Parent-Subsidiary Directive, amongst others), no longer apply to dealings between entities in the UK and the EU.

While companies initially accounted for the impacts of Brexit in Q1 2020 for US GAAP, some items did not have an impact until after the transition period ended on December 31, 2020. When preparing income taxes calculations for annual and interim periods that includes periods after the conclusion of the transition period, entities should consider the effects of dividends, royalties, and interest payments made between UK and EU entities on current taxes, as these cross-border payments may no longer be exempt from withholding or other income taxes.

Refer to the KPMG UK Insights article for additional discussion over the UK corporate tax implications following Brexit. See KPMG UK's Navigating Brexit webpage for additional resources.

Other interim reporting considerations

In light of the continued impact of current economic conditions on U.S. and global economies, entities should keep in mind some accounting for income taxes considerations (such as interim period losses, interim period losses in only certain tax jurisdictions, items excluded from ordinary income, and the inability to make reliable estimates) when considering potential financial reporting consequences for interim periods ending on or around March 31, 2021.

Section 10 of KPMG's Handbook, *Accounting for Income Taxes*, discusses interim period tax calculations in additional detail.

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Effects of adopting ASU 2020-06

In August 2020, the Financial Accounting Standards Board (FASB or the Board) issued ASU 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity,* to simplify the accounting for convertible instruments. The ASU changes the accounting for convertible instruments by eliminating the cash conversion and beneficial conversion feature accounting models, which will likely result in more convertible debt instruments being accounted for as a single unit.

Before the adoption of ASU 2020-06, convertible debt with either a cash conversion or beneficial conversion feature was accounted for under a model in which the liability component is recorded based on the fair value of a similar liability without a conversion option, with the remaining proceeds allocated to the equity component. As the tax basis of the debt is often the entire amount of the proceeds received, a taxable temporary difference arose for which a deferred tax liability was recognized with the related deferred tax expense recorded as an adjustment to additional paid-in capital within stockholders' equity. Deferred tax benefits from subsequent changes in the deferred tax liability were generally recognized as a component of income tax expense (benefit) from continuing operations. Upon adoption of the ASU, it will be more common for all proceeds to be allocated to the convertible debt as a single unit with no allocation to equity for the cash conversion feature. Therefore, the impact upon adoption would reflect the reversal of the conversion features which were originally recognized in equity along with the related deferred tax liability.

The ASU is effective for public business entities that are Securities and Exchange Commission (SEC) filers and are not eligible to be smaller reporting companies for annual and interim periods in fiscal years beginning after December 15, 2021. For all other entities, the ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2023. Early adoption is allowed no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. An entity should adopt the guidance at the beginning of its annual fiscal year.

Read more about certain financial reporting effects arising from the adoption of ASU 2020-06 in our Defining Issues and Hot Topic. Additionally, watch for a forthcoming What's News in Tax article on certain accounting for income taxes effects arising from the adoption of the ASU.

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Updates on accounting matters

IFRS® Standards updates

KPMG LLP has released the following update that may impact tax professionals working on accounting for income taxes matters under IFRS Standards.

— The KPMG Global IFRS Institute reports on the recent amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements,* which provide new principles regarding the application of materiality to the disclosure of accounting policies. The key amendments include requiring companies to disclose material accounting policies rather than significant accounting policies and clarifying that accounting policies related to immaterial transactions are themselves immaterial and as such need not be disclosed. This change may impact the income taxes policy disclosures included in the footnotes

KPMG's DPP quarterly releases

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

— Quarterly Outlook – March 2021

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 2018-09, Codification Improvements	Clarifies, corrects errors in, and makes improvements to several income taxes related matters	Generally, fiscal years beginning after December 15, 2018	Generally, fiscal years beginning after December 15, 2019
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

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On the horizon

FASB projects

The FASB's Disclosure Review: Income Taxes project continues to be in the revised exposure draft redeliberations stage after the Board directed the staff in February 2020 to perform research and additional outreach on potential alternatives to disclose certain disaggregated income taxes information and to perform additional research on other proposed amendments. In a September 2020 meeting, the staff updated the FASB's Private Company Council (PCC) on comments received on the project and obtained the PCC's feedback on proposed disclosures and potential alternative disclosures. In a November 2020 meeting, the Investor Advisory Committee noted that there is a need for more granular information, such as profits and income taxes, on a geographical or jurisdictional level.

The Board's disclosures by business entities about government assistance project is in the exposure draft redeliberations stage.

IASB projects

The International Accounting Standards Board's (IASB®) has indicated they expect to issue the amendments to IAS 12 related to *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* in May 2021. The amendments set forth in the exposure draft would narrow the scope of the initial recognition exemption such that it would not apply to transactions that give rise to equal amounts of deductible and taxable temporary differences, such as leases and decommissioning obligations. The IASB tentatively decided that entities should apply the amendments for annual periods beginning on or after January 1, 2023, with earlier application permitted.

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Other Items of Interest

SEC finalizes rules on extractive industry payment

The SEC has adopted final rules requiring companies engaged in the commercial development of oil, natural gas or minerals to disclose payments to governments. The final rules require disclosure of payments made to any government, foreign subnational jurisdiction (for instance, national state or province) or U.S. Federal Government (excluding state or county), for each of a company's projects to further the commercial development of oil, natural gas or minerals, and which are not de minimis. Such payments include, but are not limited to, those associated with taxes. Refer to KPMG's Hot Topic for additional information.

KPMG learning—executive education self-study courses

KPMG offers digital self-studies, which are mobile-friendly and easily accessible at the learner's convenience. Our 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** Executive Education classes will be offered:

— May 11–14, 2021

— June 14–17, 2021

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

— May 17–20, 2021

— June 21–24, 2021

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

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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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