



ASC Insights Series: Guide to Accounting Standards

Accounting Standards Codification 740-
Income Taxes

September 2024

1. Foreword**2. Purpose****3. Background****4. Summary of Topic****5. Implementation guidance on Key topics****6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)****7. Comparison with IFRS**

Foreword

Welcome to our “**Uniquis’ ASC Insights Series: Guide to Accounting Standards,**” where we combine our collective wisdom to understand various Accounting Standard Codifications (ASCs) comprehensively and in a crisp manner. This series is an invaluable tool for accounting professionals, offering detailed explanations, illustrative examples, and our expert point of view. Designed to support your professional journey, this guide helps you navigate complex accounting scenarios and deepen your knowledge.

This is the sixth publication in our “Uniquis’ ASC Insights Series: Guide to Accounting Standards”, focusing on “**ASC 740, Income Taxes**”. In this installment, we delve into the specifics of ASC 740, exploring its implications, key considerations, and practical applications. Through clear illustrations and expert commentary, we aim to make the standard accessible and actionable for practitioners.

ASC 740 provides guidance on accounting and reporting requirements for the effects of taxes on income. It also provides recognition and measurement principles related to the tax effect of positions taken or expected to be taken in tax returns for financial reporting purposes.

We hope you enjoy reading this document and find this series valuable!

Thank you.

Yours faithfully

For Uniquis Consultech Inc.



Sandip Khetan

Co-Founder and Global Head, Accounting & Reporting Consulting



Avinash Ramkumar

Partner, Accounting & Reporting Consulting



Ashish Gupta

Partner, Accounting & Reporting Consulting

Purpose

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

ASC 740, Income Taxes, addresses financial accounting and reporting for the effects of taxes based on income. It provides guidance for the recognition and measurement of income tax expenses for financial reporting. Further, the topic focuses on the consequences of the differences between the tax bases of assets and liabilities, determined based on tax positions taken or expected to be taken and the carrying amounts of assets and liabilities recognized for financial reporting.

This publication provides an overview of the key accounting considerations and implementation matters relating to ASC 740 (Income Taxes). The technical views and accounting positions on the framework keep enhancing.

We sincerely hope you find this quick reference guide informative in identifying and evaluating the issues related to Income Taxes. We will be happy to participate in any discussions required to clarify our views, which are enclosed in the attached publication. We look forward to hearing from you.



Background

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

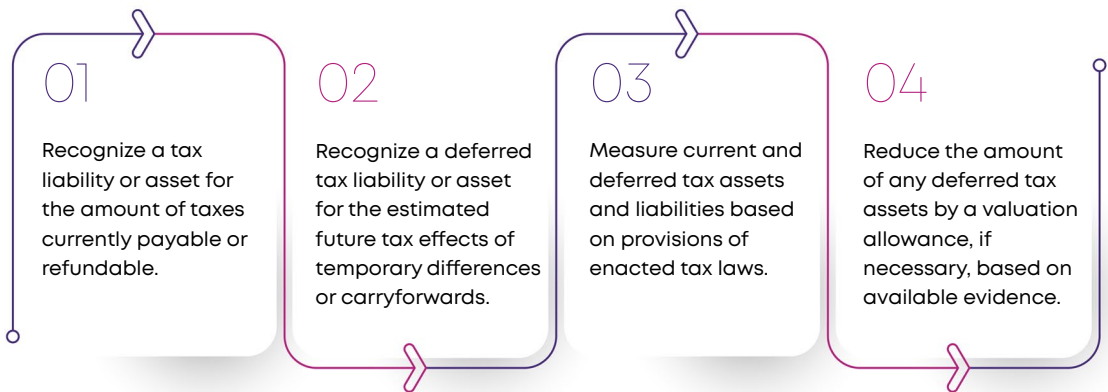
7. Comparison with IFRS

The tax consequences of many transactions recognized in the financial statements are included when determining income taxes currently payable in the same accounting period. Sometimes, tax laws differ from the recognition and measurement requirements of financial reporting standards, resulting in differences between tax bases of assets or liabilities and their reported amounts in the financial statements. These differences are called temporary differences and give rise to Deferred Tax Assets (DTAs) and Deferred Tax Liabilities (DTLs). Temporary differences ordinarily reverse when the related asset is recovered or the related liability is settled. A deferred tax liability or deferred tax asset represents the increase or decrease in taxes payable or refundable in future years as a result of temporary differences and carryforwards at the end of the current year.

The objectives of accounting for income taxes are to recognize:

- The amount of taxes payable or refundable for the current year.
- The deferred tax liabilities and assets resulting from future tax consequences of events recognized in the enterprise's financial statements or tax returns.

To implement these objectives, the following basic principles should be observed at the date of the financial statements:



Under the asset/liability method of accounting for income taxes, the emphasis on the balance sheet is evident from the focus on the recognition of deferred tax liabilities and assets. The change in these liabilities and assets determines the income tax expense in addition to current taxes.

Total tax expense is the sum of current tax expense or benefit plus deferred tax expense or benefit. Total tax expense, both current and deferred, generally must be calculated for each tax-paying component of the entity in each tax jurisdiction.

$$\text{Total tax expense} = \text{current tax expense}/(\text{benefit}) + \text{deferred tax expense}/(\text{benefit})$$

Summary of Topic

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

01 Scope and Scope Exceptions

Current tax expense or benefit is the amount of income taxes payable or receivable for the current year as determined by applying the provisions of the tax law to taxable income or loss for the year.

1. Scope exceptions

Scope In

- Entities to which ASC 740 applies:**
 ASC 740 is applicable for all entities (domestic and foreign) preparing financial statements under U.S. GAAP accounting framework. It also applies to not-for-profit entities with activities that are subject to income taxes. In addition, guidance under ASC 740 shall also apply to consolidated subsidiaries, investees accounted for under the equity method, and entities that are combined due to common control.
- Taxes included in the scope of ASC 740:**
 It applies to all federal, foreign, state, and local (including franchise) taxes based on income. In other words, any tax levied by a governmental taxing authority on a company based on its income is subject to the provisions of ASC 740.

Scope Out

ASC 740 explicitly scopes out the following taxes:

- Franchise tax to the extent it is based on capital, and there is no additional tax based on income.
- Withholding taxes paid to the tax authority by the dividend payor on behalf of its shareholders, provided the tax is payable by the entity on dividend distributed to shareholders and shareholder receiving the dividend is entitled to a tax credit.
- Taxes solely based on revenue or gross receipts, such as sales tax, would not be in scope of ASC 740.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

2. Overview of deferred taxes on various captions on the balance sheet

The definition of temporary differences is fundamental to accounting for income taxes. Identifying such differences for which deferred taxes are to be recognized is a critical step in accounting for income taxes. Some events recognized in the financial statements may not have tax consequences. Those do not give rise to temporary differences.

Deferred tax assets are recognized for deductible temporary differences, tax operating losses, and other carryforwards, and deferred tax liabilities are recognized for taxable temporary differences.

The table below charts out the basis on which deferred taxes arise for assets and liabilities.

Category	Deferred tax assets	Deferred tax liabilities
Assets	Tax basis > Book base	Tax basis < Book base
Liabilities	Tax basis < Book base	Tax basis > Book base

Tax basis: Value determined basis tax laws of the jurisdiction
Book base: Carrying value as per books of accounts

Below illustrates some reasons for differences between tax basis and book carrying value for various captions on balance sheet:

ASSETS

Prepayments

(a) Taxable in the future (deferred tax liability)

Implementation matters

- Fixed assets acquired under business combination:** In a business combination transaction ABC Inc. acquired fixed assets having a higher fair value than tax basis, resulting in a taxable temporary difference on account of the “Excess of book base over tax basis”. For example-

	Book base	Tax basis	Taxable temporary difference
Fixed assets acquired under a business combination transaction	\$1M	\$0.5M	\$0.5M

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

- **Difference in depreciation charged:** A company depreciating fixed assets using the straight-line method for book purposes over a longer period compared to accelerated methods used for tax purposes resulting in a taxable temporary difference on account of the “Excess of book base over tax basis”
- **Tax credit adjustment:** XYZ Inc. purchased machinery for \$1M with an eligible investment tax credit of \$0.1M. The tax basis amounted to \$0.9M (\$1M cost - \$0.1M investment tax credit). Whereas the book base remains at \$1M (no adjustment made to book value), resulting in a taxable temporary difference on account of the “Excess of book base over tax basis”. For example-

	Book base	Tax basis	Taxable temporary difference
Machinery purchased with an eligible investment tax credit	\$1M	\$0.9M	\$0.1M

- **Cost of construction of fixed assets:** Certain costs of constructing a fixed asset, like employee salaries directly related to construction, are generally capitalized on the financial statements. However, tax laws might require such costs to be expensed immediately, leading to a higher book base than the tax base, resulting in a taxable temporary difference on account of the “Excess of book base over tax basis.”

(b) Deductible in the future (deferred tax asset)

Implementation matters

- **Fixed assets acquired under business combination:** In a business combination transaction, ABC Inc. acquired fixed assets having a lower fair value than tax basis, resulting in a deductible temporary difference on account of the “**Lower of book base over tax basis.**” For example-

	Book base	Tax basis	Taxable temporary difference
Fixed assets acquired under business combination	\$1M	\$1.5M	\$0.5M

- **Cost of construction of fixed assets:** Capitalization of certain costs for tax purposes that are not permitted to be capitalized for financial statement purposes, resulting in a deductible temporary difference on account of the “Lower of book base over tax basis.”

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Intangible assets

(a) Taxable in the future (deferred tax liability)

Implementation matters

- **Research and development cost:** Capitalization of certain research and development costs for accounting purposes that are not permitted to be capitalized for tax purposes, or these costs might be expensed immediately for tax purposes, resulting in a taxable temporary difference on account of the "Excess of book base over tax basis."
- **Amortization of Goodwill:** Goodwill acquired under a business combination transaction is generally not amortized but is tested for impairment annually for accounting purposes and tax purposes; goodwill may be amortized over a 15-year period, resulting in a taxable temporary difference on account of the "Excess of book base over tax basis."
- **Difference in amortization period:** A company acquires a patent and amortizes it over 15 years on a straight-line basis. The same patent is amortized over 10 years on a straight-line basis for tax purposes. This will result in a taxable temporary difference on account of the "Excess of book base over tax basis."
- **Intangible assets acquired under business combination:** The fair value of the intangible assets acquired is \$5M but the tax basis is \$3M, resulting in a taxable temporary difference on account of the "Excess of book base over tax basis."

(b) Deductible in the future (deferred tax asset)

Implementation matters

- **Difference in amortization period:** For accounting purposes, customer lists are amortized over their estimated useful life, say 8 years, and for tax purposes, the customer lists are amortized over a 15-year period. This will result in a deductible temporary difference on account of the "Lower of book base over tax basis."
- **Tax credit not recognized in financial statements:** Certain tax credits or deductions (e.g., research and development credits) might not be recognized as assets on the financial statements, but these credits or deductions have a tax basis and can be used to reduce future taxable income for the tax purposes. This will result in a temporary deductible difference due to the "Lower of book base over tax basis."
- **Impairment loss recognition:** A company recognizes an impairment loss on an intangible asset (e.g., a trademark or patent), reducing its carrying amount in the financial statements, and the tax basis of the intangible asset remains unchanged because tax regulations do not recognize the impairment loss. This will result in a deductible temporary difference on account of the "Lower of book base over tax basis."

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Available- for- sale debt securities

(a) Taxable in the future (deferred tax liability)

Implementation matters

- **Fair value is more than amortized cost:** AFS debt securities are measured at fair value. If the fair value of AFS debt securities is more than its amortized cost, it results in unrealized holding gain. This unrealized holding gain represents a future taxable amount resulting in a taxable temporary difference on account of the "Excess of book base over tax basis."

(b) Deductible in the future (deferred tax asset)

Implementation matters

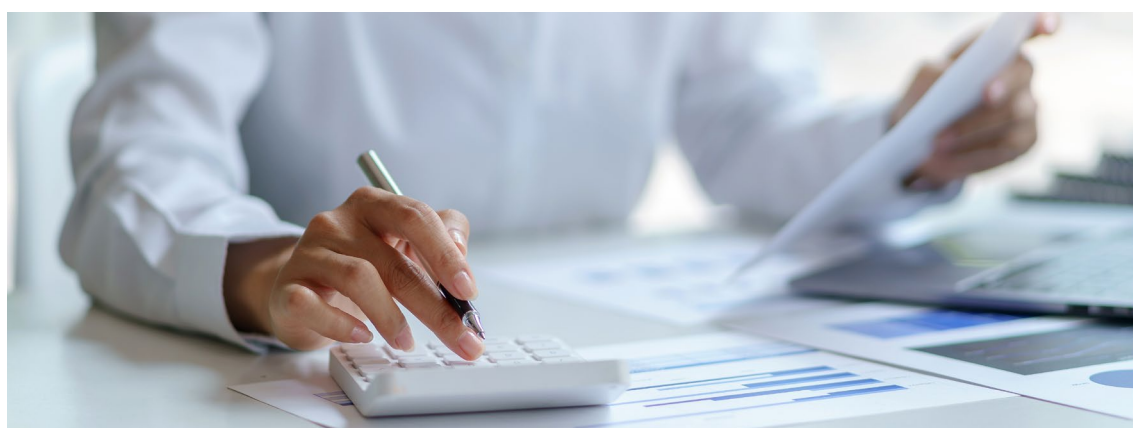
- **Fair value is less than its amortized cost:** If the fair value of AFS debt securities is less than its amortized cost, it results in unrealized holding loss. This unrealized holding loss represents a future deductible amount resulting in deductible temporary difference on account of the "Lower of book base over tax basis."

Accounts receivables

(a) Taxable in the future (deferred tax liability)

Implementation matters

- **Recognition of gain on sale:** For sales made under the installment method, gains recognized at the time of sale for financial reporting purposes may have been deferred for tax purposes. This will result in a taxable temporary difference on account of the "Excess of book base over tax basis." This taxable temporary difference would be scheduled to reverse in the future based on the payment terms of the installment sale contract and the tax law.



1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Prepaid Assets

(a) Taxable in the future (deferred tax liability)

Implementation matters

- A company paid \$1.2M for a one-year insurance policy in advance (prepaid insurance) on December 1, 2023. For financial reporting purposes, the insurance expense is recognized evenly over the year, and for tax purposes, the entire \$1.2M deductible when paid, resulting in a taxable temporary difference on account of the "Excess of book base over tax basis"-

	Book base	Tax basis	Taxable temporary difference
Prepaid Insurance	\$1.1M	-	\$1.1M

(b) Deductible in the future (deferred tax asset)

Implementation matters

- A company incurred \$1M in R&D costs, these are expensed immediately for financial reporting but amortized over five years for tax purposes. At the end of the first year, \$0.80M (remaining unamortized portion) would be a prepaid asset for tax purposes, resulting in a deductible temporary difference of \$0.80M on account of the "Lower of book base over tax basis."

	Book base	Tax basis	Taxable temporary difference
R&D cost	Nil	\$0.80M	\$0.80M

Inventory

(a) Deductible in the future (deferred tax asset)

Implementation matters

- A company incurred \$0.30M in storage costs, these are expensed immediately for financial reporting but capitalized for tax purposes. The portion not yet deducted for tax purposes resulted in a deductible temporary difference of \$0.30M on account of the "Lower of book base over tax basis."

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Notes receivable (net of discount/premium)

(a) Taxable in the future (deferred tax liability)

Implementation matters

- ABC Inc. holds a note receivable with a face value of \$500,000 due in two years. The note was purchased for \$450,000, indicating a discount of \$50,000. For financial reporting purposes, the company amortizes the discount using the effective interest method. For tax purposes, the discount is not deductible until the note is collected. The carrying value of the note at the end of year 1 is \$468,000, whereas the tax basis remains at \$450,000 resulting in a taxable temporary difference on account of the "Excess of book base over tax basis".

	Book base	Tax basis	Taxable temporary difference
Notes receivable	\$468,000	\$450,000	\$18,000

(b) Deductible in the future (deferred tax asset)

Implementation matters

- ABC Inc. acquired notes receivable amounting to \$100,000 and estimates a bad debt expense of \$5,000 for the year. For tax purposes, bad debt expense is not deductible until a specific note receivable is deemed uncollectible, so for tax purposes, no deduction is allowed yet. This creates a temporary difference of \$5,000 that will reverse in the future and result in tax savings. This will result in a deductible temporary difference of \$5,000 on account of the "Lower of book base over tax basis."

Cash surrender value of life insurance

(a) Taxable in the future (deferred tax liability)

Implementation matters

- The excess of the cash surrender value over the cumulative premiums paid creates a taxable temporary difference because the increase in value is recognized in the financial statements before it is taxable. This results in a taxable temporary difference on account of the "Excess of book base over tax basis."

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Investments in other entities

(a) Deductible in the future (deferred tax asset)

Implementation matters

- XYZ Inc. acquired investment in equity securities. The fair value of the investment has declined, and an impairment loss is recognized for financial reporting purposes, but the loss is not deductible for tax purposes until the investment is sold. This will result in a temporary deductible difference due to the "Lower of book base over tax basis."

	Book base	Tax basis	Deductible Temporary difference
Investment in Equity shares	\$800,000	\$1,000,000	\$200,000

Investments in partnerships firm

(a) Taxable in the future (deferred tax liability)

Implementation matters

- ABC Inc. acquired a 30% interest in Partnership X for \$300,000. The tax basis of the partnership interest is \$250,000 due to differences in how the acquisition is treated for tax purposes. Investment is recognized in books of account at the acquisition cost of \$300,000. The difference of \$50,000 (\$300,000 financial statement carrying amount - \$250,000 tax basis) will result in a taxable temporary difference on account of the "Excess of book base over tax basis."

(b) Deductible in the future (deferred tax asset)

Implementation matters

- XYZ Inc. acquired a 20% interest in Partnership Y for \$400,000. The tax basis of the partnership interest is \$450,000 due to additional tax-deductible expenses recognized at the partnership level. Investment is recognized in books of account at the acquisition cost of \$400,000. The difference of \$50,000 (\$450,000 tax basis - \$400,000 financial statement carrying amount) will result in a deductible temporary difference on account of the "Lower of book base over tax basis."

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

LIABILITIES

Deferred income/Contract liability/Deposit liability

(a) Deductible in the future (deferred tax asset)

Implementation matters

- XYZ Inc. received an advance payment of \$100,000 for services to be performed in future periods. The Company recognized unearned revenue (a liability) amounting to \$100,000 in the books of account. For taxable purposes, \$100,000 is included in taxable income when received. The \$100,000 recognized as taxable income but deferred for financial statement purposes will result in a deductible temporary difference on account of the "excess of book base over tax basis."
- ABC Inc. sold a capital asset for sale consideration of \$200,000. The sale consideration is receivable on an installment basis. The cost of the assets sold as existing in books of account amounted to \$100,000. Gain on sale of asset is recognized in books of account over the period, payments are received (installment method). In tax books the entire gain is recognized in the year of the sale (cash basis).

Cash received in Year 1 amounted to \$50,000. Total gain recognized in account books in Year 1 amounted to \$ 25,000 ($\$50,000 / \$200,000 * \$100,000$). Gain amounting to \$75,000 is deferred for financial reporting purposes to subsequent years but recognized for tax purposes. This will result in a temporary deductible difference due to the "excess of book base over tax basis".

State tax accruals, including deferred state income taxes

(a) Deductible in the future (deferred tax asset)

Implementation matters

- ABC Inc. company recognizes a state tax liability of \$10,000 for the current year, but payment is deferred to the next year. For financial reporting purposes, the state tax expense is accrued in the current year, and a corresponding liability is recorded. For tax purposes, the state income tax expense will be deducted when it is paid. This will result in a temporary deductible difference due to the "excess of book base over tax basis."

	Book base	Tax basis	Deductible Temporary difference
State tax liability	\$10,000	-	\$10,000

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Other accruals

(a) Deductible in the future (deferred tax asset)

Implementation matters

- Company A plans to shut down a manufacturing plant as a discontinued operation and estimates \$200,000 in related shutdown costs. In the books of account, the company recognizes the \$200,000 shutdown cost as an expense in the current period with a corresponding credit to “Other accruals”, while for tax purposes the shutdown costs are not deductible until actually incurred and paid. This will result in a deductible temporary difference on account of the “excess of book base over tax basis.”

	Book base	Tax basis	Deductible Temporary difference
Other accrual	\$10,000	-	\$10,000

Post-retirement benefit obligations

(a) Deductible in the future (deferred tax asset)

Implementation matters

- ABC Inc. accrued \$100,000 for post-retirement medical benefits for its employees in Year 1. The company recognized \$100,000 as a liability and an expense in the current period. For tax purposes, the expense is not deductible until actually paid. This will result in a temporary deductible difference due to the “excess of book base over tax basis”.

	Book base	Tax basis	Deductible Temporary difference
Post-retirement benefit obligations	\$100,000	-	\$100,000



1. Foreword

2. Purpose

3. Background

4. Summary of Topic

4.1 Scope and Scope Exceptions

4.2 Overview of deferred taxes on various captions on balance sheet

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Pension liability (or asset)

(a) Taxable in the future (deferred tax liability)

Implementation matters

- ABC Inc. recognized the pension liability amounting to \$300,000 in the account books. Pension expenses are recognized in the account books based on actuarial assumptions and accounting standards. The tax base of pension liability is \$500,000. In tax books, pension expense deduction is based on contributions made to the pension plan. The difference of \$200,000 due to less expense charged in account books will result in a taxable temporary difference on account of the "lower of book base over tax basis"

	Book base	Tax basis	Taxable Temporary difference
Pension liability	\$300,000	\$500,000	\$200,000

(b) Deductible in the future (deferred tax asset)

Implementation matters

- XYZ Inc. recognized the pension liability amounting to \$500,000 in the account books. Pension expenses are recognized in the account books based on actuarial assumptions and accounting standards. The tax base of pension liability is \$400,000. In tax books, pension expense deduction is based on contributions made to the pension plan. The difference of \$100,000 due to more expense charged in account books will result in a deductible temporary difference on account of the "excess of book base over tax basis".

	Book base	Tax basis	Taxable Temporary difference
Pension liability	\$500,000	\$400,000	\$100,000

Debt obligations

(a) Taxable in the future (deferred tax liability)

Implementation matters

- A company issued a convertible bond with a face value of \$1 million at a stated interest rate of 4% annually. The imputed Interest Rate for Tax Purposes is 6% due to tax regulations considering the convertible feature as an additional risk or cost.
Annual Interest Expense:
 - Book base = \$1,000,000 * 4% = \$40,000
 - Tax basis = \$1,000,000 * 6% = \$60,000

The difference of \$20,000 due to less expense charged in account books will result in a taxable temporary difference on account of the "lower of book base over tax basis".

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

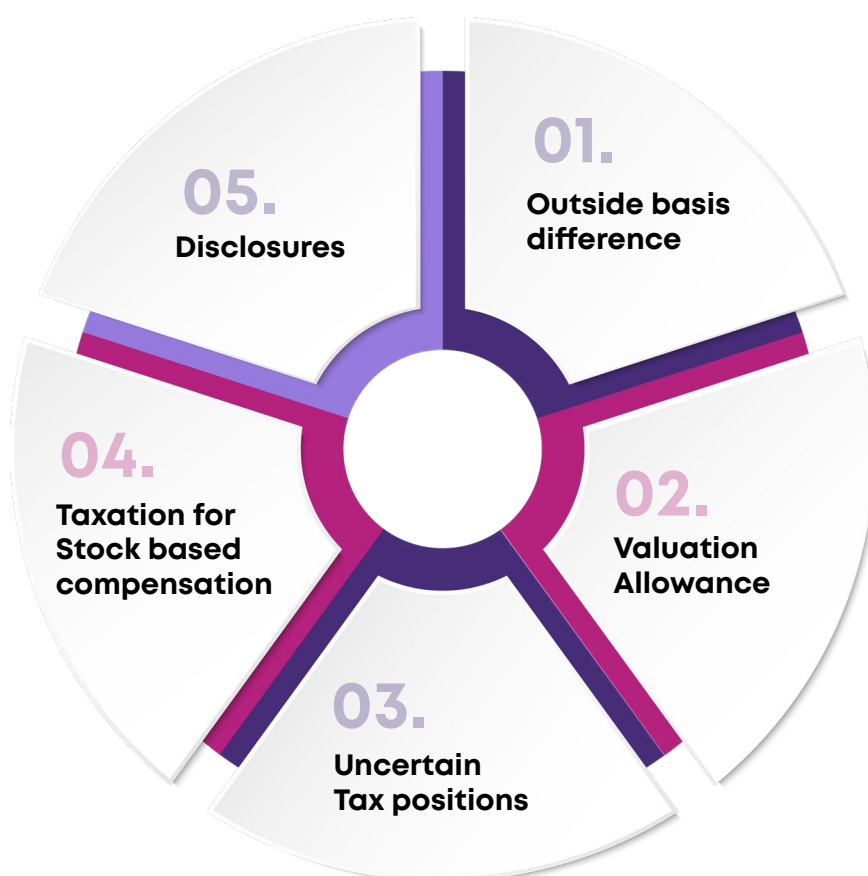
5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Implementation guidance on Key topics

This section provides implementation guidance on the key topics associated with the application of ASC 740, identified based on a review of annual financial statements of some of the US-listed companies:



01.

Outside basis difference

Parent's tax basis in the stock of the subsidiary

Outside basis difference

Parent's book basis in its investment in the stock of the subsidiary

Factors resulting in Outside basis difference

An illustrative list of transactions that may result in outside basis differences includes:

Transactions	Example
Undistributed earnings	Subsidiary's earnings that have been included in consolidated net income but have not been remitted to the parent results in a higher book base. There is generally no corresponding increase in the parent's tax basis in the subsidiary's stock if the subsidiary is not consolidated for tax purposes.
Changes resulting from transactions with noncontrolling shareholders	Subsidiary's capital transactions and transactions between parent and non-controlling shareholders
Movements in other components of a subsidiary's OCI	Unrealized gains or losses on available-for-sale debt securities

Criteria for recognition of deferred taxes for Outside basis difference

Deductible temporary difference- DTA recognition	Taxable temporary difference- DTL recognition
Domestic Subsidiary and Joint venture	
Rule: DTA is recognized for "tax-over-book" (deductible) outside basis difference, only if it is apparent that the temporary difference will reverse in the foreseeable future.	Rule: DTL is recognized for a "book-over-tax" (taxable) outside basis difference. Exception to the rule: In case of subsidiary if as per tax laws, reported amount of the investment can be recovered tax free without significant cost, and the entity expects to use that means of recovery ultimately, no DTL shall be recognized. Note: Under the tax laws in certain jurisdictions certain tax elections are available only if more than the parent owns a certain percentage. These factors will need to be considered in the assessment.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Foreign Subsidiary and Joint venture

- | | |
|---|---|
| <ul style="list-style-type: none"> Rule: DTA is recognized for “tax-over-book” (deductible) outside basis difference only if it is apparent that the temporary difference will reverse in the foreseeable future. | <ul style="list-style-type: none"> Rule: DTL is recognized for a “book-over-tax” (taxable) outside basis difference. Exception to the rule: In case of a foreign subsidiary or foreign corporate joint venture that is permanent in duration if the entity (i.e. Parent or Joint venturer as the case may be) can substantiate an assertion that this basis difference will not reverse in the foreseeable future (the indefinite reversible criteria), no DTL shall be recognized. For example, for a foreign subsidiary, the parent asserts and has the ability and intent to postpone remittance indefinitely. |
|---|---|

Investment (other than a joint venture) such as Associate

- | | |
|---|--|
| <ul style="list-style-type: none"> Rule: DTA is recognized for “tax-over-book” (deductible) outside basis difference. | <ul style="list-style-type: none"> Rule: DTL is recognized for a “book-over-tax” (taxable) outside basis difference. |
|---|--|



Recognition of deferred taxes on a book-over-tax (taxable) outside basis difference for a Subsidiary or a Joint venture is dependent upon its classification assessment as “domestic” or “foreign” as per the provisions of investor’s tax laws. In our view, the entity should investigate relevant tax laws in the jurisdiction of the entity that holds the investment to determine whether the investment should be classified as foreign or domestic.

For example, if a subsidiary of a US parent is classified as a domestic subsidiary under US tax law, it should be accounted for under ASC 740 as a domestic subsidiary regardless of where it is physically domiciled.

Note:

If a parent changes its expected manner of recovery of its investment, either because of a change in its intention or a change in its ability to control the manner of recovery, any increase or decrease in tax related to the change should be recorded in operations in the period in which the change occurs.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

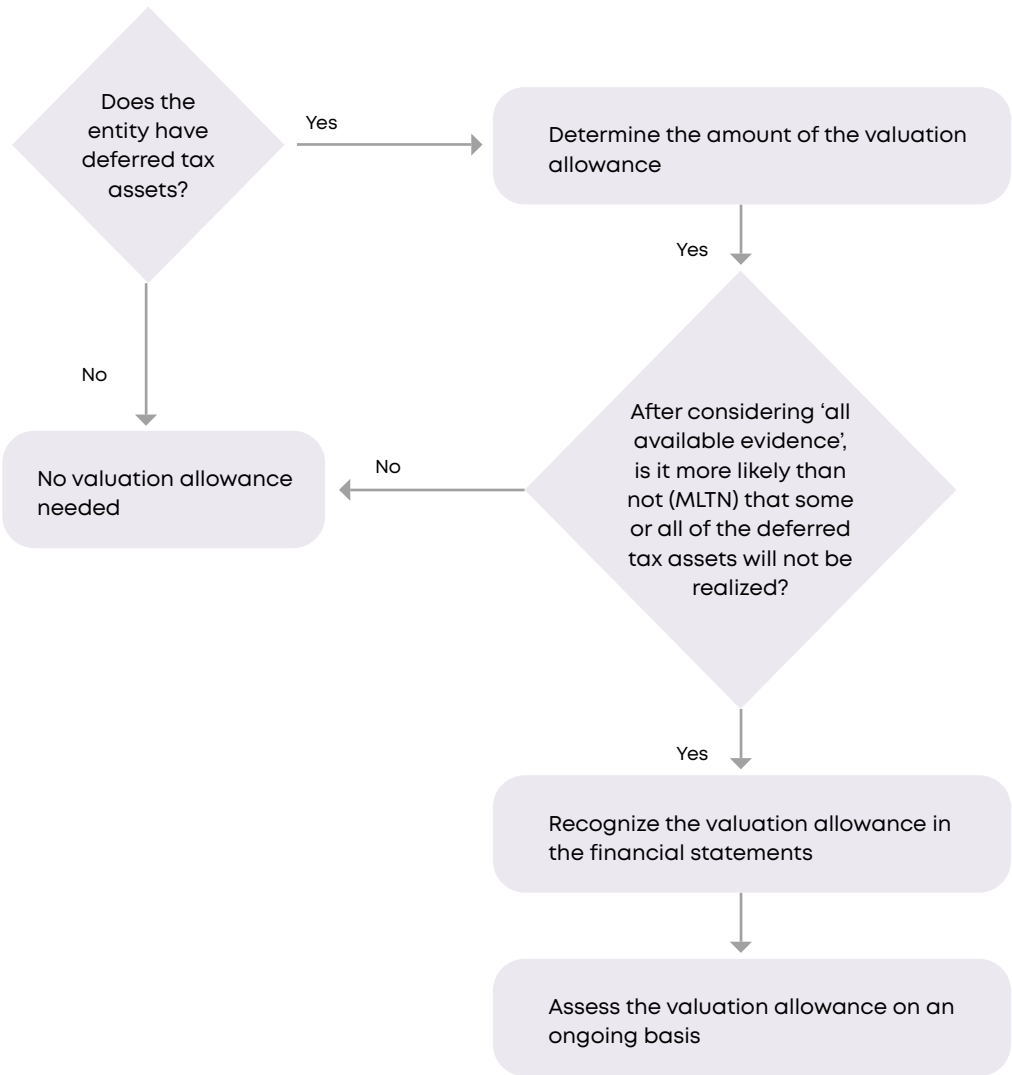
7. Comparison with IFRS

02.

Valuation allowance

ASC 740 mandates an assessment of an entity's prospective realization of tax benefits from existing deductible temporary differences and carryforwards. This assessment involves scrutinizing all available evidence, considering both positive and negative factors, to ascertain the necessity of a valuation allowance. The eventual realization of deferred tax assets tax benefits hinges on the existence of certain conditions.

Flow diagram summarizing the steps for recognition of valuation allowance.



1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

The amount of deferred tax assets recognized is reduced by the amount of any tax benefits that, based on the evaluation of available evidence, are not expected to be realized. While determining the amount of valuation allowance, the following shall be considered:

- Entity should evaluate the gross balance of deferred tax assets rather than the net amount after considering deferred tax liabilities.
 - Companies with significant deductible temporary differences, operating losses, and tax credit carryforwards should assess the realizability of deferred tax assets and recognize a valuation allowance, not only those in a net deferred tax asset position.
- Need for a valuation allowance should be assessed for each entity (or group of entities that are consolidated for tax purposes) in each jurisdiction and tax-paying component.
 - A company having a consolidated net deferred tax liability position still needs to assess whether the nature and character of existing deferred tax liabilities provide an appropriate source of future taxable income for the deferred tax assets in each individual entity (or group of entities that are consolidated for tax purposes).

Additionally, the following factors play a key role in determining and measurement of the valuation allowance:

A. Positive and Negative Evidence

When determining the need for a valuation allowance, an entity must exercise judgment, considering the weight of potential effects of negative and positive evidence. ASC 740-10-30-23 specifies that the weight given to such evidence should align with its objective verifiability. For instance, current financial position and recent income or loss are objectively verifiable and shall be given more weight, while less weight may be given to long-term forecasts for a new product.

No Existence of objectively verifiable negative evidence:

If there exists no objectively verifiable negative evidence, the entity assesses whether it's more likely than not that Deferred Tax Assets (DTA) will be realized. If supported, typically by management's subjective income projections, no valuation allowance is needed.

Existence of objectively verifiable negative evidence:

Existence of negative evidence such as a cumulative loss position requires objectively verifiable positive evidence to counter non-recognition of valuation allowance. Objectively verifiable positive evidence is crucial in offsetting verifiable negative evidence, while subjective positive evidence may suffice to overcome certain subjective negative evidence.

Overall, a comprehensive evaluation of both positive and negative evidence is essential in determining the necessity of a valuation allowance. The existence of negative evidence does not necessarily require recognition of valuation allowance. Similarly, the existence of positive evidence does not preclude the recognition of a valuation allowance.

The table below provides an illustrative list of positive and negative evidence:

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Negative evidence	Positive evidence
Cumulative losses in recent years.	Cumulative earnings in recent years.
A history of operating loss or tax credit carryforwards expiring unused.	History of using all operating loss and tax credit carryforwards before they expire.
Unsettled circumstances such as significant litigation, labor disputes, default on credit agreements, noncompliance with statutory capital requirements, if resolved unfavorably, would affect future operations and profits on a continuing basis in the future.	No known loss contingencies or unsettled circumstances.
A carryforward (or carryback if permitted) is so brief that it would limit the realization of tax benefits if a significant deductible temporary difference is expected to reverse in a single year.	Long carryback/carryforward periods.
Existing contracts or backlogs are insignificant or are not expected to produce taxable income.	Based on an entity's existing sales prices and cost structure, existing contracts or firm sales backlog will produce more than enough taxable income to realize the deferred tax assets.
Net asset values are below tax basis (net built-in losses).	Excess of the asset market value over the tax basis in an amount sufficient to realize a deferred tax asset, and the company has the intent and ability to realize that excess amount.
Substantial doubt exists regarding an entity's ability to continue as a going concern.	A strong earnings history exclusive of the loss that created the future deductible amount coupled with evidence indicating that the loss is an aberration rather than a continuing condition.
Loss of a significant customer or customers, loss of a patent or franchise, uninsured losses, and unfavorable long-term commitments.	Obtained significant new customer or customers, favorable settlement of litigation or labor disputes, etc.
Adverse changes in tax laws or regulations that may limit the company's ability to realize deferred tax assets.	Changes in tax laws or regulations that are expected to be favorable to the company, enabling the utilization of deferred tax assets.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

B. More likely than not criteria

The measurement of Deferred Tax Assets (DTAs) relies on the “more likely than not” concept, requiring a reduction by a valuation allowance if there is over a 50% likelihood that some or all of the DTAs won’t be realized. In other words, an entity shall recognize a valuation allowance when it is more likely than not that all or a portion of the deferred tax asset will not be realized and shall not recognize a valuation allowance whenever it is more likely than not that the benefits from the deferred tax asset will be realized.

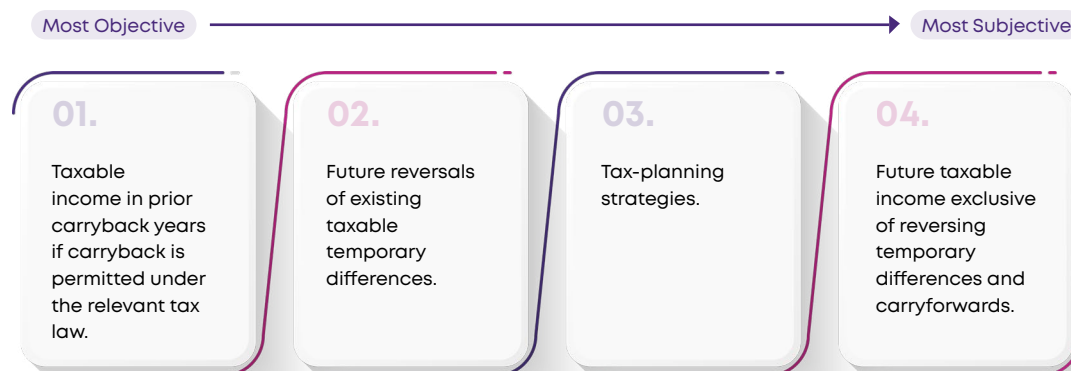
The more-likely-than-not threshold for recognizing a valuation allowance is lower than loss thresholds in other accounting sections. This difference in criteria may lead to recognizing a valuation allowance against a DTA without recognizing a loss contingency, even with similar assumptions about future operations. Changes in the valuation allowance caused by changes in circumstances resulting in a change in judgment about the realizability of deferred tax assets generally are reflected in income from continuing operations.

C. Future taxable income

Realization of deferred tax assets by an entity depends upon the existence of sufficient taxable income to allow the related tax benefits to reduce taxes otherwise payable. Accordingly, the taxable income must be both of an appropriate nature (e.g., capital versus ordinary) and within the carryback and carryforward periods permitted by law.

For example, Carryforward capital losses may only offset capital gains. Similarly, if an operating loss can be carried forward 5 more years as of the balance sheet date, but no carryback is available, the entity would need to generate sufficient taxable ordinary income during the 5-year period following the balance sheet date to benefit from the carryforward because that benefit is not available to offset taxes paid in prior periods.

In order to assess the realizability of deferred tax assets, ASC 740-10-30-18 identifies four sources of taxable income that may be available under the tax law to realize a tax benefit for deductible temporary differences and carry forwards. They are listed here in order of the most objective to the most subjective:



1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

01.

Taxable income in prior carryback years if carryback is permitted under the relevant tax law.

The first objective source of taxable income, which may be considered to assess the realizability of deductible temporary differences and carry forwards, is “taxable income in prior carryback years,” provided carryback is permitted under the tax jurisdiction. Under the circumstances, when an entity is in a net operating loss position and/or has deductible temporary differences that are expected to result in future taxable losses upon their reversal, the entity should consider whether the tax benefit from such amounts could be carried back to offset taxable income in prior years when determining the need for a valuation allowance.

Example:

During the year ended December 31, 2022, ABC Inc. generated deductible temporary differences of \$4M, expected to reverse in 2024. After considering all four sources of taxable income, ABC did not expect the deductible temporary differences to be realizable, and a valuation allowance is recognized as of 31 December 2022.

At the end of December 31, 2023, the \$4M deductible temporary differences remain unchanged. The Company generates taxable income of \$6M during the year ended December 31, 2023. Other information for consideration:

- No taxable temporary differences exist in any of the relevant periods.
- Carryback of operating losses is permitted in the jurisdiction and carryback period is one year.
- The Company does not expect taxable income exclusive of reversing temporary differences in future years and has no tax planning strategies.

Analysis: As of December 31, 2023, the entity reassesses the previously recorded valuation allowance related to the deductible temporary differences.

Based on the carryback provision of the tax law, the \$4M loss that will be generated in 2024 from the reversal of existing deductible temporary differences is available to be carried back to taxable income on December 31, 2023. Based on the facts, the entity determined that taxable income of \$6M on December 31, 2023, allows for the realization of the deductible temporary differences that will reverse on December 31, 2024. Therefore, the benefit of the deductible temporary difference (i.e., a reversal of the valuation allowance) of \$4M is recognized on December 31, 2023.



The existence of carryback availability should be evaluated critically to ensure that there exists an incremental source of taxable income to support the realization of deferred tax assets. Carryback availability results in a source of income for the realization of deferred tax assets only if carryback will actually occur. Therefore, the valuation allowance assessment should consider what the company expects to report on its tax return in the carryback window.

In making this assessment, the reversal pattern of temporary differences must be considered together with the statutory tax rules regarding loss carrybacks.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

02. Future reversals of existing taxable temporary differences

The second objective source of taxable income, which may be considered to assess the realizability of deductible temporary differences and carryforwards is “Reversal of existing taxable temporary differences.” Determination of the reversal pattern of temporary difference requires an entity to use estimates and judgment. Scheduling the appropriate reversal pattern may be necessary to determine whether the existing taxable temporary differences will reverse in a period allowing them to be a source of income to realize deductible temporary differences.

Example:

As per tax laws, losses in any year may be carried back two years. If a loss carryback is not permitted under the tax law, the scheduling exercise and related evaluation of realizability would be altered.

- As of 31 December 2020, an entity has deductible temporary differences of \$1,000,000 and taxable temporary differences of \$700,000.
- These temporary differences are ordinary in nature (no capital gains or losses).
- The deductible temporary differences are expected to reverse over the next five years, while the taxable temporary differences are expected to reverse over four years starting in 20X3 (see table below).

All amounts in \$

	Balance as on 31 December	Expected period of reversal				
	2020	2021	2022	2023	2024	2025
Deductible temporary differences	(1,000,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Taxable temporary differences	700,000	-	300,000	250,000	100,000	50,000

- The entity did not have any taxable income in 2021 exclusive of reversing temporary differences (i.e., it was a break-even).

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Analysis:

Step 1: Identify existing temporary differences

All amounts in \$

	Balance as on 31 December	Expected period of reversal				
	2020	2021	2022	2023	2024	2025
Deductible temporary differences	(1,000,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Taxable temporary differences	700,000	-	300,000	250,000	100,000	50,000

Step 2: Identify taxable income in carryback years

Assuming the entity had taxable income of \$200,000 in 2019 and, on the evaluation date, the carryback period under the tax law for losses occurring in 2021 is two years. The entity anticipates \$200,000 of deductible temporary differences reversing in 2021 and schedules the taxable income based on carryback as follows, concluding this amount is more likely than not to be realized:

All amounts in \$

	2019	2020	2021
Taxable Income from 2019	200,000	-	-
Carryback 2021 to 2019	(200,000)	-	200,000

Step 3: Identify future reversal of existing taxable temporary differences

After consideration of taxable income in prior carryback years, the entity has \$800,000 of deductible temporary differences remaining to evaluate for realizability. The entity then schedules the reversal of temporary differences. Once the reversals are scheduled, the entity will have to also consider the applicable carryback and carryforward provisions of the tax jurisdiction. As a result, scheduling expected taxable income could be an iterative process:

	2021	2022	2023	2024	2025
Deductible temporary differences (Balance after carryback in Step 2)	-	(200,000)	(200,000)	(200,000)	(200,000)
Taxable temporary differences	-	300,000	250,000	100,000	50,000
Remaining taxable/ (deductible) temporary differences	-	100,000	50,000	(100,000)	(150,000)

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

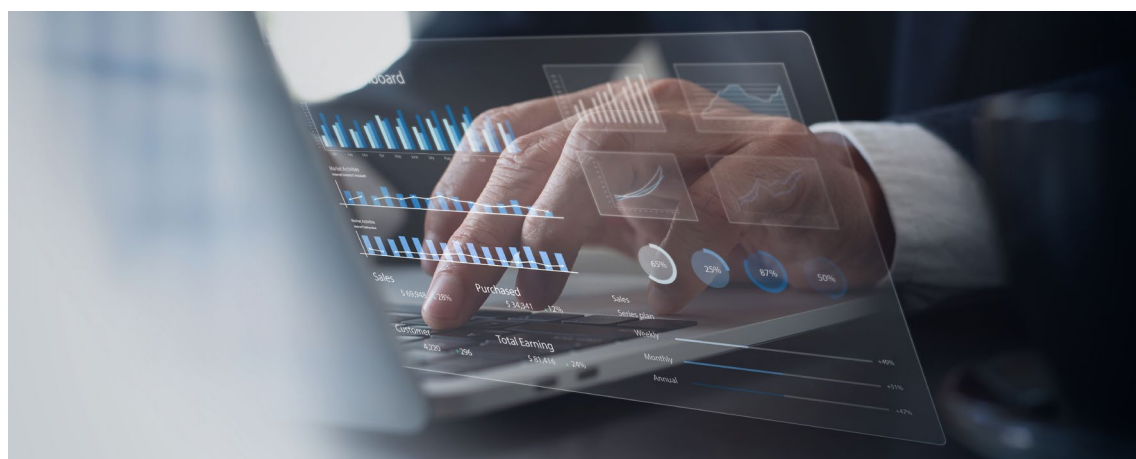
6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

The reversal of taxable temporary differences creates the following carryback potential:

Carryback 2024 to 2022		(100,000)		100,000	
Carryback 2025 to 2023			(50,000)		50,000
Remaining deductible temporary differences after carryback	-	-	-	-	(100,000)

Based on the steps performed to schedule sources of taxable income above, \$100,000 of deductible temporary differences is not realizable from the reversal of existing taxable temporary differences or taxable income in carryback years. Entities need to consider other sources of taxable income i.e., tax planning strategies and future taxable income exclusive of reversing temporary differences and carryforwards assess the recognition of valuation of allowance if required.



03. Tax planning Strategy

Tax planning strategy represents another source of taxable income, which may be considered to assess the realizability of deductible temporary differences and carryforwards. It represents a possible source of positive evidence that must be considered when assessing the need for a valuation allowance.

For a tax planning strategy to be considered, it should meet the following criteria's;

- The tax planning strategy should be prudent and feasible for being considered a source of income. In other words, it must be within the control of management and is expected to be implemented by the management.
- A company ordinarily might not take but would take to prevent an operating loss or tax credit carryforward from expiring unused.
- It would result in the realization of deferred tax assets.

Examples of Qualifying and Non-qualifying Tax-Planning Strategies

Qualifying Tax Planning Strategies	Non-qualifying Tax Planning Strategies
- Selling and subsequent leaseback of certain operating assets. - Switching certain investments from tax-exempt to taxable securities. - Disposing of obsolete inventory that is reported at net realizable value. - Changing the method of determining inventory cost for tax purposes. - Selling loans at an amount that is net of their allowance for credit losses.	- Selling an entity's principal line of business or selling core operating assets (e.g., an indefinite-lived trade name) - Excluding a loss subsidiary from tax consolidation. - Selling advanced technology to a foreign government when such a transaction is prohibited by statute. - Funding executive deferred compensation before the agreed-upon payment date. - Moving income from a non-tax jurisdiction to a tax jurisdiction solely to realize operating loss carry forwards.

Consideration of tax-planning strategies is not optional. The effects of all strategies that meet the ASC 740 criteria must be considered when determining the amount of valuation allowance required for deferred tax assets.



Because tax planning strategy should be considered for the determination of the amount of valuation allowance, identification of all significant qualifying tax-planning strategies requires management to exercise judgment and reasonable efforts. Unless taxable income from other sources (i.e., future reversals of existing taxable temporary differences, taxable income in prior carryback years, or future taxable income) is deemed adequate to eliminate the need for a valuation allowance, the tax planning strategy should not be ignored.

Tax-planning strategies are undertaken by the Company to accomplish one of the following goals:

- Accelerate taxable amounts so a company may use expiring carryforwards.
- Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss.
- Change the nature of the income (e.g., from tax-exempt income to taxable income).

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

04.

Future taxable income exclusive of reversing temporary differences and carryforwards

To the extent realization of deferred tax assets is not assured by carryback, reversals of taxable temporary differences, or tax-planning strategies, projections of future taxable income will be necessary.

Analysis of future taxable income may include forecasts, projections, or any other process used by management to estimate whether future taxable income is sufficient to realize a deferred tax asset. By its nature, projections require significant judgements and estimates and thus, are the least objective evidence for the purposes of assessment of the necessary amount of valuation allowance.



The level of detail necessary in preparing an analysis of future taxable income is a matter of judgment and will depend on the specific facts and circumstances to evaluate the period covered by the projections of future income and the extent of positive and negative evidence.

Further, the assumptions used to analyze the realizability of deferred tax assets should be consistent with the projections considered for other purposes.



1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

03.

Uncertain tax position

Due to uncertainties associated with interpretation and application of tax laws, tax authorities may challenge and ultimately reject positions submitted in tax returns. Therefore, it may not be straightforward to recognize and measure the tax benefits arising from an uncertain position.

ASC 740 provides a two-step model for recognizing, measuring, and disclosing uncertain tax positions.

Step 1: Recognition of tax benefit arising from uncertain tax position

Tax benefit from an uncertain position may be recognized only if **it is more-likely-than-not that the position is sustainable**, which may be evaluated based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents.

Step 2: Measurement of tax benefit to be recorded

Record the tax benefit that is greater than 50% likely to be realized upon settlement with a taxing authority.

The aforesaid guidance prohibits the use of a valuation allowance as a substitute for the derecognition of tax positions.

The amount of benefit recognized in the statement of financial position may differ from the amount taken or expected to be taken in a tax return for the current year. These differences represent unrecognized tax benefits. A liability is created (or the amount of a net operating loss carryforward or amount refundable is reduced) for an unrecognized tax benefit because it represents an entity's potential future obligation to the taxing authority for a tax position that was not recognized. A tax position recognized in the financial statements may also affect the tax bases of assets or liabilities and thereby change or create temporary differences.

Public entities must provide both a) tabular reconciliation of the beginning and ending aggregate unrecognized tax benefits and b) its impact on the effective tax rate. Further, all entities must provide details of tax uncertainties for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months.

Flow diagram summarizing the steps for recognition and measurement of tax benefits arising from uncertain tax positions.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

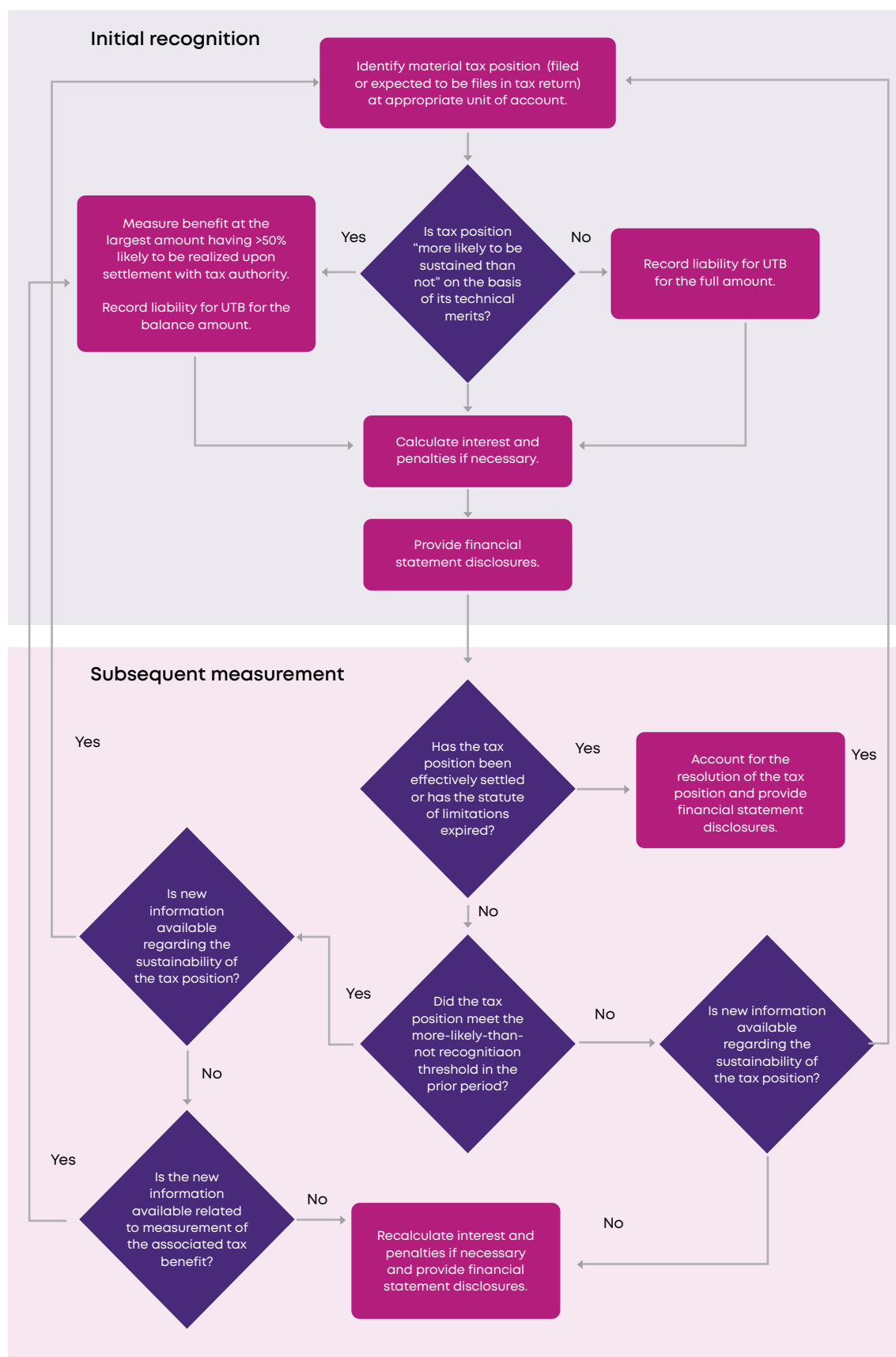
5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS



Examples of Uncertain tax positions which are within the scope of ASC 740

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Tax Positions	Implementation matters
A decision not to file a tax return	- A decision by an entity to not to file a tax return in a specific state where it might have nexus is a tax position. - Entity's inability to support technical sustainability of its position at the prescribed recognition threshold will require recognition of a liability for the amount of the benefit that it realized from its unfiled tax return (i.e., by not filing and consequently not paying tax, the entity essentially realizes the benefit of taking this position). The entity must also recognize interest and any penalties, even though it has not been audited by the taxing authority. - Supporting the technical sustainability of the position requires a critical evaluation of facts and circumstances, particularly technical merits, and consideration of the relevant taxing authority, past practices, and precedents.
Business combination	Taxable business combination: Purchase price allocation and identification of intangible assets and filling of subsequent tax returns may be challenged by tax authority to construed as Tax position. Non-taxable business combination: Uncertainties may relate to the tax basis of individual assets or pre-acquisition tax returns of the acquired business. - Entities need to recognize uncertain tax positions as per the principle of ASC 740. Any adjustment to uncertain tax positions made subsequent to the acquisition date are recognized in earnings, unless they qualify as measurement period adjustments which shall be adjusted to goodwill or gain on bargain purchase as the case may be.
Tax Positions Related to Entity Classification	- Entity's decision of not to include a foreign entity in the U.S. federal tax return, since it is classified as exempt from paying taxes is a tax position. Since to qualify for tax-exempt classification, the entity must meet certain conditions under the relevant tax law. - As per the principles of ASC 740, a decision to classify an entity as tax-exempt or a pass-through should be evaluated for recognition and measurement of Uncertain tax position. - It requires judgment; in some situations, it may be appropriate for the entity to consider how the administrative practices and precedents of the relevant tax authority could affect its qualification for tax-exempt classification.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Step 1: Recognition of tax benefit arising from uncertain tax position

Assessing the recognition of benefits from an uncertain tax position requires a critical evaluation of all facts and circumstances. The recognition is based on the key principle of more likely than not. For recognition of tax benefits associated with an uncertain tax position, the entity must meet a more-like-than-not recognition threshold of being upheld in court if challenged by tax authorities. This requires the entity to assume that the taxing authority is fully aware of the position and all relevant facts. The entity must be confident that tax laws, regulations, case law, and other objective information support the position's benefits with a likelihood greater than 50% without considering detection or examination risk.

Unless an entity believes that its uncertain tax position meets this recognition threshold, it cannot assert its entitlement to the associated economic benefits and consequently no tax benefits can be reflected in the financial statements.

Key considerations for assessment of more-likely-than-not threshold.

- **Sources of authoritative tax laws:** Assessment of whether an uncertain tax position meets the recognition threshold depends on the jurisdiction (federal, state, or foreign) where the tax position originates. In general, pertinent sources include statutes (including legislative intent), regulations, specific rulings from taxing authorities, legal precedents, and treaties.
- ASC 740's recognition guidelines mandate entities to assume that a tax authority is fully informed about a position, even under the circumstances wherein the entity has no previous experience with tax examinations or the likelihood of the taxing authority discovering the issue during an audit is minimal.
- Entity is permitted to consider prior administrative practices and precedents when evaluating a tax position, specifically situations wherein the entity's position was considered a technical violation of tax laws but was widely acknowledged and accepted by the tax authority.
- Regarding tax positions where uncertainty arises solely from a transaction's value, such as transfer pricing or the value of donated goods, the entity should assert that the recognition threshold is satisfied if it can be concluded that some level of tax benefit is meeting the more-likely-than-not recognition threshold, in the year of the transaction. Once the recognition threshold is satisfied, the uncertainty related to the transaction's valuation should be considered in the measurement step.
- Uncertain tax positions relating to temporary differences do not generally affect the aggregate amount of taxes payable over time. Uncertain tax positions that relate only to timing (i.e., when, not whether an item of income or expense is included in a tax return) are automatically deemed to meet the more-likely-than-not recognition threshold.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic



Assessment of **“more-likely-than-not”** threshold is subjective in nature and requires judgment. The entity assessment process in place should be robust enough to ensure that all relevant tax law, case law, and regulations, as well as other publicly available experiences with the taxing authorities, have been considered and evaluated. A tax position supported by little or no specific authoritative guidance or case law may still have the possibility of meeting more likely- than-not chance of being sustained based on the facts, circumstances, and information available at the reporting date.

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Step 2: Measurement of tax benefit to be recorded

Once it is established that tax benefits related to uncertain tax position qualifies for recognition, ASC 740 mandates measuring the amount to be recognized by applying **“cumulative probability methodology.”** This approach involves calculating the largest tax benefit amount that is more than 50% likely to be realized upon settlement with a taxing authority possessing complete knowledge of all pertinent information.

The extent of analysis and documentation required varies based on the issue's significance, complexity, and perceived uncertainty in tax law. Depending on the circumstances, entities may need to create a cumulative probability table, but in some cases, this might not be necessary.

For example:

Amount of tax benefit expected to be sustained	Probability of favorable outcome	Cumulative Probability of favorable outcome
\$100	30%	30%
\$80	10%	40%
\$60	15%	55%
\$30	25%	80%
\$20	20%	100%
	100%	

Applying the principle of the largest tax benefit amount with the cumulative probability of more than 50% chance of realization, it can be concluded that \$60 (cumulative probability of 55%) shall be recognized as a tax benefit arising out of tax position.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

04.

Taxation of Stock based compensation

ASC 718, Stock-based compensation, provides specific guidance on accounting for income taxes and clarifies the applicability of ASC 740 related to stock-based compensation. Entities must recognize the fair value of stock-based awards as compensation costs from the grant date over the vesting period. Tax deduction for the expense usually occurs later and is based on the award's intrinsic value. This causes a difference between book base and tax basis, resulting in a deductible temporary difference on account of the "excess of book base over tax basis". Deferred tax assets are created as compensation costs are recognized.

For equity-classified awards, compensation costs are determined at the grant date and recognized over the service period, with potential deferred tax assets for timing differences. At settlement, any excess tax deduction is recorded as an income tax benefit, while any shortfall is recorded as an expense.

For liability-classified awards (e.g., cash-settled stock appreciation rights), the liability and related deferred tax assets are remeasured periodically, matching the total tax deduction on settlement to the cumulative book compensation cost, avoiding excess tax benefits or deficiencies.

Income tax accounting for equity-classified, nonqualified stock-based compensation award

An entity that grants a nonqualified stock option to an employee is generally entitled to a tax deduction equal to the intrinsic value of the option on the exercise date. Entities generally expense stock options for book purposes before a tax deduction arises, thus creating a temporary difference and the initial recognition of a deferred tax asset under ASC 740.

The amount of the deferred tax asset will almost always differ from the amount of the entity's realized tax benefit. This is because the deferred tax asset is based on the compensation cost the entity recorded for book purposes, which is determined based on fair value on the grant date. The ultimate tax deduction is based on intrinsic value on the exercise date for a stock option.



Accounting considerations-:

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

a. On the date of grant of stock option	Measure the option's fair value.
b. Over the option's vesting period/ requisite service period	- Recognize compensation cost (adjusted for actual or estimated forfeitures) and the deferred tax asset for deductible temporary difference. - The deferred tax asset balance shall be adjusted for Change in an entity's applicable tax rate and employee relocations to jurisdictions with different tax rates; - There is no adjustment to deferred tax assets for change in the entity's stock price.
c. On the option's settlement date (e.g., exercise or post-vesting cancellation)	- Compare the tax deduction (typically the intrinsic value of the option on the exercise date) with the cumulative book compensation cost: (a) Excess of tax deduction over cumulative compensation cost results in excess tax benefits; (b) Excess of cumulative compensation cost over tax deduction results in a tax deficiency. - Any excess tax benefit or tax deficiency is reflected in the income statement. - The deferred tax asset is derecognized upon settlement date with corresponding debit to deferred tax expense which is offset by the current tax benefit from the deduction of the cumulative book compensation cost.

Example:

On January 1, 2021, Unique Corp granted 0.80 million equity-classified, nonqualified stock options with vesting period of 3 years. Refer to the table below for grant-date details and terms. The stock price on January 1, 2024, is \$50, when all 0.80 million vested options are exercised. Upon exercise, the intrinsic value of each option is \$20 (i.e., the shares have a quoted market price (\$50) that exceeds the options' exercise price (\$30) by \$20).

Date	Exercise price	Stock Price	Grant date fair value	Terms/ additional facts
January 1, 2021	\$30	\$30	\$15	Award specifies three years cliff vesting.
January 1, 2024		\$50		0.80 million options are expected to (and do) vest.

The applicable tax rate for all periods is 25%.

Unique Corp recognizes compensation cost on a straight-line attribution basis.

How should Unique Corp compute the compensation cost, deferred tax asset, and tax benefits ultimately realized for options granted on January 1, 2021?

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Analysis:

	Accounting considerations
a. On the date of grant of stock option i.e. January 1, 2021.	Total compensation cost for options granted amounted to \$12 million (0.8 million*\$15) to be amortized over vesting period of 3 years.
b. Over the option's vesting period/ requisite service period i.e. January 1, 2021- December 31, 2023.	Recognize compensation cost: Annual compensation cost to be recognized = \$4 million (\$12 million/3) per year. Recognition of deferred tax asset for deductible temporary difference: \$4 million * 25% = \$1 million deferred tax benefit each year, accumulating to a deferred tax asset of \$3 million.
c. On the option's settlement date i.e. January 1, 2025	Tax benefit realized: Total tax deduction of \$16 million (0.8 million options times intrinsic value of \$20 per option) yields realized tax benefit of \$4 million (\$16 million*25%). Deferred tax asset of \$3 million existing on December 31, 2023, is realized. Excess tax benefit of \$1 million (\$4 million total benefit less \$3 million deferred tax asset) would be credited to income tax expense. Derecognition of DTA The deferred tax asset amounting to \$3 million is derecognized upon settlement date with corresponding debit to deferred tax expense which is offset by the current tax benefit from the deduction of the cumulative book compensation cost.



1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

05.

Key disclosure requirements

Disclosures remain an essential element of financial reporting for all reporting entities. These provide users of financial statements with information to assess an entity's operations and related tax risks, tax planning, and operational opportunities that affect its tax rate and prospects for future cash flows. The following summarizes key disclosure requirements for entities related to Income tax and temporary differences:

Deferred tax balance sheet accounts

Disclosure related to Deferred tax balance sheet accounts shall include:

- Total of all deferred tax liabilities.
- Total of all deferred tax assets.
- Total valuation allowance recognized for deferred tax assets and net change in the valuation allowance during the year.
- A portion of the valuation allowance for DTAs for which subsequently recognized tax benefits will be credited directly to contributed capital.
- The amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes.
- Information about temporary differences for which a DTL has not been recognized because of the "indefinite reversal criteria".
- Temporary differences and carryforwards that give rise to significant portions of a deferred tax liability or asset.
 - For Public Business Entities, the approximate tax effect of each type of temporary difference and carryforward shall also be disclosed.

Significant components of income tax expense

Significant components of income tax expense attributable to continuing operations, which shall be disclosed in the financial statements or notes thereto, includes:

- Current tax expense (or benefit).
- Deferred tax expense (or benefit).
- Investment tax credits.
- Government grants (to the extent recognized as a reduction of income tax expense).
- The benefits of operating loss carryforwards.
- Tax expense that results from allocating certain tax benefits directly to contributed capital.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

- Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the entity.
- Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years.



- The significant components of income tax expense or benefit attributable to continuing operations for each year presented also, are to be disclosed in the financial statements or notes.
- Insignificant components should be aggregated and included as one amount in the disclosure.
- Separate disclosure of amounts of operating loss carryforwards, tax credits and tax credits carry forwards in the year of recognition for financial reporting purposes.

Amount of Income Taxes paid

- Under existing guidance ASC 230-10-50-2, entities must disclose the total amount of income taxes paid during the period.
- Accounting standard update **ASU 2023-09** requires disclosure of incremental information related to Income taxes paid as summarized below:
 - All reporting entities shall disclose the amount of income taxes paid (net of refunds received) disaggregated by federal (national) taxes, state taxes (i.e., those paid in the domicile country), and foreign taxes (i.e., includes both national, state, and local taxes paid within the foreign jurisdiction) for each annual reporting period presented.
 - **Further disaggregation based on Specified Quantitative Threshold:** Additional disclosure for disaggregated information on income taxes paid (net of refunds received) to an individual jurisdiction equal to or greater than 5% of total income taxes paid (net of refunds received).

To learn more about requirements of amendments made by **FASB to Topic 740 through Accounting Standard Update ASU 2023-09**, refer to our recent publication titled, *Early Impressions- Amendments to Income Tax Disclosure Requirements (Topic 740)*.



Disclosure of information on income taxes paid disaggregated to jurisdiction level as required by **ASU 2023-09**:

- (a) would enhance the users of financial statements' understanding of entities' income taxes and their ability to project the amount, timing, and uncertainty of future cash flows, and
- (b) would assist them in analyzing the correlation between income tax expense (benefit) and income taxes paid. Moreover, additional information about income taxes paid would provide additional insight to the users of financial statements that would not be highlighted by the rate reconciliation.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Rate reconciliation disclosure

- Currently, Topic 740, Income Taxes and SEC guidance in Regulation S-X 4-08(h)(2) (where applicable) prescribes disclosure requirements relating to reconciliation to statutory rate as applicable to reporting entities. It requires-
 - A public entity shall disclose a reconciliation using percentages **or** dollar amounts of the reported income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations.
 - A non-public entity shall disclose the nature of significant reconciling items but may omit a numerical reconciliation.
- Accounting standard update **ASU 2023-09** requires disclosure of incremental information related to rate reconciliation disclosure, as summarized below:

(a) Rate reconciliation disclosures – Public Business Entities

- The amendment requires PBEs to disclose, on an annual basis, tabular rate reconciliation **(using both percentages and reporting currency amounts)** of (1) the reported income tax expense (or benefit) from continuing operations to (2) the product of the income (or loss) from continuing operations before income taxes and the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile¹ using **Specific categories with further disaggregation based on a Specified Quantitative Threshold**.
- Specific categories:** The ASU requires using eight specific categories within the rate reconciliation table prescribed in **ASC 740-10-50-12A(a)**.
 - (1) State and local income tax, net of federal (national) income tax effect.
 - (2) Foreign tax effects.
 - (3) Effect of changes in tax laws or rates enacted in the current period.
 - (4) Effect of cross-border tax laws.
 - (5) Tax credits.
 - (6) Changes in valuation allowances.
 - (7) Non-taxable or non-deductible items.
 - (8) Changes in unrecognized tax benefits.
- Further disaggregation based on Specified Quantitative Threshold:** The quantitative threshold for **certain designated categories {Specific categories item (2), (4), (5), and (7)}** requiring further disaggregation is 5%. That is, if the absolute value of the effect of the reconciling item is equal to or greater than the total value of 5% of the product of the income or loss from continuing operations before income tax and the applicable statutory federal income tax rate, the reconciling item must be separately disclosed. The FASB chose the 5% threshold to be consistent with the existing SEC requirement in Regulation S-X 4-08(h)(2).

¹ In circumstances in which a PBE, as the **parent entity**, is not domiciled in the United States, the federal (national) income tax rate in that entity's jurisdiction (country) of domicile shall normally be used in the reconciliation, and different rates shall not be used for subsidiaries or segments of the PBE. When the rate used by a PBE is other than the United States federal corporate income tax rate, the PBE shall disclose the rate used and the basis for using that rate.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

- Reconciling items that do not fall into any specific category, the entity must disclose the reconciling item separately as an “other adjustment” in the tabular reconciliation if it meets the 5% threshold.

(b) Rate reconciliation disclosures- Entities other than PBEs

- The amendment requires entities other than PBEs to qualitatively disclose the nature and effect of the specific categories of reconciling items and individual jurisdictions, resulting in a significant difference between the statutory and effective tax rates. The amendment does not require a numerical reconciliation consistent with existing guidance.

To learn more about requirements of amendments made by **FASB to Topic 740 through Accounting Standard Update ASU 2023-09**, refer to our recent publication titled, *Early Impressions- Amendments to Income Tax Disclosure Requirements (Topic 740)*.



The amendment in ASU requiring specific categories in the rate reconciliation and further disaggregated information of reconciling items within certain categories will enable the users of financial statements to understand better tax variability driven by the different nature of reconciling items or taxing jurisdictions and, therefore, to assess better:

- (a) the sustainability of effective tax rates over time,
- (b) the opportunity to improve cash flows and
- (c) the reasons for differences in effective tax rates across entities.

Standardizing the categories in the rate reconciliation will promote disclosure consistency and comparability.

Reporting entities may need to apply judgment when determining what reconciling items may be included in a specific category; we recommend that entities consult with financial accounting experts. Moreover, associated ICFR controls should not be ignored, and an early start would be recommended in instituting required control activities to meet the COSO requirements.



1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

5.1 Outside basis difference

5.2 Valuation allowance

5.3 Uncertain tax position

5.4 Taxation of Stock based compensation

5.5 Key disclosure requirements

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Disclosure for uncertain tax positions

Disclosure requirements related to uncertain tax positions include:

Change in amount of unrecognized tax benefits related to tax positions taken during prior annual periods.	Both gross increase and gross decrease in unrecognized tax benefits related to tax positions taken during the prior period/ current period (as applicable) shall be disclosed by the entity.
Change in amount of unrecognized tax benefits related to tax positions taken during the current period.	
Decrease in the unrecognized tax benefits relating to settlements with taxing authorities.	- This includes disclosures related to decrease arising due to cash payment. - It does not include changes in an estimate or changes related to other means of resolution of tax positions such as negotiations or litigations.
Reductions to unrecognized tax benefits resulting from lapse of the applicable statute of limitations.	It includes instances of tax positions ultimately settled through the expiration of the statute of limitations.

Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

With the objective to improve an entity's income tax disclosure information in the financial statements and to address requests from the users of financial statements for greater transparency about income tax information, including jurisdictional information, the Financial Accounting Standards Board ("FASB" or "Board"), issued an **Accounting Standards Update No. 2023-09 (ASU) on December 14, 2023**. The ASU enhances annual income tax disclosures about the tax risks and opportunities in an entity's worldwide operations. The two primary amendments resulting in incremental information include disaggregating existing income tax disclosures related to the effective tax rate reconciliation and income taxes paid.

Further, the amendment also requires reporting entities to disclose Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, and Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

01.

Key highlights of amendments

	PBEs	Other Entities
Effective Tax Rate Reconciliation	Annual disclosure of tabular rate reconciliation of expected tax (i.e. statutory tax) and reported tax on income from continuing operations (using both percentages and reporting currency amounts) that contains specific categories. Further disaggregation for any reconciling item (within certain categories) that is equal to or greater than 5% of the expected tax (the 5% threshold) further broken out by nature and/or jurisdiction.	Qualitative disclosure of the nature and effect of the specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.
Income Taxes Paid	- Annual disclosure of the year-to-date amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign. - Additional disaggregated information on income taxes paid (net of refunds received) to an individual jurisdiction equal to or greater than 5% of total income taxes paid (net of refunds received).	
Other disaggregated amounts	- Income (or loss) from continuing operations before income taxes, broken out between domestic and foreign. - Income tax expense (or benefit) from continuing operations, broken out between federal (national), state/local, and foreign.	

Amendment provide enhanced Income tax disclosures disaggregated into federal (national), state and foreign for rate reconciliation, taxes paid and tax expense

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

02. Focus Areas

Amendment requires entities to apply judgment when determining what reconciling items may be included in specific category.

Focus on associated ICFR controls, and an early start in instituting required control activities to meet the COSO requirements.

Reporting the disclosures for all comparative periods presented (that is, each period for which an income statement is presented) will improve comparability and consistency of income tax information disclosed.

03. Effective date and transition

	ASC 740	
	PBE's	Other entities
- Applicability of amendment - Annual disclosures - Interim disclosures	✓ X	✓ X
- Effective date amendment - Annual disclosures - Interim disclosures	December 15,2024 NA	December 15,2025 NA
Early adoption permitted	✓	✓
Transition	Prospective application (Retrospective application permitted for all prior periods presented)	

To learn more about requirements, implementation matters, and key considerations of amendments made by FASB to Topic 740 through Accounting Standard Update ASU 2023-09, refer to our recent publication titled, **Amendments to Income Tax Disclosure Requirements (Topic 740)**.

Comparison with IFRS

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Both **ASC 740, Income Taxes** under USGAAP, and **IAS 12, Income Taxes** under IFRS, provide guidance on accounting for income taxes. In general, both accounting frameworks are based on the application of a balance sheet model and have similar objectives related to the recognition of:

- (a) Amount of taxes payable or refundable for the current year.
- (b) DTAs and DTLs for future tax consequences of events that have been recognized in an entity's financial statements or tax returns.

However, there are still some differences between two GAAPs in terms of the application of principles. The following table summarizes the key differences:

	US GAAP – Subtopic ASC 740	IFRS Accounting Standard – IAS 12
Initial recognition exception	There exists no “initial recognition” exception principle.	Deferred tax is not recognized for a. Taxable or deductible temporary differences that arise from the initial recognition of an asset or a liability in a transaction that • is not a business combination, • does not affect accounting profit or taxable profit when the transaction occurs, and • does not give rise to equal taxable and deductible temporary differences when the transaction occurs. - b.DTL arising from the initial recognition of goodwill.
Recognition of DTAs	DTAs are recognized in full amount and reduced by a valuation allowance if it is more likely than not that some or all of the DTAs will not be realized.	DTAs are recognized on a net basis at the amount that is probable (more likely than not) to be realized. In other words, the DTA is written down, and an allowance is not recorded.
Tax Rates	The enacted tax rates are used to calculate income tax amounts.	Enacted or substantively enacted tax rates are used to calculate income tax amounts. A rate is substantively enacted when only minor actions are required for it to become law.

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Implementation guidance on Key topics

6. Amendments to Income Tax disclosure requirements under ASC 740 (ASU 2023-09)

7. Comparison with IFRS

Backwards tracing	- Backward tracing is generally prohibited. - Initial recognition of Income tax effect related to items recognized outside profit or loss is also recognized outside profit or loss. - Subsequent changes are generally recognized in profit or loss—i.e., backwards- tracing is not permitted. For e.g.-: If the deferred taxes were originally recorded in equity, subsequent changes in deferred taxes are generally allocated to continuing operations.	- Backward tracing is generally permitted. - Initial recognition of Income tax effect related to items recognized outside profit or loss is also recognized outside profit or loss. - Subsequent changes in items recognized in previous periods is also recognized outside profit or loss. This is referred to as 'backwards-tracing'. For e.g.-: If the deferred taxes were originally recorded in equity, subsequent changes to the beginning balance will also be recorded in the same manner.
	Share-based compensation	- For tax deductible stock awards (such as non-qualified equity-settled stock options), deferred tax asset is based on compensation expense that is recognized for financial reporting purposes. - Tax benefits in excess of or less than the related DTA are recognized in the income statement in the period in which the amount of the tax deduction is actually determined i.e., when an award vests or, in the case of options, is exercised or expires.
	Foreign nonmonetary assets or liabilities for which the functional currency is not the local currency	Deferred tax is recognized on the basis of differences resulting from: - changes in exchange rates or - the indexing of basis for income tax reporting purposes.

A TEAM THAT YOU CAN TRUST TO DELIVER



Sandip Khetan

Co-Founder, Global Head of ARC
sandip.khetan@uniquis.com



Avinash Ramkumar

Partner, ARC
avinash@uniquis.com



Arda Kaya

Partner, ARC
ardakaya@uniquis.com



Raghuram K

Partner, ARC
kraghuram@uniquis.com



Sharad Chaudhry

Partner, ARC
schaudhry@uniquis.com



Sagar Lakhani

Partner, ARC
sagarlakhani@uniquis.com



Mrinal Tayal

Director, ARC
mrinaltayal@uniquis.com



Puneet Chowdhary

Director, ARC
puneetchowdhary@uniquis.com



Mahek Shah

Manager, ARC
mahekshah@uniquis.com

To know more about us, please visit www.uniquis.com