



Accounting for Income Taxes Bulletin

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About this Publication

This publication is issued by KPMG's Accounting for Income Taxes group in Washington National Tax to highlight developments and other items of interest to professionals involved with accounting for income taxes matters.

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Featured items

Simplifications to accounting for income taxes

As part of the Financial Accounting Standards Board's (FASB or the Board) [simplification initiative](#), a [proposed Accounting Standards Update \(ASU\)](#) was issued on Simplifying the Accounting for Income Taxes in May 2019. The objective of the project is to simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 and by clarifying and amending guidance that already exists within US generally accepted accounting principles (US GAAP). At the September 4th meeting, the Board [affirmed most of the tentative decisions](#) reached in the proposed ASU.

However, the board reversed its decision to supersede an example on investments in qualified affordable housing projects accounted for using the equity method and decided instead to correct an error in the example. The board also decided to allow the proposed election to allocate income taxes to entities that are disregarded by the taxing authority on an entity-by-entity basis, and the board decided to provide guidance on the need for a valuation allowance as part of the proposed guidance on accounting for a franchise tax that is partially based on income.

The Board reversed its decision that would have required an entity to apply the amendment to franchise taxes that are partially based on income on a retrospective basis. Rather, the Board decided to allow an entity to apply the amendment on either a retrospective basis or a modified retrospective basis. The Board affirmed its decisions regarding transition guidance on applying the remaining amendments, as well as the proposed transition disclosures.

The Board decided that the amendments should be effective for public business entities for fiscal years beginning on or after December 15, 2020, and interim periods within those fiscal years and for all other entities for fiscal years beginning on or after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the amendments is permitted, including early adoption in an interim period.

The Board directed the staff to draft a final Update for vote by written ballot which is anticipated to be released prior to the end of 2019.

IASB exposure draft on the initial recognition exemption

In July 2019, the International Accounting Standards Board (IASB) published an [exposure draft](#), *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which proposes to narrow the initial recognition exemption in IAS 12, *Income Taxes*. Generally, the initial recognition exemption in IAS 12 applies to transactions that are not business combinations and affect neither accounting profit nor taxable profit leading to questions as to whether the exemption applies to transactions such as leases and decommissioning obligations. The proposal would limit the application of the initial recognition exemption so that it would not apply to transactions that give rise to equal amounts of taxable and deductible temporary

differences. That being said, an accounting exception would limit the amount of deferred tax liability recognized to the amount of deferred tax asset that is probable to be realized.

The Exposure Draft is open for comment until November 14, 2019. Refer to the [KPMG Insights](#) for additional information.

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Updates on accounting matters

National Association of Insurance Commissioners summer meeting 2019

KPMG [reports](#) on actions taken on conference calls and at the summer 2019 meeting of the National Association of Insurance Commissioners (NAIC), where recent accounting changes and regulatory developments impacting insurance companies were discussed. With respect to accounting for income taxes, the Statutory Accounting Principles Working Group (SAPWG) adopted revisions to Statements of Statutory Accounting Principles (SSAP) No. 101's, *Implementation Questions and Answers*, to update guidance for the federal Tax Cuts and Jobs Act of 2017, and clarify how to apply the requirements of the deferred tax admittance calculation.

The revisions:

- update statutory corporate tax rate changes;
- delete information that is no longer applicable;
- revise guidance to incorporate the repeal of the corporate alternative minimum tax guidance by clarifying that it is applicable to pre-2018 taxable years and removing examples that are no longer applicable;
- delete the portion of the Q&As discussing initial adoption of SSAP No. 101;
- clarify that the consideration of reversal patterns is not required unless the reversal of temporary differences was considered when assessing the need for a statutory valuation allowance; and
- state that any changes in income tax balances resulting from these revisions should be accounted for as a change in accounting

The revisions are effective for the year ending December 31, 2019.

IFRIC discusses presentation of liabilities or assets related to uncertain tax treatments

The IFRS Interpretations Committee (the Committee) discussed the [presentation of liabilities or assets related to uncertain tax treatments](#) during the September meeting. The Committee had received a question as to whether, in its statement of financial position, an entity is required to present uncertain tax liabilities as current (or deferred) tax liabilities, or instead, within another line item such as provisions.

The Committee observed that uncertain tax liabilities or assets recognized applying IFRIC 23 are liabilities (or assets) for current tax as defined in IAS 12, or deferred tax liabilities or assets as defined in IAS 12. Accordingly, the Committee concluded that, an entity is required to present uncertain tax liabilities as current tax liabilities or deferred tax liabilities; and uncertain tax assets as current tax assets or deferred tax assets. The Committee did not specifically discuss when a liability for current tax should be presented in the non-current portion of a classified balance sheet.

The Committee decided that the requirements in IFRS Standards provide an adequate basis for an entity to determine the presentation of uncertain tax liabilities and assets thus decided not to add this matter to its standard-setting agenda.

ESMA statement on recognizing DTAs arising from unused tax losses

The European Securities and Markets Authority (ESMA), published a [Public Statement on IAS 12, Income Taxes](#), regarding the application of requirements relating to the recognition, measurement and disclosure of deferred tax assets arising from unused tax losses in International Financial Reporting Standards (IFRS) financial statements. This Public Statement aims to promote consistent application of IFRS across the European Union, and includes key messages that issuers, auditors and audit committees should take into account when recognizing deferred tax assets in financial statements, thereby providing insights on issues on which European enforcers usually challenge issuers.

IFRS updates

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

- KPMG's International Standards Group (ISG) has published [Insights into IFRS](#), 16th edition, based on IFRSs that were issued as of August 1, 2019 and are required for an entity that applies IFRS for annual periods beginning on or after January 1, 2019. The updated edition adds guidance on the measurement of interest and penalties related to income tax, provides an example on recognizing

deferred taxes for leases with initial direct costs, and addresses deferred taxes for debt instruments measured at fair value through OCI.

KPMG's DPP quarterly releases – September

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

- [Quarterly Outlook – September 2019](#)

Engagement teams should be mindful of certain recently updated US GAAP standards, listed by order of required application.

Updated Standard	Brief Description of Standard	Public Business Entities Effective Date	Other Entities Effective Date
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	The evaluation of a valuation allowance on deferred tax assets related to available for sale securities is performed along with the entity's other deferred tax assets	Fiscal years beginning after December 15, 2017, including interim periods within those fiscal years	Fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019
ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory	Requires an entity to recognize the income tax consequences of an intra-entity transfer of assets other than a transfer of inventory, when the transaction occurs	Annual reporting periods, including interim reporting periods in those annual reporting periods, beginning after December 15, 2017	Annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019
ASU 2017-15, Codification Improvements to Topic 995, U.S. Steamship Entities	Eliminates an exception for steamship entities on the recognition of deferred taxes related to certain statutory reserve deposits	Fiscal years and first interim periods beginning after December 15, 2018.	Fiscal years and first interim periods beginning after December 15, 2018.
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	Requires disclosure of an entity's policy for releasing stranded tax effects and allows entities to elect to reclassify certain stranded tax effects from AOCI to retained earnings	Fiscal years beginning after December 15, 2018, and interim periods within those fiscal years	Fiscal years beginning after December 15, 2018, and interim periods within those fiscal years
ASU 2018-09, Codification Improvements	Clarifies, corrects errors in, and makes improvements to several income taxes related matters	Generally, fiscal years beginning after December 15, 2018	Generally, fiscal years beginning after December 15, 2019
ASU 2017-04, Simplifying the Test for Goodwill Impairment	Provides guidance, amongst others, on the income tax effects from tax deductible goodwill when measuring goodwill impairment loss	Annual and interim impairment tests for periods beginning after December 15, 2019 for SEC filers, and after December 15, 2020 for other public business entities	Annual and interim impairment tests for periods beginning after December 15, 2021

Engagement teams should be mindful of the recently updated IFRS standards.

Updated Standard	Brief Description of Standard	Effective Date
IFRIC 23: Uncertainty over Income Tax Treatments	Addresses how to reflect uncertainty in accounting for income taxes	Annual periods beginning on or after January 1, 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	Clarifies recognition of income tax consequences of dividends, including payments on financial instruments	Annual periods beginning on or after January 1, 2019

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[On the horizon](#)

FASB invitation to comment on exception for nondeductible goodwill

The FASB has [issued](#) an Invitation to Comment, which asks stakeholders whether and how the Board should proceed on its project regarding the accounting for identifiable intangible assets and subsequent

accounting for goodwill. With respect to nondeductible goodwill, the staff is interested in receiving feedback about whether the Board should consider amending the guidance that prohibits an entity from recognizing a deferred tax liability for the excess financial statement carrying amount of goodwill because of the effect of subsequent goodwill amortization on an entity's effective tax rate. The comment period ends October 7, 2019.

FASB projects

The Board issued a revised proposed ASU on its [disclosure framework project related to income taxes](#) in March 2019 which is currently in the exposure draft redeliberations stage.

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

The Board continues its [project on backwards tracing](#) to consider whether changes should be made to the prohibition on backwards tracing and may consider alternatives to backwards tracing. The project is in the research stage.

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Other items of interest

KPMG learning – executive education

The following [Accounting for Income Taxes](#) Executive Education classes will be offered:

- New York – December 3 – 4, 2019
- San Francisco – December 17 – 18, 2019

This two-day seminar is designed to help participants understand and apply the income tax accounting guidance in ASC 740. It provides a conceptual foundation of accounting for income taxes. Relevant aspects of the new tax reform will be discussed throughout the seminar. This seminar explains how to reconcile differences between four sets of flows: cash flows, US GAAP income, taxable income, and more-likely-than-not taxable income. It will also cover valuation allowances, accounting for tax contingencies, interim tax allocations, business combinations, compensation, foreign operations and other challenging issues.

Additionally, the following [Advanced Accounting for Income Taxes](#) Executive Education classes will be offered:

- New York – December 5 – 6, 2019
- San Francisco – December 19 – 20, 2019

This two-day seminar looks beyond the fundamentals of ASC 740 to examine some of the major implementation challenges that arise in applying the standard. It covers complex areas such as quarterly disclosures, intercompany transactions and equity investments. The seminar will also cover accounting for income taxes consequences of tax reform in detail.

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Resources

- [KPMG's Accounting for Income Taxes Publication](#)
- [Financial Reporting View](#)
- [TaxNewsFlash](#)
- [Chief Tax Officer Insights](#)
- [KPMG Executive Education](#)
- [KPMG U.S.](#)
- [Insights into IFRS](#)
- [IFRS compared to U.S. GAAP](#)

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