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EARLY IMPRESSIONS

Amendments to Income Tax Disclosure Requirements (Topic 740)

January 2024

Foreword

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Income Tax disclosures remain an essential element of financial reporting for all reporting entities. It provides the users of financial statements with information to assess better how an entity's operations and related tax risks, tax planning, and operational opportunities affect its tax rate and prospects for future cash flows. Disclosure enhancements focused on transparency and decision usefulness through disaggregation have remained a key focus area project for FASB. After multiple iterations for a proposed overhaul of the income tax disclosures dating back to 2016, in 2021, the FASB's technical agenda included a project to improve and enhance income tax disclosures, which would seek to provide more focused disaggregated information about the effect of the entity's operations, tax planning strategies and tax risks on the overall effective tax rate and future cash flow prospects. With this objective in mind, the project primarily focused on more detailed information about income taxes paid and rate reconciliation.

After due process, FASB, in its continuous efforts to improve the disclosure requirements for Income taxes in the financial statements, has introduced amendments to **Topic 740, Income Taxes**. The amendment results from of FASB's extensive outreach to the users of financial statements, who indicated the need for more disaggregated income tax information, particularly jurisdictional information, to **assess global tax risk**.

This publication provides an overview of the requirements, implementation matters, and critical considerations of amendments made by FASB to Topic 740 through Accounting Standard Update ASU 2023-09.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

For Uniqus Consultech Inc.

19 January 2024

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Background

An entity's income tax information remains critical for the users of financial statements in understanding how an entity's operations, related tax risks, tax planning, and operational opportunities affect its tax rate and prospects for future cash flows. The users of financial statements currently rely on the **rate reconciliation table** and other disclosures, including **total income taxes paid**, to evaluate how an entity manages its income tax risks, including tax planning strategies and opportunities.

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) 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.

(b) A non-public entity shall disclose the nature of significant reconciling items but may omit a numerical reconciliation.

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, this ASU 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.

The amendments in this Update apply to all entities subject to Topic 740. Certain disclosures that are required by the amendments in this Update are not needed for entities other than public business entities ("PBEs").

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Highlights of amendments to Topic 740's disclosure requirements

A. Enhanced disclosures relating to the rate reconciliation table and total income taxes paid.

The following summarizes the ASU's new and enhanced annual income tax disclosure requirements for each period presented:

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	PBEs	Other Entities
01 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 and provides additional information for any reconciling item (within certain Specific 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.
02 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).	

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B. Other amendments

	PBEs	Other Entities
03 Other disclosures	• 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.	
04 Disclosure no longer required	• Disclosure relating to reasonably possible significant changes in the total amount of unrecognized tax benefits within 12 months of the reporting date. • Disclosure relating to the cumulative amount of each type of temporary difference for which a deferred tax liability has not been recognized (due to the exception to recognizing deferred taxes related to subsidiaries and corporate joint ventures).	
05 Replacing public entity with PBE	Replace the term public entity with the term PBE	Not Applicable.

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A. Enhanced disclosures relating to the rate reconciliation table and total income taxes paid.

Particulars	Guidance in the ASU
01	**Rate reconciliation disclosures – PBEs** • The amendment in ASU 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 domicile[1] 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) Nontaxable or nondeductible 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 absolute 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

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.

Particulars	Guidance in the ASU
	consistent with the existing SEC requirement in Regulation S-X 4-08(h)(2). - Reconciling item that does not fall into any specific category, the entity is required to disclose the reconciling item separately as an "other adjustment" in the tabular reconciliation if it meets the 5% threshold. **Rate reconciliation disclosures- Entities other than PBEs** The amendment in ASU 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.

Categories	Specific Categories[3]	Implementation matters
Domestic federal reconciling items	**Tax credits** This category represents the effect of tax credits provided by the jurisdiction, such as Research Credits, excluding foreign tax credits and state-level tax credits.	- Items that meet the 5% threshold should be separately disclosed by nature[1]. - Effect of tax credits provided by the jurisdiction of domicile on income earned in foreign jurisdictions i.e. foreign tax credits shall be disclosed in the "Effect of cross-border tax laws" category as netted off related tax effect rather than being disclosed in this category.
	Nontaxable or nondeductible items This category represents the tax effect of nontaxable or nondeductible items in the jurisdiction, such as tax effects of share-based payment awards, goodwill impairment, etc.	- Items that meet the 5% threshold should be separately disclosed by nature[1].

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Categories	Specific Categories[3]	Implementation matters
	Effect of cross-border tax laws This category represents the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions such as Global intangible low-taxed income (GILTI). The reconciling items in this, particularly GILTI, are presented net of the related foreign tax credit (GILTI FTCs).	- Items that meet the 5% threshold should be separately disclosed by nature[1]. - The disclosure of the tax effect of both the cross-border tax and any related tax credit provided by the jurisdiction (country) of domicile on the same income during the same reporting period on a **net basis**[4] would reflect the actual incremental tax cost of income earned abroad.
	Effect of changes in tax laws or rates enacted in the current period. This category represents the cumulative tax effects of a change in enacted tax laws or rates on current or deferred tax assets and liabilities at the date of enactment by the federal (national) jurisdiction of domicile.	- **This applies to the effect of enacted tax law and tax rate changes in the current reporting period for the federal (national) jurisdiction of domicile (emphasis added)**. In other words, the effect of any foreign jurisdiction tax law or tax rate changes in the current period would not be in this category but would instead be categorized within the "Foreign Tax Effects" category. Similar would be the case for state and local income tax law or tax rate changes included in the "State and local income tax" category. - This is consistent with

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Categories	Specific Categories[3]	Implementation matters
		existing guidance in ASC 740 relating to inclusion of effects of changes in tax laws or rates and the requirement for those effects, both current and deferred, in the tax provision attributable to continuing operations in the period that includes the enactment date.
	Changes in valuation allowances This category represents the income tax effect of valuation allowances initially recognized or subsequently adjusted in the reporting period. Such as, a US-domiciled reporting entity that establishes a total valuation allowance on its federal deferred tax assets would present the initial impact to record the valuation allowance on both its beginning-of-year deferred tax assets and deferred tax assets generated in the current year in aggregate within the changes in valuation allowance category.	- This category applies to changes in valuation allowances in the federal (national) jurisdiction of domicile only. - Changes in valuation allowances related to foreign jurisdictions and state and local jurisdictions are to be captured within the respective categories. They cannot be aggregated into this one caption because the basis of this conclusion specifically disallows aggregation.
	Others This category represents federal (national) income taxes in the jurisdiction (country) of domicile that do not fall within any of the previously listed specific categories such as excess tax benefits on share-based payments.	- Items that meet the 5% threshold should be separately disclosed by nature[1].

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Categories	Specific Categories[3]	Implementation matters
State and local income tax, net of federal (national) income tax effect	This category represents income taxes imposed at the state or local level in the jurisdiction (country) of domicile, net of the related federal (national) income tax effect.	A qualitative description of the states and local jurisdictions that make up the majority (greater than 50%) of the effect of the state and local income tax category should also be disclosed[2].
Foreign reconciling items	**Foreign tax effects** This category represents the effect of income taxes imposed by foreign jurisdictions. It includes all reconciling items associated with the difference between foreign income tax expense (or benefit) calculated using the domestic statutory tax rate and the reported tax in each of the foreign jurisdictions – i.e., those jurisdictions outside the jurisdiction (country) of domicile.	- Reconciling items (except for items related to changes in unrecognized tax benefits) are required to be disaggregated by both jurisdiction (country) and by nature[1] (including statutory rate differentials) if either or both is over the 5% threshold. - In identifying the nature of the reconciling item within this foreign tax category, entities should consider the reconciling item's fundamental or essential characteristics. Maintaining a consistent definition for the nature of the reconciling items regardless of whether they apply to foreign jurisdiction or domestic will ensure consistency & comparability. - In addition, if any individual reconciling item within a foreign jurisdiction for which the gross amount (positive or negative) meets the 5% threshold, that reconciling item

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<table>
<tr><th>Categories</th><th>Specific Categories[3]</th><th>Implementation matters</th></tr>
<tr><td></td><td></td><td>should be separately disclosed by nature and jurisdiction regardless of whether the jurisdiction meets the 5% threshold in total.</td></tr>
<tr><td></td><td colspan="2">The following example illustrates how an entity would present reconciling items in the foreign tax effects category:

Example– Foreign tax effects

A PBE, domiciled in the United States, has reconciling items within the foreign tax effects category of the rate reconciliation that meets the 5% threshold. Assuming that the reconciling items that meet the 5% threshold are in bold text, the required disaggregation of reconciling items by jurisdiction and nature would be as follows:

Foreign Tax Effects
United Kingdom
• Statutory tax rate difference between the UK and the US
• Share-based payment awards
• Research and development tax credits
• Other
Ireland
• Statutory tax rate difference between Ireland and the US
• Changes in valuation allowances
• Enacted changes in tax laws or rates
• Other
Switzerland
Mexico
Other foreign jurisdictions</td></tr>
<tr><td>Prior year unrecognized tax benefits – Global (i.e., both Domestic and Foreign condensed)</td><td>Changes in unrecognized tax benefits

This category represents the tax effect of changes in judgment related to tax positions taken in prior annual reporting periods, such as subsequent</td><td>- For unrecognized tax benefits recorded in the current annual reporting period for a tax position taken or expected to be taken</td></tr>
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Categories	Specific Categories[3]	Implementation matters
	recognition, derecognition, and change in measurement of unrecognized tax benefits.	in the same period, the unrecognized tax benefit and its related tax position may be presented on a net basis in the respective specified category where the tax position is presented. - For example, if a reporting entity generates federal research and development (R&D) credits in the current period, the rate reconciling item related to the R&D credit benefit should be presented in the tax credits category net of any associated unrecognized tax benefit (assuming the R&D credit net of uncertain tax benefit meets or exceeds the 5% threshold). - Reconciling items in this category may be disclosed on an aggregated basis for all jurisdictions. This was put in place after considering stakeholder feedback that requiring disaggregation by jurisdiction could pose a risk of providing prejudicial information to tax authorities without any commensurate benefit for the users of financial statements.

Notes:

1. Identification of reconciling items, by their nature, requires an entity to consider fundamental or essential characteristics of the items. Examples of these characteristics include the event giving rise to, or the activity associated with, the reconciling item.
2. For identifying the states and local jurisdictions that make up the majority of the effect, a PBE should begin with the state or local jurisdiction that has the largest effect and, in descending order, add states or local jurisdictions with the next largest effect until the aggregated effect is greater than 50%.
3. Judgment will need to be applied when categorizing income tax effects for items that do not fall into any prescribed category

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(i.e., those which could be put into multiple categories), including disaggregation of reconciling items by nature. For example, the tax effects of share-based payments could relate to both nondeducibility and windfalls. In applying the new categorization, the entity may include 'all' tax effects in the "Nontaxable or Nondeductible items" category. In this situation, the entity should provide an explanatory description for the types of tax effects for the share-based payment item that is included in the selected category and follow this consistently.

4. The "net" presentation would only be allowed if there is a credit in the same jurisdiction, which is an inherent part of the calculation of a cross-border tax law. If the nature of the item does not meet this principle, then a "gross" presentation may be more appropriate.

Example: Rate reconciliation disclosures – PBE

The following example illustrates the specific categories and the reconciling items disclosed by a PBE in its tabular rate reconciliation. The entity's jurisdiction (country) of domicile is the US, so the US federal statutory tax rate is reconciled to the entity's effective tax rate. As a result, amounts meet the threshold if greater than 1.05% (21% statutory tax rate × 5% threshold) of pretax income or loss from continuing operations ($16,000 in 20X4 and $14,000 in 20X3). For ease of illustration, the example assumes the reporting entity must only present one comparative period in its financial statements.

	20X4		20X3	
	Amount	**Percent**	**Amount**	**Percent**
US federal statutory income tax rate	3,360	21.00%	2,940	21.00%
Domestic Federal reconciling items-				
Tax credits				
• R&D credits	(336)	-2.10%	(336)	-2.40%
• Other	(32)	-0.20%	(28)	-0.20%
Nontaxable and nondeductible items, net	80	0.50%	(28)	-0.20%
Cross-border taxes				
• Global intangible low-taxed income (GILTI)	240	1.50%	252	1.80%
• Other	16	0.10%	28	0.20%
Excess tax benefits on share-based payments	(528)	-3.30%	(126)	-0.90%
Other	64	0.40%	(56)	-0.40%
Effect of Changes in Tax Laws or Rates Enacted in the Current Period	-	0.00%	-	0.00%
Changes in valuation allowance	-	0.00%	-	0.00%
State and local income taxes, net of federal effect[a]	528	3.30%	490	3.50%
Foreign reconciling items-				
United Kingdom				

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	20X4		20X3	
	Amount	Percent	Amount	Percent
• Changes in tax laws	-	0.00%	(280)	-2.00%
• Nondeductible legal expenses	208	1.30%	168	1.20%
• Other	(144)	-0.90%	126	0.90%
India				
• Rate differential	(464)	-2.90%	(392)	-2.80%
• Other	16	0.10%	28	0.20%
Spain				
• Changes in valuation allowances	-	0.00%	(420)	-3.00%
• Subnational income taxes	192	1.20%	154	1.10%
• Other	32	0.20%	28	0.20%
Singapore	(208)	-1.30%	(168)	-1.20%
Other foreign jurisdictions	(400)	-2.50%	(28)	-0.20%
Changes in prior year unrecognized tax benefits	96	0.60%	(322)	-2.30%
Effective tax rate	**2,720**	**17.00%**	**2,030**	**14.50%**

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

Example: Rate reconciliation disclosures - Entity Other Than PBE

The difference between ABC Inc.'s effective tax rate and its statutory tax rate is primarily attributed to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of ABC Inc. operations in Ireland had a decreasing effect on its effective tax rate, while the foreign tax effects of ABC Inc. operations in France had an increasing impact on its effective tax rate. ABC Inc. received federal research and development tax credits, which decreased its effective tax rate, while state taxes in California increased its effective tax rate.

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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 better assess:

(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 entities to 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.

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Particulars	Guidance in the ASU
02	**Disclosure for Income taxes paid-** • Existing guidance ASC 230-10-50-2, requires entities to disclose the total amount of income taxes paid during the period. • The amendment in ASU requires all reporting entities to 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**: The amendment requires 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). An entity may identify a country, state, or local territory as an individual jurisdiction. The 5% quantitative threshold shall be applied by comparing (1) the absolute value of the net payment or net refund in each jurisdiction with (2) the absolute value of total income taxes paid (net of refunds received). • Although the ASU requires disaggregation by jurisdiction for each annual period presented, it does not require disclosure of comparative information by jurisdiction for all years

Particulars	Guidance in the ASU
	presented if quantitative threshold criteria for any particular year are not met. For example, suppose an individual jurisdiction is over 5% for the current annual period but did not meet the quantitative threshold in the prior annual period. In that case the income taxes paid for that jurisdiction in the prior annual period do not need to be disclosed currently.

Disclosure of information on income taxes paid disaggregated to jurisdiction level:

(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.

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Particulars	Guidance in the ASU
03	The amendment in ASU requires that all reporting entities disclose the following information: • 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)[2], state or local, and foreign. This disclosure requirement aligns with existing SEC guidance in Regulation S-X 4-08(h).
04	The amendment in ASU eliminates the following existing disclosure requirements in ASC 740: • The nature and estimate of the range of reasonably possible increases or decreases in the unrecognized tax benefits balance in the next 12 months or to make a

2. Income tax expense invoked on foreign earnings by the jurisdiction of domicile be included in the amount for the jurisdiction of domicile, not the jurisdiction generating the foreign earnings subject to the tax.

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Particulars	Guidance in the ASU
	statement that an estimate of the range cannot be made. Because of the difficulty in predicting the changes reliably, the disclosure is no longer considered meaningful for the users of financial statements. • The cumulative amount of each type of temporary difference for which a deferred tax liability has not been recognized because of the exceptions to comprehensive recognition of deferred taxes related to undistributed earnings of subsidiaries and corporate joint ventures.
05	The amendments in the ASU replace the term public entity, as currently used in Topic 740, with the term PBE, as defined in the Master Glossary of the Codification.

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Other application matters

(a) Materiality Considerations

ASC 105-10-05-06 states that the provisions of the Codification need not be applied to immaterial items. As concluded in the basis of the conclusion, the guidance in ASC 105-10-05-6 about immaterial items also applies to the amendments related to this disclosure. Therefore, the requirement to disclose-

- Reconciling items by specific categories with further disaggregation of reconciling items based on applying a quantitative threshold does not apply to immaterial items, even if the quantitative threshold is met.
- The income taxes paid for any jurisdiction (whether federal, state, or foreign groupings or individual jurisdictions) do not apply to immaterial items even if the quantitative threshold is met.

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(b) Effective date and transition

- For PBEs, the amendments in ASU are effective for annual periods beginning after December 15, 2024. For non-PBEs, the amendments in ASU are effective for annual periods beginning after December 15, 2025.
- The amendment in ASU applies on a prospective basis. However, retrospective application in all prior periods presented is permitted.

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

For more information on amendments in ASU, see the **press release** on the FASB's Web site.

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