ASU 2023-09 Income Taxes (Topic 740) – Improvements to Income Tax Disclosures

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In December 2023, the Financial Accounting Standards Board (FASB) issued **Accounting Standards Update (ASU) 2023-09**, which the FASB believes will address "requests for improved income tax disclosures from investors, lenders, creditors, and other allocators of capital…that use the financial statements to make capital allocation decisions." The ASU requires enhanced disclosures primarily related to existing rate reconciliation and income taxes paid information to help investors better assess how a company's operations, related tax risks, tax planning, and operational opportunities affect the company's tax rate and future cash flows. The ASU looks to improve the transparency of income tax disclosures by requiring consistent categories and greater disaggregation of information in the rate reconciliation and by requiring income taxes paid disaggregated by jurisdiction. The ASU also includes other amendments to enhance income tax disclosures.

The amendments in ASU 2023-09 apply to all entities that are subject to Topic 740, *Income Taxes*. Certain of the disclosures that are required by the amendments in this ASU are not required for entities other than public business entities.

RATE RECONCILIATION

Public business entities (as defined in the ASC master glossary) are required on an annual basis to (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold. The quantitative threshold is met if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income (or loss) by the applicable statutory income tax rate.

Public business entities are required to disclose a tabular reconciliation, using both percentages and reporting currency amounts, according to the following requirements:

1. The following specific categories are required to be disclosed:

- **a**. State and local income tax, net of federal (national) income tax effect
- **b**. Foreign tax effects
- **c**. Effect of changes in tax laws or rates enacted in the current period
- **d**. Effect of cross-border tax laws
- **e**. Tax credits
- **f**. Changes in valuation allowances
- **g**. Nontaxable or nondeductible items
- **h**. Changes in unrecognized tax benefits.

2. Separate disclosure is required for any reconciling item listed below in which the effect of the reconciling item is equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory income tax rate.

- **a**. If the reconciling item is within the effect of cross-border tax laws, tax credits, or nontaxable or nondeductible items categories, it is required to be disaggregated by nature.

b. If the reconciling item is within the foreign tax effects category, it is required to be disaggregated by jurisdiction (country) and by nature, except for reconciling items related to changes in unrecognized tax benefits discussed in (**4**).
c. If the reconciling item does not fall within any of the categories listed in (**1**), it is required to be disaggregated by nature.

3. For the purpose of categorizing reconciling items, except for reconciling items related to changes in unrecognized tax benefits discussed in (**4**), the state and local income tax category should reflect income taxes imposed at the state or local level within the jurisdiction (country) of domicile, the foreign tax effects category should reflect income taxes imposed by foreign jurisdictions, and the remaining categories listed in (**1**) should reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile.

4. For the purpose of presenting reconciling items:

a. Reconciling items are required to be presented on a gross basis with two exceptions under which unrecognized tax benefits and the related tax positions and tax effects of certain cross-border tax laws and the related tax credits may be presented on a net basis.
b. Reconciling items presented in the changes in unrecognized tax benefits category may be disclosed on an aggregated basis for all jurisdictions.

For the state and local category, a public business entity is required to provide a qualitative description of the states and local jurisdictions that make up the majority (greater than 50 percent) of the effect of the state and local income tax category.

A public business entity is required to provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, and underlying causes of the reconciling items and the judgment used in categorizing the reconciling items.

For entities other than public business entities, the amendments in this ASU require qualitative disclosure about 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

The amendments in this ASU require that **all entities** disclose on an annual basis the following information about income taxes paid:

- The amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes

- The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received)

OTHER DISCLOSURES

The amendments in this ASU require that all entities disclose the following information:

- Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign.
- Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.

ELIMINATION, REMOVAL, AND REPLACEMENT

The amendments in this ASU:

- Eliminate the requirement for all entities to (1) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months or (2) make a statement that an estimate of the range cannot be made.
- Remove the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.
- Replace the term *public entity* as currently used in Topic 740 with the term *public business entity* as defined in the Master Glossary of the Codification.

EFFECTIVE DATES

For public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2025. The amendments in this ASU should be applied on a prospective basis. Retrospective application is permitted.

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

As noted in the ASU (and as is the case with all Codification guidance), these amendments need not be applied to immaterial items.

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The full text of ASU 2023-09 Income Taxes (Topic 740) - Improvements to Income Tax Disclosures can be accessed at www.fasb.org

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Tait Weller strives to keep you up to date on important issues affecting your funds. As always, we are here to assist.