

Proposed Accounting Standards Update

Issued: March 15, 2023
Comments Due: May 30, 2023

Income Taxes (Topic 740)

Improvements to Income Tax Disclosures

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 740 of the *FASB Accounting Standards Codification*[®]. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to “Technical Director, File Reference No. 2023-ED100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until May 30, 2023. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2023-ED100
- Sending a letter to “Technical Director, File Reference No. 2023-ED100, FASB, 801 Main Ave, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board is issuing the amendments in this proposed Update to enhance the transparency and decision usefulness of income tax disclosures. Investors, lenders, creditors, and other allocators of capital (collectively, “investors”) have indicated that the existing income tax disclosures should be enhanced to provide information to better assess how an entity’s worldwide operations and related tax risks and tax planning and operational opportunities affect its tax rate and prospects for future cash flows. Investors currently rely on the rate reconciliation table and other disclosures, including total income taxes paid in the statement of cash flows, to evaluate income tax risks and opportunities. While investors find these disclosures helpful, they suggested possible enhancements to better (1) understand an entity’s exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities, (2) assess income tax information that affects cash flow forecasts and capital allocation decisions, and (3) identify potential opportunities to increase future cash flows.

The amendments in this proposed Update would address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information.

This proposed Update also includes certain amendments from the 2019 revised proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes* (2019 revised proposed Update), which would improve the effectiveness of income tax disclosures.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities that are subject to income taxes.

Certain of the disclosures that would be required by the amendments in this proposed Update would not be required for entities other than public business entities.

What Are the Main Provisions?

Rate Reconciliation

The amendments in this proposed Update would require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (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 tax rate).

Specifically, public business entities would be required to disclose a tabular reconciliation, using both percentages and reporting currency amounts, according to the following requirements:

1. The following specific categories should be disclosed:
 - a. State and local income tax, net of federal (national) income tax effect
 - b. Foreign tax effects
 - c. Enactment of new tax laws
 - d. Effect of cross-border tax laws
 - e. Tax credits
 - f. 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 tax by the applicable statutory federal (national) income tax rate:
 - a. If the reconciling item is within the effect of cross-border tax laws, tax credits, and nontaxable or nondeductible items categories, it must be disaggregated by nature.
 - b. If the reconciling item is within the foreign tax effects category, it must be disaggregated by jurisdiction (country) and by nature.
 - c. If the reconciling item does not fall within any of the categories listed in (1), it must be disaggregated by nature.
3. For the purpose of categorizing reconciling items, the state and local income tax category would reflect income taxes imposed at the state or local level within the jurisdiction (country) of domicile, the foreign tax effects category would reflect income taxes imposed by foreign jurisdictions, and the remaining categories listed in (1) would reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile.

For the state and local category, a public business entity would provide a qualitative description of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category.

A public business entity would provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, and significant year-over-year changes of the reconciling items.

Additionally, on an interim basis, public business entities would be required to provide a description of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period, in addition to the requirement in paragraph 740-270-50-1.

For entities other than public business entities, the amendments in this proposed Update would require qualitative disclosure about specific categories of 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 proposed Update would require that all entities disclose the following information about income taxes paid:

1. The year-to-date amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes on both an interim and annual basis
2. 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), on an annual basis.

Disclosures Previously Exposed for Comment

The amendments in this proposed Update would require that all entities disclose the following information:

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

The amendments in this proposed Update would 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.

The amendments in this proposed Update would 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.

The amendments in this proposed Update would replace the term *public entity*, as currently used in Topic 740, *Income Taxes*, with the term *public business entity* as defined in the Master Glossary of the Codification.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments in this proposed Update related to the rate reconciliation and income taxes paid disclosures would improve the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. The proposed amendments would allow investors to better assess, in their capital allocation decisions, how an entity's worldwide operations and related tax risks and tax planning and operational opportunities affect its income tax rate and prospects for future cash flows.

The other amendments in this proposed Update, which were from the 2019 revised proposed Update, would improve the effectiveness of disclosures by (1) adding disclosures of pretax income (or loss) and income tax expense (or benefit) to be consistent with U.S. Securities and Exchange Commission (SEC) Regulation S-X 210.4-08(h), *Rules of General Application—General Notes to Financial Statements: Income Tax Expense*, and (2) removing disclosures that no longer are considered cost beneficial or relevant.

When Would the Amendments Be Effective and What Are the Transition Requirements?

The effective date and whether early adoption of the amendments in this proposed Update would be permitted will be determined after the Board considers stakeholder feedback on the proposed amendments. The proposed amendments would be applied retrospectively.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. For certain proposed amendments that were previously exposed for comment in the 2019

revised proposed Update, no specific questions are included below because feedback was previously received and considered by the Board, but additional feedback is welcome.

Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Rate Reconciliation

Question 1: The amendments in this proposed Update would require that public business entities disclose specific categories in the rate reconciliation, with further disaggregation of certain reconciling items (by nature and/or jurisdiction) that are equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate.

- a. Should any of the proposed specific categories be eliminated or any categories added? Please explain why or why not.
- b. Should incremental guidance be provided on how to categorize certain income tax effects in the proposed specific categories? If so, please describe the specific income tax effect and explain how it should be categorized and why.
- c. Do you agree with the proposed 5 percent threshold? Please explain why or why not.

Question 2: The proposed amendments would require that public business entities provide a qualitative description of the state and local jurisdictions that contribute to the majority of the effect of the state and local income tax category. A qualitative description of state and local jurisdictions was selected over a quantitative disclosure because state and local tax provisions are often calculated for multiple jurisdictions using a single apportioned tax rate. Do you agree with the proposed qualitative disclosure as opposed to providing a quantitative disaggregation? Please explain why or why not.

Question 3: The proposed amendments would require that public business entities provide an explanation, if not otherwise evident, of individual reconciling items in the rate reconciliation, such as the nature, effect, and significant year-over-year changes of the reconciling items. Do you agree with the proposed disclosure? Please explain why or why not.

Question 4: For investors, would the proposed amendments to the rate reconciliation disclosure result in more transparent and decision-useful information? If so, how would that information help assess income tax risks and opportunities and how would it influence investment and capital allocation

decisions? If not, what additional information about rate reconciliation should the Board require?

Question 5: For preparers and practitioners, would the proposed amendments to the rate reconciliation disclosure impose significant incremental costs? If so, please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs.

Question 6: Are the proposed amendments to the rate reconciliation disclosure clear and operable? Please explain why or why not.

Question 7: The Board decided not to provide incremental guidance for the rate reconciliation disclosure for situations in which an entity operates at or around break even or an entity is domiciled in a jurisdiction with no or minimal statutory tax rate but has significant business activities in other jurisdictions with higher statutory tax rates. Do you agree with that decision? Please explain why or why not, and if not, what incremental guidance (including the relevant disclosures) would you recommend?

Question 8: The proposed amendments would require that public business entities provide quantitative disclosure of the rate reconciliation on an annual basis and a qualitative description of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period on an interim basis. Do you agree with that proposed frequency? Please explain why or why not.

Income Taxes Paid

Question 9: The proposed amendments would require that all entities disclose the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes, on an annual and interim basis, with further disaggregation on an annual basis 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). Do you agree with the proposed 5 percent threshold? Please explain why or why not. Do you agree that income taxes paid should be disclosed as the amount net of refunds received, rather than as the gross amount? Please explain why or why not.

Question 10: For investors, would the proposed amendments to the income taxes paid disclosure result in more transparent and decision-useful information? If so, how would that information help assess income tax risks and opportunities and how would it influence investment and capital allocation decisions? If not, what additional information about income taxes paid should the Board require?

Question 11: For preparers and practitioners, would the proposed amendments to the income taxes paid disclosure impose significant incremental costs? If so,

please describe the nature and magnitude of costs, differentiating between one-time costs and recurring costs.

Question 12: Are the proposed amendments to the income taxes paid disclosure clear and operable? Please explain why or why not.

Question 13: The proposed amendments would require that all entities disclose (a) income taxes paid disaggregated by federal (national), state, and foreign taxes on an interim and annual basis and (b) income taxes paid disaggregated by jurisdiction on an annual basis. Do you agree with that proposed frequency? Please explain why or why not.

Private Company Considerations

Question 14: Would the proposed amendments to the income taxes paid disclosure, the rate reconciliation disclosure for entities other than public business entities, and the disclosure of pretax income (or loss) and income tax expense (or benefit) provide decision-useful information for private company investors? Please explain why or why not.

Question 15: Are those proposed amendments for entities other than public business entities clear and operable? Please explain why or why not.

Transition and Effective Date

Question 16: The proposed amendments would be required to be applied on a retrospective basis. Would the information disclosed by that transition method be decision useful? Please explain why or why not. Is that transition method operable? If not, why not and what transition method would be more appropriate and why?

Question 17: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain your response.

Amendments to the *FASB Accounting Standards Codification*[®]

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification related to the rate reconciliation and disclosure of income taxes paid.

Codification Subtopic	Description of Changes
740-10, Income Taxes—Overall	<ul style="list-style-type: none"> • Added an objective for disclosure of a rate reconciliation in paragraph 740-10-50-11A • Amended rate reconciliation guidance in paragraphs 740-10-50-11 through 50-12 and added guidance in paragraphs 740-10-50-12A through 50-12C, introductory paragraph 740-10-55-230 for illustrative examples, and an illustrative example in paragraph 740-10-55-231 for public business entities • Amended rate reconciliation guidance in paragraph 740-10-50-13 and added an illustrative example in paragraphs 740-10-55-232 through 55-233 for entities other than public business entities • Added income taxes paid guidance in paragraphs 740-10-50-22 through 50-23 • Added transition guidance in paragraph 740-10-65-9
740-270, Income Taxes—Interim Reporting	<ul style="list-style-type: none"> • Added interim disclosure guidance on rate reconciliation in paragraph 740-270-50-2 and income taxes paid in paragraph 740-270-50-3
230-10, Statement of Cash Flows—Overall	<ul style="list-style-type: none"> • Amended interest and income taxes paid guidance in paragraph 230-10-50-2 • Added income taxes paid guidance in paragraph 230-10-50-2A

Codification Subtopic	Description of Changes
	<ul style="list-style-type: none"> <li data-bbox="439 309 976 361">Amended Example 1 in paragraph 230-10-55-14

2. The following table provides a summary of certain proposed amendments, which are from the 2019 revised proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*, to the Accounting Standards Codification.

Codification Subtopic	Description of Changes
Master Glossary	<ul style="list-style-type: none"> <li data-bbox="439 647 953 725">Superseded the terms <i>Nonpublic Entity</i> (Definition 5) and <i>Public Entity</i> (Definition 2) from Subtopic 740-10
740-10, Income Taxes—Overall	<ul style="list-style-type: none"> <li data-bbox="439 769 994 873">Amended paragraphs 740-10-50-5 through 50-8, 740-10-50-14 through 50-16, and 740-10-55-217 and added paragraphs 740-10-50-10A through 50-10B
740-30, Income Taxes—Other Considerations or Special Areas	<ul style="list-style-type: none"> <li data-bbox="439 916 844 942">Amended paragraph 740-30-50-2

Introduction

3. The Accounting Standards Codification is amended as described in paragraphs 4–10. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

4. Supersede the following Master Glossary terms from Subtopic 740-10, with a link to transition paragraph 740-10-65-9, as follows:

~~Nonpublic Entity (Definition 5)~~

An entity that does not meet any of the following criteria:

- a. ~~Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally).~~
- b. ~~It is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).~~
- c. ~~Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.~~

Public Entity (Definition 2)

An entity that meets any of the following criteria:

- a. ~~Its debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally).~~
- b. ~~It is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).~~
- c. ~~Its financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.~~

Amendments to Subtopic 740-10

5. Amend paragraphs 740-10-50-5 through 50-8 and the related headings and 740-10-50-11 through 50-16 and their related headings and add paragraphs 740-10-50-10A through 50-10B, 740-10-50-11A, 740-10-50-12A through 50-12C, and 740-10-50-22 through 50-23 and their related heading, with a link to transition paragraph 740-10-65-9, as follows:

Income Taxes—Overall

Disclosure

740-10-50-1 This Section provides guidance on the financial statement disclosure requirements relating to **income taxes** applicable to all entities.

> Statement of Financial Position Related Disclosures

740-10-50-5 An entity's **temporary difference** and carryforward information requires additional disclosure. The additional disclosure differs for ~~public~~**public business entities** and ~~nonpublic-entities~~ other than public business entities.

. > Public Business Entities

740-10-50-6 A ~~public entity~~public business entity shall disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances).

740-10-50-7 See paragraph 740-10-50-16 for disclosure requirements applicable to a public business entity that is not subject to income taxes.

. > **Nonpublic Entities Other Than Public Business Entities**

740-10-50-8 A ~~nonpublic entity~~An entity other than a public business entity shall disclose the types of significant temporary differences and carryforwards but may omit disclosure of the tax effects of each type.

> **Income Statement Related Disclosures**

740-10-50-9 The significant components of income tax expense attributable to continuing operations for each year presented shall be disclosed in the financial statements or notes thereto. Those components would include, for example:

- a. **Current tax expense (or benefit)**
- b. **Deferred tax expense (or benefit)** (exclusive of the effects of other components listed below)
- c. Investment tax credits
- d. Government grants (to the extent recognized as a reduction of income tax expense)
- e. The benefits of operating loss carryforwards
- f. Tax expense that results from allocating certain tax benefits directly to contributed capital
- g. 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
- h. 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. For example, any acquisition-date income tax benefits or expenses recognized from changes in the acquirer's valuation allowance for its previously existing deferred tax assets as a result of a business combination (see paragraph 805-740-30-3).

740-10-50-10 The amount of **income tax expense (or benefit)** allocated to continuing operations and the amounts separately allocated to other items (in accordance with the intraperiod tax allocation provisions of paragraphs 740-20-45-2 through 45-14 and 852-740-45-3) shall be disclosed for each year for which those items are presented.

740-10-50-10A Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign shall be disclosed.

740-10-50-10B Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign shall be disclosed. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile (that is, the jurisdiction imposing the tax).

> Rate Reconciliation between Income Tax Expense Compared to (or Benefit) and Statutory Expectations

740-10-50-11 The reported amount of income tax expense (or benefit) may differ from an expected amount based on statutory tax rates. The following guidance establishes the disclosure requirements for such situations and differs for public business entities and nonpublic entities other than public business entities.

740-10-50-11A The objective of these disclosure requirements is for an entity, particularly an entity operating in multiple jurisdictions, to disclose sufficient information to enable users of financial statements to understand the nature and magnitude of factors contributing to the difference between the effective tax rate and the statutory tax rate.

. > Public Business Entities

740-10-50-12 A public business entity shall disclose a reconciliation, in accordance with paragraphs 740-10-50-12A through 50-12C, between the amount of reported income tax expense (or benefit) from continuing operations and the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate of the jurisdiction of domicile. If a public business entity, as the parent entity, is not domiciled in the United States, the federal (national) income tax rate in that entity's jurisdiction of domicile shall be used in making the computation. ~~reconciliation using percentages or dollar amounts of the reported amount of 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.~~ The statutory tax rates shall be the regular tax rates if there are alternative tax systems. ~~The estimated amount and the nature of each significant reconciling item shall be disclosed.~~

740-10-50-12A For each annual reporting period, a public business entity shall disclose a tabular reconciliation, using both percentages and reporting currency amounts, according to the following requirements:

- a. The following specific categories shall be disclosed:
 1. State and local income tax, net of federal (national) income tax effect
 2. Foreign tax effects
 3. Enactment of new tax laws
 4. Effect of cross-border tax laws
 5. Tax credits
 6. Valuation allowances

7. Nontaxable or nondeductible items
 8. Changes in unrecognized tax benefits.
- b. Separate disclosure shall be 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 tax by the applicable statutory federal (national) income tax rate of the jurisdiction of domicile. When disaggregating the following reconciling items by nature, an entity should consider the reconciling item's fundamental or essential characteristics, such as the event that caused the reconciling item and the activity with which the reconciling item is associated.
1. If the reconciling item is within the effect of cross-border tax laws, tax credits, and nontaxable or nondeductible items categories, it shall be disaggregated by nature.
 2. If the reconciling item is within the foreign tax effects category, it shall be disaggregated by jurisdiction (country) and by nature. If a foreign jurisdiction meets the 5 percent threshold, it shall be separately disclosed as a reconciling item. Within any foreign jurisdiction (regardless of whether it meets the 5 percent threshold), the reconciling item shall be separately disclosed by nature if its gross amount (positive or negative) meets the 5 percent threshold.
 3. If the reconciling item is not within any of the categories listed in (a), it shall be disaggregated by nature.
- c. For the purpose of categorizing reconciling items, the state and local income tax category reflects income taxes imposed at the state or local level within the jurisdiction (country) of domicile, the foreign tax effects category reflects income taxes imposed by foreign jurisdictions, and the remaining categories listed in (a) reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile.

See paragraph 740-10-55-231 for an illustration of a tabular rate reconciliation disclosure.

740-10-50-12B A public business entity shall provide a qualitative description of the states and local jurisdictions that contribute to the majority of the effect of the state and local income tax category.

740-10-50-12C A public business entity shall provide an explanation, if not otherwise evident, of individual reconciling items required by paragraph 740-10-50-12A, such as the nature, effect, and significant year-over-year changes of the reconciling items.

. > Nonpublic Entities Other Than Public Business Entities

740-10-50-13 A ~~nonpublic~~ entity other than a public business entity shall qualitatively disclose the nature and effect of specific categories of significant reconciling items listed in paragraph 740-10-50-12A(a) and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective

tax rate, but may omit a numerical reconciliation is not required. See paragraphs 740-10-55-232 through 55-233 for an illustration of a rate reconciliation disclosure.

. > All Entities

740-10-50-14 If not otherwise evident from the disclosures required by this Section, ~~all entities~~ an entity shall disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented.

> Unrecognized Tax Benefit Related Disclosures

740-10-50-15 ~~An entity~~ All entities shall disclose ~~all of the~~ following at the end of each annual reporting period presented:

- a. Subparagraph superseded by Accounting Standards Update No. 2009-06.
- b. Subparagraph superseded by Accounting Standards Update No. 2009-06.
- c. The total amounts of interest and penalties recognized in the statement of operations and the total amounts of interest and penalties recognized in the statement of financial position
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2023-XX. For positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date:~~
 - ~~1. The nature of the uncertainty~~
 - ~~2. The nature of the event that could occur in the next 12 months that would cause the change~~
 - ~~3. An estimate of the range of the reasonably possible change or a statement that an estimate of the range cannot be made.~~
- e. A description of tax years that remain subject to examination by major tax jurisdictions.

740-10-50-15A ~~Public entities~~ A public business entity shall disclose both of the following at the end of each annual reporting period presented:

- a. A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include at a minimum:
 1. The gross amounts of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period
 2. The gross amounts of increases and decreases in unrecognized tax benefits as a result of tax positions taken during the current period
 3. The amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities
 4. Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations.
- b. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

See Example 30 (paragraph 740-10-55-217) for an illustration of disclosures about uncertainty in income taxes.

> **Public Business Entities Not Subject to Income Taxes**

740-10-50-16 A public business entity that is not subject to income taxes because its income is taxed directly to its owners shall disclose that fact and the net difference between the tax bases and the reported amounts of the entity's assets and liabilities.

> **Statement of Cash Flows Disclosures**

740-10-50-22 For each annual reporting period, all entities shall disclose the year-to-date amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign.

740-10-50-23 For each annual reporting period, all entities shall disclose the amount of income taxes paid (net of refunds received) to each individual jurisdiction 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).

6. Amend paragraph 740-10-55-217 and add paragraphs 740-10-55-230 through 55-233 and their related headings, with a link to transition paragraph 740-10-65-9, as follows:

Implementation Guidance and Illustrations

> **Illustrations**

. > **Example 30: Disclosure Relating to Uncertainty in Income Taxes**

740-10-55-217 This Example illustrates the guidance in paragraph 740-10-50-15 for disclosures about uncertainty in income taxes.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 20X1. The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax returns for 20X2 through 20X4 in the first quarter of 20X7 that is anticipated to be completed by the end of 20X8. ~~As of December 31, 20X7, the IRS has proposed certain significant adjustments to the Company's transfer pricing and research credits tax positions. Management is currently evaluating those proposed adjustments to determine if it agrees, but if accepted, the Company does not anticipate the adjustments would result in a material change to its financial position. However, the Company anticipates that it is reasonably possible that an additional payment in the range of \$80 to \$100 million will be made by the end of 20X8. A~~

reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows.

	20X7	20X6 (in thousands)	20X5
Balance at January 1	\$ 370,000	\$ 380,000	\$ 415,000
Additions based on tax positions related to the current year	10,000	5,000	10,000
Additions for tax positions of prior years	30,000	10,000	5,000
Reductions for tax positions of prior years	(60,000)	(20,000)	(30,000)
Settlements	<u>(40,000)</u>	<u>(5,000)</u>	<u>(20,000)</u>
Balance at December 31	<u>\$ 310,000</u>	<u>\$ 370,000</u>	<u>\$ 380,000</u>

At December 31, 20X7, 20X6, and 20X5, there are \$60, \$55, and \$40 million of unrecognized tax benefits that if recognized would affect the annual effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended December 31, 20X7, 20X6, and 20X5, the Company recognized approximately \$10, \$11, and \$12 million in interest and penalties. The Company had approximately \$60 and \$50 million for the payment of interest and penalties accrued at December 31, 20X7, and 20X6, respectively.

. > Example 39: Rate Reconciliation between Income Tax Expense (or Benefit) and Statutory Expectations

740-10-55-230 The following Cases Illustrate the rate reconciliation disclosure for a public business entity (Case A) and for an entity other than a public business entity (Case B).

. . > Case A: Public Business Entity

740-10-55-231 The following illustrates a rate reconciliation disclosed by a public business entity in accordance with paragraph 740-10-50-12A. The entity is domiciled in the United States and presents comparative financial statements. For the disclosure of foreign tax effects in accordance with paragraph 740-10-50-12A(b)(2), it is assumed that the 5 percent threshold, computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate of the jurisdiction of domicile, is met:

- a. For Ireland, both at the jurisdiction level and for certain individual reconciling items of the same nature within Ireland
- b. For the United Kingdom, for certain individual reconciling items of the same nature within the United Kingdom, but not at the jurisdiction level
- c. For Switzerland and Mexico, at the jurisdiction level, but not for any individual reconciling items of the same nature within each jurisdiction.

[For ease of readability, the new table is not underlined.]

	Year Ended			Year Ended			Year Ended		
	December 31, 20X2			December 31, 20X1			December 31, 20X0		
	Amount	Percent		Amount	Percent		Amount	Percent	
U.S. Federal Statutory Tax Rate	\$ AA	aa	%	\$ BB	bb	%	\$ CC	cc	%
State and Local Income Taxes, Net of Federal Income Tax Effect ⁽¹⁾	AA	aa		BB	bb		CC	cc	
Foreign Tax Effects									
United Kingdom									
Tax rate differential	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Share-based payment awards	AA	aa		BB	bb		CC	cc	
Changes in unrecognized tax benefits	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Other	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Ireland									
Tax rate differential	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Valuation allowances adjustments	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Enactment of new tax laws	-	-		BB	bb		-	-	
Other	AA	aa		(BB)	(bb)		(CC)	(cc)	
Switzerland	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Mexico	AA	aa		BB	bb		CC	cc	
Other foreign jurisdictions	(AA)	(aa)		(BB)	(bb)		CC	cc	
Enactment of New Tax Laws									
Change in tax rate	-	-		-	-		(CC)	(cc)	
Effect of Cross-Border Tax Laws									
Global intangible low-taxed income	AA	aa		BB	bb		CC	cc	
Foreign-derived intangible income	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Base erosion and anti-abuse tax	AA	aa		BB	bb		CC	cc	
Other	AA	aa		-	-		-	-	
Tax Credits									
Research and development tax credits	-	-		(BB)	(bb)		(CC)	(cc)	
Energy-related tax credits	(AA)	(aa)		-	-		-	-	
Foreign tax credits	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Other	-	-		(BB)	(bb)		-	-	
Valuation Allowances	AA	aa		(BB)	(bb)		(CC)	(cc)	
Nontaxable or Nondeductible Items									
Share-based payment awards	AA	aa		BB	bb		CC	cc	
Goodwill impairment	AA	aa		BB	bb		-	-	
Other	AA	aa		(BB)	(bb)		CC	cc	
Changes in Unrecognized Tax Benefits	(AA)	(aa)		BB	bb		(CC)	(cc)	
Other Adjustments	AA	aa		(BB)	(bb)		(CC)	(cc)	
Effective Tax Rate	\$ AA	aa	%	\$ BB	bb	%	\$ CC	cc	%

(1) State taxes in California and New York contributed to the majority of the tax effect in this category.

. > Case B: Entity Other Than Public Business Entity

740-10-55-232 The following illustrates significant reconciling items disclosed by an entity other than a public business entity in accordance with paragraph 740-10-50-13.

740-10-55-233 The difference between Entity W'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 Entity W's operations in Ireland had a decreasing effect on its effective tax rate, while the foreign tax effects of Entity W's operations in France had an increasing effect on its effective tax rate. Entity W received federal research and development tax credits, which decreased its effective tax rate, while state taxes in California increased its effective tax rate.

7. Add paragraph 740-10-65-9 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2023-XX, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*

740-10-65-9 The following represents the transition and effective date information related to Accounting Standards Update No. 2023-XX, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning after [date to be inserted after exposure], including interim periods within those fiscal years.
- b. Early adoption of the pending content that links to this paragraph, including application in an interim period, [is/is not] permitted.
- c. An entity shall apply the pending content that links to this paragraph retrospectively to all prior periods presented in financial statements.

Amendments to Subtopic 740-30

8. Amend paragraph 740-30-50-2, with a link to transition paragraph 740-10-65-9, as follows:

Income Taxes—Other Considerations or Special Areas

Disclosure

> Undistributed Earnings of Subsidiaries and Corporate Joint Ventures

740-30-50-2 ~~All of the~~ The following information shall be disclosed whenever a **deferred tax liability** is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures:

- a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable
- b. Subparagraph superseded by Accounting Standards Update No. 2023-XX. ~~The cumulative amount of each type of~~ **temporary difference**
- c. The amount of the unrecognized deferred tax liability for **{add glossary link}** temporary differences **{add glossary link}** related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable. While paragraph 740-30-25-14 prohibits recognition of a tax **benefit** for tax deductions or favorable tax rates attributable to future dividends of undistributed earnings for which a deferred tax liability has not been recognized, favorable tax treatment would be reflected in measuring that unrecognized deferred tax liability for disclosure purposes.
- d. The amount of the deferred tax liability for temporary differences other than those in (c) (that is, undistributed domestic earnings) that is not recognized in accordance with the provisions of paragraph 740-30-25-18.

Amendments to Subtopic 740-270

9. Add paragraphs 740-270-50-2 through 50-3 and their related headings, with a link to transition paragraph 740-10-65-9, as follows:

Income Taxes—Interim Reporting

Disclosure

> Rate Reconciliation between Income Tax Expense (or Benefit) and Statutory Expectations

740-270-50-2 For each interim reporting period, a public business entity shall provide a description of any reconciling items that result in significant changes in the estimated annual effective tax rate from the effective tax rate of the prior annual reporting period.

> Statement of Cash Flows Disclosures

740-270-50-3 For each interim reporting period, all entities shall disclose the year-to-date amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign.

Amendments to Subtopic 230-10

10. Amend paragraphs 230-10-50-2 and 230-10-55-14 and add paragraph 230-10-50-2A, with a link to transition paragraph 740-10-65-9, as follows:

Statement of Cash Flows—Overall

Disclosure

> Interest and Income Taxes Paid

230-10-50-2 If the indirect method is used, amounts of interest paid (net of amounts capitalized), including the portion of the payments made to settle zero-coupon debt instruments that is attributable to accreted interest related to the debt discount or the portion of the payments made to settle other debt instruments with coupon interest rates that are insignificant in relation to the **effective interest rate** of the borrowing that is attributable to accreted interest related to the debt discount, ~~and income taxes paid during the period~~ shall be disclosed.

230-10-50-2A Income taxes paid (net of refunds received) shall be disclosed in accordance with paragraphs 740-10-50-22 through 50-23 and 740-270-50-3.

Implementation Guidance and Illustrations

> Illustrations

. > Example 1: Direct and Indirect Method for a Manufacturing Entity

230-10-55-14 The following table illustrates the supplemental disclosures of cash flow information.

Cash paid during the year for:

Interest (net of amount capitalized)	\$ 220
Income taxes	325

[Note: This Example does not illustrate the disclosures of income taxes paid required by paragraphs 740-10-50-22 through 50-23, for the year ended December 31, 19X1.]

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing the amendments in this proposed Update to enhance the transparency and decision usefulness of income tax disclosures through improvements to the rate reconciliation and income taxes paid disclosures. Those improvements are expected to better meet the information needs of investors in making capital allocation decisions.

Background Information

BC3. The Board previously considered amendments to the disclosure requirements in Topic 740 as part of the disclosure framework project (resulting in the issuance of Chapter 8, *Notes to Financial Statements*, of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, in August 2018) to improve the effectiveness of disclosures about income taxes. As a result, the Board first issued proposed Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*, in 2016. On the basis of comment letter feedback received as well as the enactment of Public Law 115-97, *An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018* (Tax Cuts and Jobs Act), the Board issued the 2019 revised proposed Update. The amendments in both proposed Updates would have made detailed changes to the disclosure requirements in Topic 740, in accordance with the concepts in Chapter 8 of Concepts Statement 8. However, there was a lack of general support for the amendments in those proposed Updates, and investors noted that the proposed amendments did not, in their view, provide necessary decision-useful information for their capital allocation decisions because those proposed amendments did not focus on providing a top-down analysis of an entity's income tax rate and its significant drivers.

BC4. During the outreach conducted to develop the Invitation to Comment, *Agenda Consultation* (2021 ITC), investors reiterated their request for more disaggregated income tax information, particularly jurisdictional information. To solicit broad stakeholder feedback on the topic of disaggregated income tax disclosures, the following paragraphs were included in the 2021 ITC, which was issued for comment on June 24, 2021:

Investors observed that the existing income tax disclosures do not provide sufficient detail to assess global tax risk. To better understand a company's exposure to potential changes in tax legislation and the global tax risk companies may face, investors suggested a variety of possible enhancements, including requiring disclosure of the amount of cash taxes paid by jurisdiction or geographical segment and disaggregation of the types of taxes paid, such as the global intangible low-taxed income (GILTI) tax and the base erosion and anti-abuse tax (BEAT), to help them better understand what global tax risk companies may face. Investors stated that a requirement for companies to break out operating results by regulatory jurisdictions would help investors gain greater insight into income tax risks.

The FASB's technical agenda includes an income tax disclosures project. The FASB staff is in the process of performing research and outreach on disaggregated income tax information and other disclosure enhancements as part of that project.

BC5. The Board considered the feedback received on income tax disclosures from the 2021 ITC and determined that the existing income tax disclosure project should be refocused to better align with investor requests for more detailed information that would be used in making capital allocation decisions through improvements to income tax disclosures. On the basis of stakeholder feedback, the Board revised the project objective to improve transparency and decision usefulness through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information.

Benefits and Costs

BC6. The objective of financial reporting is to provide information that is useful to present and potential investors, lenders, creditors, and other allocators of capital (collectively, "investors") and donors in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC7. Overall, the Board concluded that the expected benefits of the amendments in this proposed Update would justify the expected costs. The proposed amendments would benefit investors by providing disaggregated information, including jurisdictional information related to the rate reconciliation and income taxes paid and more detailed information about the nature of the items in the rate reconciliation, thereby enhancing the transparency and decision usefulness of

income tax disclosures. Specifically, the combination of improved rate reconciliation disclosures and information about income taxes paid by jurisdiction would provide investors with a better understanding of an entity's income tax provision and related risks and opportunities. Furthermore, the additional disaggregation of income tax information would provide investors with relevant information in understanding an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities, assessing the effect on cash flow forecasts and capital allocation decisions, and identifying potential opportunities to increase future cash flows. This information will drive more efficient investment and capital allocation decisions.

BC8. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update. Although entities could incur increased effort and time to gather and accumulate the incremental information, the disclosures consist of information that would underlie an entity's calculation of its tax provision or would be included in the detail of its tax payments. Accordingly, preparers have indicated that the information either is readily available or could be acquired via existing processes or systems without significant operability challenges.

BC9. During outreach, some stakeholders raised the concern that providing disaggregated rate reconciliation and income taxes paid disclosures, particularly jurisdictional information, may result in adverse consequences, including competitive disadvantages and unintended regulatory scrutiny. The Board believes that the additional disaggregated information is sufficiently high level to diminish the concerns about competitive information being made broadly available, while also recognizing that many taxing authorities, including those in the United States, already accumulate detailed jurisdictional and other tax information well beyond the proposed disclosures. In addition, the Board believes that the beneficial consequences of providing more disaggregated income tax information for investors to make better informed capital allocation decisions outweigh the potential adverse consequences.

Basis for Conclusions

Scope

BC10. The amendments in this proposed Update address investors' requests for greater transparency about income tax information, including jurisdictional information, through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid.

BC11. This proposed Update also includes certain amendments from the 2019 revised proposed Update to improve the effectiveness of income tax disclosures.

BC12. The Board considered but decided not to address the following:

- a. Some investors provided feedback that additional jurisdictional information related to an entity's revenue, operating results, and income tax expense (or benefit) would allow for a more thorough understanding of an entity's business opportunities and exposures. Although two Board members supported pursuing these additional disclosures, other Board members concluded that existing guidance on jurisdictional information for revenue, including revenue by country when material, in paragraph 280-10-50-41 on segment reporting addresses investors' need for jurisdictional information related to an entity's revenue. In addition, addressing a broader request for jurisdictional information would be beyond the scope of an income tax disclosure project and may significantly delay the progress of the project.
- b. Some stakeholders requested incorporating country-by-country reporting for tax purposes as required by the Organisation for Economic Co-operation and Development (OECD) in financial statements. The Board observed that country-by-country reporting is required by the OECD for multinational enterprise groups with revenues above EUR 750 million and includes reporting of various financial information (such as revenue, tangible assets, and stated capital besides profit/loss before tax, income tax expense, and income tax paid) and nonfinancial information (such as number and primary activities of entities and number of employees).
 1. The Board notes that such reporting is beyond the objective of general purpose financial reporting, which is to provide financial information about the reporting entity that is useful to existing and potential investors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit.
 2. The Board also learned that country-by-country reporting often is a discrete manual process that does not align with the timing, level of precision, and extent of reviews and controls inherent in the financial reporting process. In addition, the starting point for preparing country-by-country reporting is not necessarily GAAP amounts (it can be any basis accepted by the taxing authority). Considering the significant costs of aligning an entity's country-by-country reporting processes and its financial reporting processes, the Board does not believe, given the additional jurisdictional information that would be provided by the proposed amendments, that the incremental benefit of incorporating country-by-country information in financial statements would be a cost-beneficial alternative.

Rate Reconciliation

BC13. The Board believes that the rate reconciliation is one of the most useful tax disclosures to provide investors with transparency and understanding of an entity's income taxes, including income tax risks and opportunities. Therefore, the Board

decided to add a disclosure objective to the guidance and prescribe the disaggregation of information presented in the rate reconciliation. The Board believes that the amendments in this proposed Update would enhance the transparency, comparability, and consistency of the disclosed information.

BC14. The Board decided to require that public business entities, on an annual basis, provide a tabular rate reconciliation that contains specific categories and provides additional information for any reconciling item that is equal to or greater than a specified quantitative threshold, in accordance with proposed paragraphs 740-10-50-12A through 50-12C.

BC15. The Board expects that the disclosure improvements to the rate reconciliation will result in more consistent and transparent baseline information for investors. Specifically, the required categories and disaggregated information of reconciling items within those categories would enable investors to better understand tax variability driven by the different nature of reconciling items or taxing jurisdictions, which will enable investors to better assess the sustainability of effective tax rates over time and the reasons for differences in effective tax rates across entities. However, the Board observed, as with all Codification guidance, that the guidance in paragraph 105-10-05-6 is applicable; therefore, the amendments in this proposed Update on disclosure of reconciling items by specific required categories with further disaggregation based on the application of quantitative thresholds would not apply to immaterial items.

BC16. The Board considered whether it was necessary to define the specific categories included in proposed paragraph 740-10-50-12A(a). The Board decided that defining the specific categories would not be necessary because the categories are understandable, currently used in practice, and intended to be general to accommodate future changes to the tax environment. The Board concluded that all income taxes imposed by (a) state and local jurisdictions and (b) foreign jurisdictions would be captured in the state and local income tax and foreign tax effects categories, respectively. For example, the tax effects of a new tax law enacted by a foreign jurisdiction, a tax credit granted by a foreign jurisdiction, or state or local taxes within a foreign jurisdiction would be included in the foreign tax effects category. Accordingly, the remaining specific categories would reflect the effect of taxes in an entity's jurisdiction (country) of domicile.

BC17. The Board acknowledges that the specific categories included in proposed paragraph 740-10-50-12A(a) may not cover all income tax effects and judgment may need to be applied when determining how to categorize certain income tax effects that do not clearly fall into a single category. The Board also acknowledges that judgment may be necessary when determining how to categorize certain income tax effects that have characteristics of multiple categories or when assessing the nature of reconciling items for further disaggregation in proposed paragraph 740-10-50-12A(b). In situations in which judgment has been applied, the Board believes that an entity should assess whether the disclosure objective in proposed paragraph 740-10-50-11A is met. An entity should also consider

whether an accompanying explanation is needed in accordance with proposed paragraph 740-10-50-12C.

BC18. The Board agreed that the cross-border tax laws category should reflect the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned abroad or on income earned by foreign subsidiaries. For purpose of the illustration of a tabular rate reconciliation disclosure in paragraph 740-10-55-231 for a U.S.-domiciled entity, tax effects related to GILTI, BEAT, and foreign-derived intangible income (FDII) are included in this category. The Board acknowledges, however, that judgment may be necessary when identifying the reconciling items to be included in this category for both U.S.-domiciled entities and entities domiciled in a foreign jurisdiction.

BC19. The Board decided to require further disaggregation of reconciling items on the basis of a quantitative threshold of 5 percent (that is, whether the absolute value of the effect of a reconciling item is equal to or greater than the absolute value of 5 percent of the amount computed by multiplying the income [or loss] from continuing operations before tax by the applicable statutory federal or national income tax rate of the jurisdiction of domicile). The 5 percent threshold is consistent with the existing SEC Regulation S-X 210.4-08(h)(2) applied by public business entities. The Board believes that the 5 percent threshold offers an appropriate balance between providing investors with decision-useful information and the incremental costs of reporting the information. The Board notes that during outreach, stakeholders, including investors, were generally comfortable with that threshold.

BC20. For the foreign tax effects category, the Board agreed that breaking down this category into significant reconciling items by jurisdiction (country) and by nature would provide necessary additional transparency. If a foreign jurisdiction meets the 5 percent threshold, it would be separately disclosed as a reconciling item. Within any foreign jurisdiction (regardless of whether it meets the 5 percent threshold), the reconciling item would be separately disclosed by nature if its gross amount (positive or negative) meets the 5 percent threshold. In some cases, a foreign jurisdiction in total may not meet the 5 percent threshold, but there could be individual reconciling items, which meet the 5 percent threshold, disclosed for that foreign jurisdiction. As illustrated in proposed paragraph 740-10-55-231, there could be different reconciling items by nature presented for different foreign jurisdictions or there could be no reconciling items by nature presented for certain foreign jurisdictions, depending on the application of the 5 percent threshold.

BC21. The Board considered but decided not to provide additional guidance on how to apply the 5 percent threshold when an entity operates at or around break even or an entity is domiciled in a jurisdiction with no or minimal statutory tax rates but has significant business activities in other jurisdictions with higher statutory tax rates. Outreach with investors and preparers did not identify a need for specific guidance on how to apply the amendments in this proposed Update to the rate reconciliation disclosures under those circumstances. The Board acknowledges,

however, that such entities may consider materiality or use a normalized pretax income (or loss) amount or a higher federal or national tax rate for purposes of preparing the rate reconciliation to provide more relevant and meaningful information.

Private Company Considerations

BC22. Under the existing guidance, nonpublic entities are required to disclose the nature of significant reconciling items but may omit a numerical reconciliation. The Board decided to improve the qualitative disclosure guidance by requiring entities other than public business entities to disclose the nature and effect of specific categories of items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. In arriving at its decision, the Board primarily considered the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, and recent feedback from Private Company Council (PCC) members. In addition, stakeholders have indicated that not-for-profit entities and employee benefit plans generally do not engage in activities that result in a significant amount of unrelated business income taxes or do not have significant income tax activities. For not-for-profit entities and employee benefit plans that are subject to Topic 740, similar considerations for private companies would be extended to those entities.

BC23. The Private Company Decision-Making Framework indicates that in deciding whether to provide disclosure alternatives for private companies, the Board and the PCC should place the most weight on the relevance of the disclosure to the most common types of users of private company financial statements (investors, lenders, and other creditors). At the September 2022 PCC meeting, PCC members who are users expressed mixed feedback on whether private companies should be required to provide the same rate reconciliation disclosures that would be required for public business entities. One user PCC member indicated that he would not benefit from a numerical reconciliation, and another user PCC member expressed concern that preparing a numerical rate reconciliation would be costly for smaller private entities. Conversely, one academic PCC member expressed support for a disaggregated numerical rate reconciliation.

BC24. Paragraph 2.6 of the Private Company Decision-Making Framework states in part that in evaluating potential disclosure alternatives for private companies, the Board and the PCC also should consider, but place less weight on, the cost of providing the disclosures, both in terms of the cost incurred by the preparer and the efforts spent by the user to sort through disclosures that may have limited or no relevance. At the September 2022 PCC meeting, preparer PCC members indicated that a numerical rate reconciliation with specific categories and a quantitative threshold would significantly increase reporting costs compared with the cost of complying with the narrative disclosures currently required. They suggested focusing on the specific categories rather than jurisdictional

disaggregation. Another practitioner PCC member noted that the current requirement to disclose the nature of significant reconciling items provides the information necessary to enable users to ask management follow-up questions (referred to as the “red flag approach” in the Private Company Decision-Making Framework).

BC25. Paragraph 2.7 of the Private Company Decision-Making Framework states that because many users of private company financial statements do not seek the same level of detailed information as do users of public company financial statements and because of cost considerations, the Board and the PCC should consider not requiring the disclosure of disaggregated information such as (a) a tabular reconciliation and (b) quantitative details about the composition of certain income statement or balance sheet line items. Instead, disclosure alternatives should be provided that limit the requirement to a nontabular description or, in other words, a narrative (which may include both quantitative information and qualitative information) that can provide users with a basic understanding of items having the most significant effect on financial statements. Therefore, the Board decided to require only qualitative disclosures for entities other than public business entities.

Income Taxes Paid

BC26. The Board decided to require that all entities disclose income taxes paid disaggregated by domestic, state, and foreign categories. The Board believes that this information would enhance investors’ understanding of entities’ income taxes and investors’ abilities to project the amount, timing, and uncertainty of future cash flows. It also would assist investors when analyzing the correlation between income tax expense (benefit) and income taxes paid.

BC27. After considering stakeholder feedback, other reporting requirements, and current practice, the Board decided to require that an entity disclose income taxes paid further disaggregated by individual jurisdiction on the basis of a quantitative threshold of 5 percent of total income taxes paid. Therefore, if the income taxes paid to an individual jurisdiction is equal to or greater than the 5 percent threshold, an entity must separately disclose income taxes paid in that jurisdiction. An entity may identify a country, state, or local territory as an individual jurisdiction. However, the Board observed that the guidance in paragraph 105-10-05-6 is applicable; therefore, the amendments in this proposed Update on disclosures of income taxes paid based on the application of a quantitative threshold would not apply to immaterial items.

BC28. The Board considered but decided not to require disaggregation of income taxes paid based on a specified number of jurisdictions in which the highest amount of taxes was paid because the specified number of jurisdictions would be arbitrary, may change from period to period, and would likely result in some entities evaluating immaterial amounts for disclosure and other entities disclosing jurisdictions with cumulatively low coverage. The Board also considered but decided not to require disaggregation of individual jurisdictions based on *major*

jurisdictions with a quantitative coverage requirement. The Board decided that establishing a common understanding and application of what constitutes a *major jurisdiction* would be challenging and might result in diversity in practice and less decision-useful information.

BC29. The Board decided to require that all entities disclose the year-to-date amount of income taxes paid disaggregated by domestic, state, and foreign categories on both an interim and annual basis. This information is relevant to investor analyses and disclosing it on an interim basis, along with a qualitative disclosure of the rate reconciliation information on an interim basis for public business entities, would provide investors with relevant information in a timely manner.

BC30. The Board decided to require disclosure of the amount of income taxes paid disaggregated by individual jurisdiction (based on the 5 percent quantitative threshold) on an annual basis only. The Board considered but decided not to require disaggregation by individual jurisdiction on an interim basis because taxes may not be paid ratably and, therefore, the disclosure would not provide decision-useful information.

BC31. The Board also clarified that the amount of income taxes paid required to be disclosed is the amount of the net payment remitted or net refund received for the period, computed as total income taxes paid net of cash refunds received. Stakeholders indicated that disclosing income taxes paid on a net basis is more relevant and decision useful than disclosing income taxes paid on a gross basis. Also, the Board clarified that an entity should apply the 5 percent quantitative threshold by comparing the absolute value of the net payment or refund in each jurisdiction with the absolute value of total income taxes paid (net of refunds received) when determining the jurisdictions for separate disclosure in accordance with proposed paragraph 740-10-50-23.

Private Company Considerations

BC32. The Board decided to require entities other than public business entities to provide the same income taxes paid disclosures as do public business entities. In arriving at its decision, the Board primarily considered the Private Company Decision-Making Framework and recent feedback from members of the PCC. When disaggregated disclosures are being considered for private companies, the Private Company Decision-Making Framework indicates that the Board and the PCC should place most weight on the relevance of the disclosure to the most common types of users of private company financial statements (investors, lenders, and other creditors). At the September 2022 PCC meeting, some user PCC members expressed support for disclosing income taxes paid on a disaggregated basis, indicating that disaggregated information about income taxes paid would help them better understand an entity's income tax risks and opportunities and the sustainability of tax rates. That information also would help assess trends and highlight areas that require more management input.

Conversely, some user PCC members indicated that they could request tax returns from management and that if the request is granted, the tax returns would provide sufficient information to perform an analysis and provide a basis to ask for further management input.

BC33. Paragraph 2.6 of the Private Company Decision-Making Framework states in part that in evaluating potential disclosure alternatives for private companies, the Board and the PCC also should consider, but place less weight on, the cost of providing the disclosures, both in terms of the cost incurred by the preparer and the efforts spent by the user to sort through disclosures that may have limited or no relevance. At the September 2022 PCC meeting, some preparer PCC members stated that jurisdictional information about income taxes paid is available or could be made available.

BC34. Paragraph DF7 of the Private Company Decision-Making Framework states in part that lenders and other creditors are concerned most about financial statement amounts and notes that affect reported amounts of cash, liquidity, and cash flow from operations to service debt and that many private company investors focus on accounting and disclosure requirements affecting cash. Therefore, the Board concluded that entities other than public business entities also would be required to comply with the amendments in this proposed Update on income taxes paid, including the proposed disclosures for interim reporting period if those entities issue interim financial statements in accordance with GAAP.

Disclosures Previously Exposed for Comment

BC35. This proposed Update includes the following proposed amendments that were previously exposed for comment in the 2019 revised proposed Update:

- a. Replace the term *public entity* with the term *public business entity*.
- b. Eliminate the requirements 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.
- c. 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.
- d. Add the requirement for all entities to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign.
- e. Add the requirement for all entities to disclose income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.

BC36. The Board affirmed and decided to include in this proposed Update the first three previously exposed proposed amendments listed in paragraph BC35

because comment letter respondents to the 2019 revised proposed Update were broadly supportive of those amendments. More specifically, most comment letter respondents broadly supported replacing the term *public entity* with *public business entity*, noting that the change in scope would improve consistency in the Codification and would not create a significant change in practice. Comment letter respondents supported the proposed amendment to remove the requirement to disclose the nature and estimate of the range of the reasonably possible change in unrecognized tax benefits in the next 12 months because it would be difficult to reliably predict changes and, therefore, may not provide meaningful information to investors. Lastly, all respondents who provided feedback on the proposed 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 expressed support for its removal. Those respondents noted that the disclosure is costly to prepare and significantly less relevant after considering the effects of the Tax Cuts and Jobs Act, which introduced provisions to tax the cumulative earnings and profits of foreign subsidiaries that had not been repatriated as of the date of enactment (that is, a one-time transition tax) and generally allows entities to repatriate earnings from foreign subsidiaries without incurring U.S. federal income taxes.

BC37. The Board decided to include in this proposed Update the previously exposed proposed amendments 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 in response to a request from the SEC as part of the SEC's Disclosure Update and Simplification initiative. The SEC currently requires similar disclosures. Some Board members indicated that the SEC-required disclosures provide decision-useful information to investors and would enable investors to analyze more fully an entity's income tax risks and opportunities. The Board decided to propose those disclosures for all entities, highlighting the importance of obtaining broader private company stakeholder feedback through the comment letter process to further evaluate the relevancy of the disclosures for private company investors.

BC38. Most respondents to the 2019 revised proposed Update expressed support for the proposed amendment that would require the disaggregation of pretax income (or loss) from continuing operations between domestic and foreign, indicating that it would provide decision-useful information to investors. A few respondents did not support the disaggregation of pretax income for private companies primarily because it would not offer decision-useful information to private company investors and does not appear to align with areas that private company investors focus on, such as income taxes paid and compliance with taxing authorities.

BC39. Most respondents to the 2019 revised proposed Update expressed support for the proposed amendment that would require the disaggregation of income tax

expense (or benefit) from continuing operations by federal (national), state, and foreign, noting that it would be operable and result in decision-useful information for investors. A few respondents did not support the disaggregation of income tax expense (benefit), indicating that decision-useful information would not be provided by requiring entities to disaggregate income tax expense (or benefit) from continuing operations at such a granular level and that some private companies lack the resources to provide the disclosure in a timely manner. Additionally, those respondents commented that tax provisions reflected in financial statements are primarily estimates and to disclose income tax expense (benefit) by state that is more precise than an estimate, entities would need to gather their state apportionment data and prepare their tax returns much earlier than they presently do.

Effective Date and Transition

BC40. To improve comparability and consistency of income tax information disclosed, the Board decided that the amendments in this proposed Update should be applied retrospectively. Considering that the information required under the proposed amendments is readily available or could be acquired through existing processes or systems, the Board does not expect retrospective transition to result in significant cost or complexity. However, the Board acknowledges that entities may incur additional costs or need additional time to collect and compile the information needed to comply with certain proposed amendments, such as the disclosure of specific categories of the reconciling items that would be required by proposed paragraph 740-10-50-12A.

BC41. The Board will determine the effective date and whether early adoption of the amendments in this proposed Update should be permitted after it considers stakeholder feedback on the proposed amendments.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.