

No. 2023-09
December 2023

Income Taxes (Topic 740)

Improvements to Income Tax Disclosures

An Amendment of the *FASB Accounting Standards Codification*®

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.

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Accounting Standards Update

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Financial Accounting Standards Board
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Summary

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

The Board is issuing the amendments in this Update to enhance the transparency and decision usefulness of income tax disclosures. Investors, lenders, creditors, and other allocators of capital (collectively, “investors”) indicated that the existing income tax disclosures should be enhanced to provide information to better assess how an entity’s 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, 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 Update 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 Update also includes certain other amendments to improve the effectiveness of income tax disclosures.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities that are subject to Topic 740, Income Taxes.

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

What Are the Main Provisions?

Rate Reconciliation

The amendments in this Update 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 income tax rate).

Specifically, 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 Update 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 Update require that all entities disclose on an annual basis the following information about income taxes paid:

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

Other Disclosures

The amendments in this Update 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 Update 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 Update 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 Update 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.

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

The amendments in this Update related to the rate reconciliation and income taxes paid disclosures 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 amendments 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 Update improve the effectiveness and comparability 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 Will the Amendments Be Effective and What Are the Transition Requirements?

For public business entities, the amendments in this Update 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.

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

The amendments in this Update should be applied on a prospective basis. Retrospective application is permitted.

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

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–10. 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

2. 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

3. 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 740-10-50-1A, 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.

740-10-50-1A Nothing in this Subtopic is intended to discourage an entity from reporting additional information specific to its income tax rate reconciliation or income taxes paid to further an understanding of the entity and the related disclosures.

> 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 for each annual reporting period.

740-10-50-10B Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign shall be disclosed for each annual reporting period. 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 for each annual reporting period, 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 income taxes by the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile. In circumstances in which 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 (country) of domicile shall normally be used in the reconciliation, and different rates shall not be used for subsidiaries or segments of the public business entity. When the rate used by a public business entity is other than the United States federal corporate income tax rate, the public business entity shall disclose the rate used and the basis for using that rate. ~~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. 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.
- 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 income taxes by the applicable statutory federal (national) income tax rate of the jurisdiction (country) 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. Reconciling items shall be presented on a gross basis unless specific guidance in (c) permits net presentation with a related reconciling item.
 1. If the reconciling item is within the effect of cross-border tax laws, tax credits, or 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, except for reconciling items related to changes in unrecognized tax benefits discussed in (c). 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 and presenting reconciling items:

1. Except for reconciling items related to changes in unrecognized tax benefits discussed in (c)(2), 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.
2. For reconciling items related to changes in unrecognized tax benefits:
 - i. Reconciling items resulting from changes in judgment related to tax positions taken in prior annual reporting periods (such as subsequent recognition, derecognition, and change in measurement of unrecognized tax benefits) are reflected in the changes in unrecognized tax benefits category.
 - ii. When an unrecognized tax benefit is recorded in the current annual reporting period for a tax position taken or expected to be taken in the same reporting period, the unrecognized tax benefit and its related tax position may be presented on a net basis in the category where the tax position is presented.
 - iii. Reconciling items presented in the changes in unrecognized tax benefits category may be disclosed on an aggregated basis for all jurisdictions.
3. The effect of cross-border tax laws category reflects the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions. When the jurisdiction (country) of domicile taxes cross-border income but also provides a tax credit on the same income during the same reporting period, the tax effect of both the cross-border tax and its related tax credit may be presented on a net basis in the effect of cross-border tax laws category. For example, the tax effect related to the global intangible low-taxed income and its related foreign tax credits may be presented on a net basis as one reconciling item in the effect of cross-border tax laws category.
4. The effect of changes in tax laws or rates enacted in the current period category reflects 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.

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 make up the majority (greater than 50 percent) of the effect of the state and local income tax category. For the purpose of identifying the states and local jurisdictions that make up the majority of the effect, a public business entity shall 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 percent.

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 underlying causes of the reconciling items and the judgment used in categorizing the reconciling items.

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

740-10-50-13 A ~~nonpublic~~An 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 qualitative disclosure of rate reconciling items.

• > **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. 2023-09. 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 Related Disclosures

740-10-50-22 For each annual reporting period, all entities shall disclose the 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).

4. 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	20X5
		(in thousands)	
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	(40,000)	(5,000)	(20,000)
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 the specific categories and the reconciling items disclosed by a public business entity in its tabular rate reconciliation in accordance with paragraphs 740-10-50-12A through 50-12B. 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 income taxes by the applicable statutory federal (national) income tax rate of the United States, 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 December 31, 20X2			Year Ended December 31, 20X1			Year Ended 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 ^(a)	AA	aa		BB	bb		CC	cc	
Foreign Tax Effects									
United Kingdom									
Statutory tax rate difference between United Kingdom and United States	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Share-based payment awards	AA	aa		BB	bb		CC	cc	
Research and development tax credits	(AA)	(aa)		(BB)	(bb)		CC	cc	
Other	(AA)	(aa)		BB	bb		(CC)	(cc)	
Ireland									
Statutory tax rate difference between Ireland and United States	(AA)	(aa)		(BB)	(bb)		(CC)	(cc)	
Changes in valuation allowances	(AA)	(aa)		(BB)	(bb)		CC	cc	
Enacted changes in tax laws or rates	-	-		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	
Effect of Changes in Tax Laws or Rates Enacted in the Current Period	-	-		-	-		(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)		-	-		-	-	
Other	-	-		(BB)	(bb)		-	-	
Changes in 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	%

^(a) State taxes in California and New York made up the majority (greater than 50 percent) 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.

5. 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. 2023-09, 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. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*:

- a. The pending content that links to this paragraph shall be effective for **public business entities** for annual periods beginning after December 15, 2024.
- b. For entities other than public business entities, the pending content that links to this paragraph shall be effective for annual periods beginning after December 15, 2025.
- c. Early adoption of the pending content that links to this paragraph is permitted for annual financial statements that have not yet been issued (or made available for issuance).
- d. An entity shall apply the pending content that links to this paragraph on a prospective basis to financial statements for annual periods beginning after the effective date. Retrospective application to each period presented in the financial statements is permitted.

Amendments to Subtopic 740-30

6. 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. 2023-09. 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 230-10

7. 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.

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.

Amendments to Status Sections

8. Amend paragraph 230-10-00-1, by adding the following items to the table, as follows:

230-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
230-10-50-2	Amended	2023-09	12/14/2023
230-10-50-2A	Added	2023-09	12/14/2023
230-10-55-14	Amended	2023-09	12/14/2023

9. Amend paragraph 740-10-00-1, by adding the following items to the table, as follows:

740-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Conduit Debt Securities	Superseded	2023-09	12/14/2023
Nonpublic Entity (5th def.)	Superseded	2023-09	12/14/2023
Public Entity (2nd def.)	Superseded	2023-09	12/14/2023
740-10-50-1A	Added	2023-09	12/14/2023
740-10-50-5 through 50-8	Amended	2023-09	12/14/2023
740-10-50-10A	Added	2023-09	12/14/2023
740-10-50-10B	Added	2023-09	12/14/2023
740-10-50-11 through 50-16	Amended	2023-09	12/14/2023
740-10-50-11A	Added	2023-09	12/14/2023
740-10-50-12A through 50-12C	Added	2023-09	12/14/2023
740-10-50-22	Added	2023-09	12/14/2023
740-10-50-23	Added	2023-09	12/14/2023
740-10-55-217	Amended	2023-09	12/14/2023
740-10-55-230 through 55-233	Added	2023-09	12/14/2023
740-10-65-9	Added	2023-09	12/14/2023

10. Amend paragraph 740-30-00-1, by adding the following item to the table, as follows:

740-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
740-30-50-2	Amended	2023-09	12/14/2023

The amendments in this Update were adopted 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
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt
Dr. Joyce T. Joseph

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this 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 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 Accounting Standards Update, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*. 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. Investors that use the financial statements and footnotes when making capital allocation decisions expressed the view that the transparency provided by current income tax disclosures should be enhanced to provide investors with information to better assess how an entity's operations and related tax risks and tax planning and operational opportunities affect its tax rate and prospects for future cash flows. On the basis of that view, the Board decided to refocus the existing income tax disclosure project to better align with investor input and revised the project objective to improve transparency and decision usefulness of income tax disclosures by making improvements to the rate reconciliation and income taxes paid information. While other interested parties (such as taxing authorities, public interest groups, and members of the public other than investors) requested that the project be expanded to include other focus areas, the Board noted that this project is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions and is not intended to address the more general informational requests of other parties.

BC6. On March 15, 2023, the Board issued the proposed Accounting Standards Update, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, for public comment with the comment period ending on May 30, 2023. The Board received 60 comment letters in response to the proposed Update. Overall, many comment letter respondents expressed support for the amendments in the proposed Update, noting that the proposed amendments (a) would improve the transparency, consistency, and decision usefulness of income tax disclosures and (b) were clear and operable. While those respondents expressed general or overall support, they also provided suggestions on various areas for further improvement or clarification.

BC7. During the exposure period, additional outreach was conducted with investors that use the financial statements and footnotes when making capital allocation decisions. Investors generally supported the amendments in the proposed Update, noting that the additional detail provided on reconciling items in the rate reconciliation and the further break down of income taxes paid by jurisdiction would help them better understand an entity's tax position and exposure, ask more informed questions, or corroborate information provided by management and better assess an entity's effective tax rate and prospects for future cash flows. The consistent support from investors led the Board to move forward with finalizing the amendments in this Update.

BC8. The Board considered stakeholder feedback on various areas for further improvement or clarification in reaching the conclusions in this Update, as discussed below.

Benefits and Costs

BC9. 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 allocators of capital 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.

BC10. Overall, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs. The amendments

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 provides 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 provides 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 assist in driving efficient investment and capital allocation decisions.

BC11. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The Board acknowledges that entities likely will incur increased costs (including costs related to additional processes, systems, and controls) to gather, accumulate, and report the incremental information. However, the disclosures consist of information that underlies an entity's calculation of its tax provision or is included in the detail of its tax payments. In addition, preparers and practitioners have indicated that the information either is readily available or could be acquired via existing processes or systems without significant changes or significant operability challenges.

BC12. 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. Feedback received from comment letter respondents indicated that their most significant concern was about providing certain jurisdictional information related to the proposed amendment to disclose changes in unrecognized tax benefits by jurisdiction. The Board considered this feedback, as well as feedback received from investors stating that they primarily use this disclosure to evaluate how an entity assesses its tax positions and that disclosure of an aggregate amount is generally sufficient for their analyses. Considering the feedback and observing that this issue also was specifically addressed in the development of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, the Board decided to permit entities to aggregate changes in unrecognized tax benefits for all jurisdictions. With this significant concern about the disclosure of jurisdictional information being addressed, the Board notes that the additional disaggregated information required by the amendments in this Update is at a

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 required disclosures. While those concerns appear to be largely mitigated, the Board concluded, and investors communicated, that the beneficial consequences of providing more disaggregated income tax information for investors to make better informed capital allocation decisions exceed the potential costs.

BC13. In summary, the Board decided that information provided by the amendments in this Update strikes a reasonable balance between meeting investors' needs for more disaggregated income tax information and addressing stakeholders' concerns about the costs of providing the information.

Basis for Conclusions

Scope

BC14. The amendments in this 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.

BC15. This Update also includes certain other amendments to improve the effectiveness and comparability of income tax disclosures.

BC16. 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 a Board member expressed some level of support for 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 could 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 concluded that, given the additional jurisdictional information provided by the amendments in this Update, the incremental benefit of incorporating country-by-country information in financial statements would not be a cost-beneficial alternative.

BC17. The Board also considered but decided not to address certain other requests raised in comment letters for various additional changes (for example, to require a reconciliation of income tax expense to income taxes paid, to require a reconciliation of GAAP income to taxable income, or to provide guidance on the accounting for and presentation of refundable and transferrable income tax credits). The Board noted that those requests are broader than the established scope of the income tax disclosure project and if addressed as part of this project could significantly delay the benefits to investors from the issuance of the disclosure enhancements in this Update.

Rate Reconciliation

General Approach

BC18. In the Board's view, the rate reconciliation is one of the most useful tax disclosures to provide investors with an understanding of an entity's income taxes, including transparency into 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 expects that the amendments in this Update will enhance the transparency, comparability, and consistency of the disclosed information.

BC19. The Board decided to require that public business entities provide on an annual basis a tabular rate reconciliation (using both percentages and reporting currency amounts) that contains specific categories and provides additional information for any reconciling item (within certain categories) that is equal to or greater than a specified quantitative threshold, in accordance with paragraphs 740-10-50-12A through 50-12C.

BC20. The Board expects that requiring specific categories in the rate reconciliation and further disaggregated information of reconciling items within certain categories will enable investors to better understand 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.

BC21. Stakeholders (including investors, advisory groups, and comment letter respondents) generally supported the Board's decision to require, in a tabular rate reconciliation, specific categories and disaggregated information of reconciling items within certain categories. Most comment letter respondents noted that the standardization of the categories in the rate reconciliation will promote disclosure consistency and comparability. Investors observed that the improvements to the rate reconciliation will provide important information to better understand the factors that affect an entity's tax rate (including nonrecurring items), assess the sustainability of an entity's tax rate, evaluate how jurisdictional tax risks and opportunities affect an entity's operating cash flows, and promote more informed discussions with management. Investors stated that they use both percentages and amounts in their analyses, and other stakeholders indicated that it is not costly for entities to provide both pieces of information.

Materiality Considerations

BC22. A number of stakeholders requested that the Board clarify whether (and how) materiality should be considered when evaluating whether reconciling items that meet the quantitative threshold are required to be disclosed. The Board observed that the guidance in paragraph 105-10-05-6, which states that the provisions of the Codification need not be applied to immaterial items, is applicable to the amendments in this Update, as it is to all Codification guidance. Therefore, the amendments on the disclosure of reconciling items by specific categories with further disaggregation of reconciling items based on the application of a quantitative threshold do not apply to immaterial items. That is, an entity does not need to separately disclose the required specific categories or reconciling items if they are immaterial, even if the quantitative threshold is met.

BC23. Other stakeholders suggested that the Board include guidance related to materiality in Topic 740 on income tax disclosures. They noted that the amendments in the proposed Update were unclear on whether an entity would be required to separately disclose each of the eight categories regardless of materiality.

BC24. The Board considered the feedback but decided not to add a discussion of materiality to the guidance in Topic 740 because the materiality guidance in paragraph 105-10-05-6 applies to all Topics. The Board was concerned that replicating the materiality guidance in some Topics and not others could lead to unnecessary confusion and potential inconsistency in practice. Therefore, the Board decided that it is appropriate to retain the discussion of materiality in the basis for conclusions with a clear reference to Topic 105, Generally Accepted Accounting Principles.

Specific Categories

BC25. The Board considered whether it was necessary to define the specific categories included in paragraph 740-10-50-12A(a). In the proposed Update, 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. Most stakeholders agreed that the required specific categories are understandable, reasonable, and generally consistent with those already presented in the rate reconciliation by many public business entities. However, some stakeholders suggested that the Board explain or clarify the intent of certain specific categories to provide a better understanding and a more consistent application of the guidance. To further enhance the clarity and

operability of the guidance, the Board decided to make the following clarifications to specific categories in response to stakeholder feedback:

- a. Stakeholders generally agreed that the effect of 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. However, they suggested incorporating the description of the nature of the effect of cross-border tax laws category originally included in the basis for conclusions of the proposed Update into Topic 740. In response to stakeholder feedback, the Board decided to include the description of the nature of the effect of cross-border tax laws category in Topic 740.
- b. Stakeholders requested that the Board clarify that the enactment of new tax laws category should be limited to only the cumulative adjustment to deferred tax assets and liabilities as of the enactment date and changes in income taxes payable or refundable for prior years as a result of an enactment of new tax laws in the reporting period. After discussing this feedback, the Board decided to clarify that this category is intended to reflect 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. Accordingly, the Board decided to include the description of the nature of this category in Topic 740. Furthermore, to better align with the current language used in Topic 740 on changes in tax laws or rates, the Board decided to change the name of this category to “effect of changes in tax laws or rates enacted in the current period.”
- c. Stakeholders also requested that the Board clarify the intent of the changes in unrecognized tax benefits category. They suggested including a description of the nature of the changes in the unrecognized tax benefits category in Topic 740. In response to stakeholder feedback, the Board decided to clarify in Topic 740 that this category is intended to reflect reconciling items related to changes in unrecognized tax benefits as a result of changes in judgment related to tax positions taken in prior reporting periods (such as subsequent recognition, derecognition, and change in measurement of unrecognized tax benefits).
- d. Some stakeholders requested that the Board clarify the intent of the valuation allowances category. In response to this feedback, the Board changed the name of this category to “changes in valuation allowances” to reflect the valuation allowances initially recognized or subsequently adjusted in the reporting period.

BC26. Stakeholders expressed concern about disclosing the unrecognized tax benefits by jurisdiction, noting that it could pose financial risks to entities or provide prejudicial information to taxing authorities in individual jurisdictions,

without a commensurate benefit for investors. They noted that the Board acknowledged this risk in the 2016 proposed Update and that the existing disclosure guidance in paragraphs 740-10-50-15 through 50-15A also provides investors with information about an entity's unrecognized tax benefits. Therefore, stakeholders suggested that the Board allow entities to aggregate disclosure of changes in unrecognized tax benefits for all jurisdictions. When discussing this feedback, the Board acknowledged the concern raised by stakeholders and decided to permit entities to aggregate the disclosure of changes in unrecognized tax benefits for all jurisdictions. The Board concluded that the aggregated disclosure is consistent with previous decisions made by the Board on unrecognized tax benefits in Topic 740 and provides incremental information to investors.

BC27. The Board considered but decided not to make further suggested changes to other specific categories, including addressing requests to allow entities to disclose valuation allowances on an aggregated basis for all jurisdictions.

BC28. The Board concluded that, except for the tax effects related to changes in unrecognized tax benefits, all income taxes imposed by (a) states and local jurisdictions and (b) foreign jurisdictions are required to 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 are required to be included in the foreign tax effects category. Accordingly, the remaining specific categories other than the changes in unrecognized tax benefits category reflect the effect of taxes in an entity's jurisdiction (country) of domicile.

BC29. The Board acknowledges that the specific categories included in 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 paragraph 740-10-50-12A(b). In situations in which judgment has been applied, the Board noted that an entity should assess whether the disclosure objective in paragraph 740-10-50-11A is met. An entity also should consider whether an accompanying explanation is needed in accordance with paragraph 740-10-50-12C. For example, an entity may decide to include the tax effects of share-based payment awards (such as nondeductible expenses, shortfalls, and windfalls) in the nontaxable or nondeductible items category, although the windfall on a standalone basis might not be viewed as exclusively

relating to this category. In that situation, the entity should consider providing an accompanying explanation to describe the types of tax effects of share-based payment awards (including windfalls) that are included in the nontaxable or nondeductible items category.

BC30. The tabular rate reconciliation disclosure in paragraph 740-10-55-231 includes tax effects related to global intangible low-taxed income (GILTI), base erosion and anti-abuse tax (BEAT), and foreign-derived intangible income (FDII) in the cross-border tax laws category. The Board received feedback that the illustration should not include FDII in the cross-border tax laws category because some stakeholders view FDII as a special deduction rather than a cross-border tax law. The Board considered the feedback but retained the reference to FDII in the illustration under the effect of cross-border tax laws category to provide a more consistent disclosure of that information. However, the Board acknowledges that judgment may be necessary when identifying the reconciling items to be included in this category, including the categorization of special deductions such as FDII, for both U.S.-domiciled entities and entities domiciled in a foreign jurisdiction.

BC31. The Board also considered but decided not to provide specific guidance on where other reconciling items, such as proportional amortization and tax effects of significant transactions and business events, should be categorized. The Board noted that an entity will need to use judgment to determine to which specific category a reconciling item relates. If the entity decides that the reconciling item does not fall into any specific category, the entity is required to disclose the reconciling item separately as other adjustments in the rate reconciliation if it meets the 5 percent threshold in accordance with paragraph 740-10-50-12A(b)(3).

Gross versus Net Presentation

BC32. Comment letter respondents noted that some reconciling items are interrelated or interdependent and have an offsetting effect on each other. Those respondents asked that the Board clarify whether entities may apply judgment in presenting reconciling items on a gross or net basis. The Board concluded that requiring gross treatment of the tax effects will result in greater comparability and increased transparency of information for investors, thereby enhancing the benefits of the improvements to the rate reconciliation disclosure. Furthermore, investors broadly supported gross presentation except in specific circumstances. Therefore, the Board decided to clarify that all reconciling items should be presented on a gross basis unless specific guidance permits net presentation, as discussed below.

BC33. Stakeholders suggested that the reconciling items in the effect of cross-border tax laws category, particularly GILTI, be presented net of the related foreign tax credits. They noted that disclosing the cross-border income taxes imposed by the jurisdiction (country) of domicile gross, rather than net of the benefits provided by the same jurisdiction for foreign taxes paid (or deemed paid) on the same income, would not reflect the true incremental tax cost of income earned abroad. In response to stakeholder feedback, the Board decided to allow the net presentation of the tax effects of cross-border tax laws and the related foreign tax credits in certain circumstances. The Board considered whether the amendments in this Update should specifically identify which cross-border tax laws and related foreign tax credits may be presented net (for example, specifically referencing GILTI and its related foreign tax credits). However, instead, the Board decided to provide a principles-based criterion that could be applied to other tax effects in the effect of cross-border tax laws category and could accommodate future changes in the tax environment. Effectively, if there is a credit in the same jurisdiction, which is an inherent part of the calculation of a cross-border tax law, the credit could be netted with the cross-border tax law effect.

BC34. Stakeholders also requested that the Board clarify how to present the initial amount of unrecognized tax benefits recognized related to a tax position taken or expected to be taken in the reporting period in the rate reconciliation. Considering the nature of the unrecognized tax benefits, the Board decided to allow net presentation of the unrecognized tax benefit with its related tax position taken or expected to be taken in the same reporting period and include the net amount in the category where the tax position is presented.

Threshold for Further Disaggregation

BC35. The Board decided to require further disaggregation of reconciling items based on 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 income tax by the applicable statutory federal or national income tax rate). 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 notes 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 also notes that stakeholders, including most comment letter respondents and investors, were generally comfortable with that threshold. As a result, the Board decided not to consider other suggested thresholds, such as a quantitative

threshold higher than 5 percent, a qualitative threshold, or a threshold independent of the applicable statutory tax rate.

BC36. The Board also decided to align the disclosure requirement in paragraph 740-10-50-12 on the income tax rate used in the rate reconciliation with the guidance in SEC Regulation S-X 210.4-08(h)(2). For a foreign entity, the federal (national) income tax rate in its jurisdiction (country) of domicile should normally be used in the rate reconciliation. However, if the rate used by an entity is other than the U.S. federal corporate income tax rate, the entity is required to disclose the rate used and the basis for using such a rate.

BC37. For the foreign tax effects category, the Board agreed that breaking down this category into significant reconciling items by jurisdiction (country) and by nature provides necessary additional transparency. If a foreign jurisdiction meets the 5 percent threshold, it should be separately disclosed as a reconciling item. Within any foreign jurisdiction (regardless of whether it meets the 5 percent threshold), the reconciling item should be separately disclosed by nature if its gross amount (positive or negative) meets the 5 percent threshold. For example, if the statutory tax rate difference between a foreign jurisdiction (country) and the jurisdiction (country) of domicile meets the 5 percent threshold, it should be separately disclosed as a reconciling item within the foreign jurisdiction under the foreign tax effects category in the rate reconciliation. In some cases, a foreign jurisdiction in total may not meet the 5 percent threshold, but there could be individual reconciling items that meet the 5 percent threshold, disclosed for that foreign jurisdiction. As illustrated in 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. Investors supported the disaggregation of this category by jurisdiction (country) and by nature on a gross basis and indicated that this is one of the most significant improvements made by the amendments in this Update. Therefore, the Board decided not to further consider other stakeholder suggestions to limit the disaggregation of reconciling items in this category only to jurisdictions that meet the 5 percent threshold or allow reconciling items of similar natures within this category to be disclosed on an aggregated basis.

BC38. The Board considered but decided not to provide additional guidance in Topic 740 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 income tax rates beyond the alignment of the disclosure requirement with the SEC guidance discussed in paragraph BC36. Considering the outreach feedback from stakeholders and the mixed views from comment letter respondents, the Board did not identify a pervasive need for specific

guidance on how to apply the amendments in this Update to the rate reconciliation disclosures under those circumstances. The Board acknowledged that if an entity (a) is domiciled in a jurisdiction with an income tax rate significantly lower than the U.S. statutory income tax rate or (b) operates at or around break even, the entity would be expected to apply judgment in determining the appropriateness of using a different statutory income tax rate and evaluating the materiality of reconciling items.

Accompanying Qualitative Disclosures

BC39. Considering the nature of the state and local income tax category, the Board decided not to require further disaggregation, under paragraph 740-10-50-12A(b), of that category. Instead, the Board decided to require that public business entities provide qualitative information of the states and local jurisdictions that make up the majority of the effect of the state and local income tax category in the rate reconciliation. A majority of stakeholders agreed with this disclosure and noted that it is reasonable and practical and will provide meaningful information to investors without requiring a significant cost to implement. However, other stakeholders were concerned that an entity may be required to disclose information about a large number of states and local jurisdictions and that it would require a significant amount of effort to compile this information. In addition, certain stakeholders asked the Board to clarify or define “majority of the effect.”

BC40. The Board noted that the information needed for this disclosure is generally expected to be included in the calculation of a composite state tax rate used in computing the state tax provision. To improve clarity, the Board confirmed that “majority of the effect” means a simple majority (greater than 50 percent) of the effect of the state and local income tax category. The Board further clarified that when identifying the states and local jurisdictions that make up the majority of the effect, an entity 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 percent. This aggregation may be based on the composite state tax rate information used to compute the state tax provision. The Board considered but decided not to apply another threshold, such as individual significance, to identify the states and local jurisdictions that must be included in this disclosure. In general, the Board does not expect that most entities will be required to disclose a significant number of states and local jurisdictions or will incur significant efforts and costs to provide the required disclosure.

BC41. Stakeholders generally agreed with the Board’s decision to require that public business entities provide an explanation, if not otherwise evident, of individual reconciling items, such as the nature and effect of the reconciling

items. Investors stated that this disclosure will provide them with (a) greater contextual information to better understand an entity's tabular rate reconciliation and (b) a more complete view of an entity's tax risks, opportunities, and management. However, some stakeholders stated that the required explanatory information, especially the explanation of "significant year-over-year changes" already is included in management's discussion and analysis (MD&A) or is more appropriately included there. The Board agreed with the feedback that it is more appropriate to disclose the significant year-over-year changes explanation in MD&A and decided to remove it from paragraph 740-10-50-12C. In addition, to further illustrate the explanatory information to be provided under this guidance, the Board added other examples, such as the underlying causes of the reconciling items and the judgment used in categorizing the reconciling items. The Board noted that an entity can use the disclosure required by paragraph 740-10-50-12C to provide additional relevant information to help explain its rate reconciliation.

Reporting Frequency

BC42. Stakeholders generally supported the Board's decision to require that public business entities disclose the tabular rate reconciliation on an annual basis.

BC43. Many stakeholders questioned the necessity and appropriateness of the proposed qualitative disclosure 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. They noted that this proposed disclosure (a) may provide information similar to what is required to be provided in MD&A or in the existing guidance in paragraph 740-270-50-1 and (b) may not provide decision-useful information because of the lack of comparability of the estimated annual effective tax rate, which excludes discrete items, with the prior year's actual effective tax rate. Under paragraph 740-270-50-1, the reasons for significant variations in the customary relationship between income tax expense and pretax accounting income are required to be disclosed in interim periods if they are not otherwise apparent from the financial statements, from the footnotes, or from the nature of the entity's business. After considering stakeholder feedback, the Board concluded that this existing interim disclosure requirement is sufficient to capture the information related to significant changes in an entity's effective tax rate during an interim period (for example, the reasons for significant revision to the estimated annual effective tax rate). On the basis of these considerations, the Board decided not to add a separate interim disclosure requirement for the rate reconciliation.

Applicability Considerations

BC44. The tabular rate reconciliation disclosure applies to all public business entities. A few comment letter respondents asked that certain public business entities, such as broker dealers or entities that meet the definition of a public business entity but do not file financial information with the SEC, be exempt from the required rate reconciliation disclosure. The Board considered the feedback and noted that is a broader issue related to the definition of a public business entity and decided not to change the scope of entities required to disclose the rate reconciliation table.

Private Company Considerations

BC45. Under existing guidance, nonpublic entities are required to disclose the nature of significant reconciling items but may omit a numerical reconciliation. The Board proposed in the amendments that a numerical reconciliation not be required. However, the Board also proposed 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.

BC46. 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 feedback from Private Company Council (PCC) members. In addition, in previous research performed in connection with the 2019 revised proposed Update, stakeholders 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.

BC47. 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 had mixed views 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.

BC48. 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).

BC49. 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.

BC50. The Board considered feedback on whether qualitative information about the nature of significant reconciling items would be useful. At the June 2023 PCC meeting, user PCC members expressed support for the qualitative rate reconciliation disclosures, noting that the disclosures would be helpful in understanding nonrecurring items affecting the current-year tax rates, identifying special tax arrangements and internal tax-planning strategies that had an effect on the effective tax rate, and identifying other areas to further discuss with management. User PCC members also noted that income taxes are a difficult area to understand and that it is difficult to evaluate sustainability of the effective tax rate. They indicated that the disclosures would provide decision-useful information for analyzing financial statements.

BC51. Feedback from comment letter respondents was mixed on the utility of the proposed changes to the qualitative rate reconciliation disclosures. Additionally, other comment letter respondents indicated that the proposed disclosures did not go far enough and that large private companies should provide the same information as public companies (that is, a quantitative rate reconciliation table should be required).

BC52. The Board also considered feedback on the cost of providing qualitative information about the nature of reconciling items. At the June 2023 PCC meeting, a preparer PCC member stated that the data necessary to produce the enhanced qualitative rate reconciliation disclosures already exist, the enhanced disclosures would not be costly, and adding information to the existing qualitative disclosures would not be burdensome. Conversely, a practitioner PCC member highlighted that while the information to be included in the qualitative rate reconciliation disclosure is typically available, additional time would be spent analyzing that information and drafting the narrative language to comply with the qualitative disclosures. Similar to the feedback received from the PCC, feedback from comment letter respondents was mixed on whether the changes to the qualitative rate reconciliation disclosures for entities other than public business entities would result in additional costs and time to implement.

BC53. The Board acknowledged feedback from a small number of comment letter respondents that indicated that for entities other than public business entities with complex tax structures and those that operate in multiple jurisdictions, a qualitative disclosure could be less clear and concise as compared with a quantitative disclosure. The Board noted that entities other than public business entities may provide a tabular, quantitative rate reconciliation if they determine that it provides better information for private company users.

BC54. On the basis of private company stakeholder feedback and an analysis of the Private Company Decision-Making Framework, the Board decided to affirm (a) that entities other than public business entities are required to qualitatively disclose the nature and effect of specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate and (b) that a numerical reconciliation is not required.

Income Taxes Paid

BC55. Under existing guidance, entities are required to disclose the total amount of income taxes paid during the period in accordance with paragraph 230-10-50-2. The Board received investor feedback that disaggregated

information about income taxes paid to jurisdictions would assist them in better understanding an entity's income tax risks and opportunities and the sustainability of the entity's effective tax rate. Investors indicated that this information would help them assess trends and highlight areas that require additional discussion with management.

BC56. On the basis of that feedback, in the 2019 revised proposed Update, the Board proposed requiring that all entities disclose income taxes paid disaggregated by federal (national), state, and foreign categories. Some comment letter respondents to the 2019 revised proposed Update supported the proposed disaggregation of income taxes paid, noting that it would enable investors to look at the trends over several years to obtain decision-useful information. Other respondents did not support disclosing income taxes paid information at that granular level because it would be costly for preparers and because that disclosure would not produce information that is useful, predictive, or consistent for investors.

BC57. On the basis of continued investor requests that the Board require further disaggregation of income taxes paid by jurisdiction, the Board decided to retain the proposal to disaggregate income taxes paid by federal (national), state, and foreign categories in the 2023 proposed Update. Investors indicated that this level of disaggregation (a) would enhance their understanding of entities' income taxes and their ability to project the amount, timing, and uncertainty of future cash flows and (b) would assist when analyzing the correlation between income tax expense (benefit) and income taxes paid. In addition, when an entity's effective tax rate approximates the statutory tax rate, investors indicated that providing additional information about income taxes paid would provide additional insight that otherwise would not be highlighted by the rate reconciliation. Comment letter respondents also indicated that income taxes paid information disaggregated at this level is reasonably available and would be relatively easy to accumulate and disclose.

BC58. On the basis of stakeholder feedback, the Board decided to retain in this Update the requirement from the proposed Update that all entities disclose income taxes paid disaggregated by federal (national), state, and foreign categories.

BC59. In addition, in the 2023 proposed Update, the Board decided to require that all entities disclose income taxes paid further disaggregated by individual jurisdiction on the basis of a quantitative threshold of 5 percent of total income taxes paid. In arriving at its decision, the Board placed emphasis on preparer and investor feedback indicating that most companies pay the majority of their taxes to only a small number of jurisdictions and that substantial coverage would be achieved using the 5 percent threshold. The Board also considered that the 5 percent threshold would be consistent with the existing requirement

in SEC Regulation S-X 210.4-08(h)(1) to separately disclose individual components of pretax income or loss and income tax expense or benefit that exceed 5 percent of total tax expense.

BC60. During initial deliberations, 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.

BC61. Stakeholders had mixed views on whether and how to require disclosure of income taxes paid disaggregated by individual jurisdictions. Investors expressed support for the proposed requirement to disaggregate income taxes paid on the basis of a quantitative threshold of 5 percent of total income taxes paid, and a majority of comment letter respondents generally supported this threshold. Most comment letter respondents that did not support the amendments in the proposed Update expressed concern that the 5 percent threshold is too prescriptive, could result in the disclosure of information that is too detailed, and should be replaced with an entity-specific significance assessment. Some comment letter respondents expressed concern that jurisdictional disaggregation does not provide decision-useful information to investors.

BC62. Comment letter respondents provided suggestions for alternative approaches. The Board considered but decided not to require disaggregation of income taxes paid based on a higher threshold (for example, 10 percent) primarily due to investor and practitioner feedback supporting the proposed threshold of 5 percent. The Board observed that the 5 percent threshold would provide investors with an appropriate level of additional information to assist with trend analysis, to understand tax risks and opportunities, and to understand timing of cash flows. The Board also noted that increasing the threshold could reduce the amount of decision-useful information received by investors without providing significant cost savings for preparers.

BC63. The Board also considered but decided not to require disaggregation based on individually significant jurisdictions. The Board decided that in this case establishing a bright-line threshold was preferable to a more subjective assessment. For example, establishing a common understanding and

application of what constitutes a significant jurisdiction has the potential to increase costs and may provide less decision-useful information to investors and result in diversity in practice.

BC64. On the basis of stakeholder feedback, the Board decided to retain the requirement from the proposed Update 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.

Materiality Considerations

BC65. The Board observed that the guidance in paragraph 105-10-05-6, which states that the provisions of the Codification need not be applied to immaterial items, is applicable to the amendments in this Update, as it is to all Codification guidance.

BC66. Some stakeholders asked that the Board clarify the materiality considerations for the jurisdictional disclosures. They noted that the amendments in the proposed Update are unclear on whether an entity would be required to separately disclose income taxes paid to a jurisdiction that meets the 5 percent threshold regardless of whether the amount of income taxes paid is material. Some stakeholders asked that the Board consider replacing the quantitative threshold with an entity-specific materiality assessment or provide additional implementation guidance, for instance, on acceptable departures from the 5 percent threshold.

BC67. The Board considered the feedback and decided that entities are required to disclose income taxes paid further disaggregated by individual jurisdiction on the basis of a quantitative threshold of 5 percent. However, the Board observed that the materiality guidance in paragraph 105-10-05-6 is applicable to the amendments in this Update, as it is to all Codification guidance. Therefore, the amendments on the disclosure of income taxes paid do not apply to immaterial items. That is, an entity does not need to separately disclose income taxes paid for any jurisdiction (whether that is federal, state, or foreign groupings or individual jurisdictions based on a quantitative threshold of 5 percent) if the amount is immaterial.

Gross versus Net Presentation

BC68. The Board also clarified in the proposed Update that the amount of income taxes paid required to be disclosed is the net amount paid or net refund received in the period, computed as total income taxes paid net of cash refunds received. The Board considered certain stakeholder feedback that disclosing income taxes paid on a net basis is more relevant and decision useful than disclosing income taxes paid on a gross basis. The Board noted that entities generally disclose income taxes paid in total on a net basis. Additionally, the Board noted that certain investor feedback indicated that providing a net amount would enable investors to identify trends more efficiently than providing gross amounts. The Board also noted that timing differences related to certain payments and refunds vary; therefore, the net amounts provide a more representative picture of actual cash flows related to taxes in each period.

BC69. Many comment letter respondents supported disclosure of the amount of the net payment remitted or net refund received for the period, noting that this would be consistent with current practice for disclosing income taxes paid in total as required by paragraph 230-10-50-2. Stakeholders that supported net presentation also noted that a net basis more accurately represents the economic position of an entity and its cash flows in each period for each jurisdiction. Some investors stated that they prefer gross presentation of income taxes paid rather than net presentation. Comment letter respondents, including investors, that did not support disclosure on a net basis noted that certain refunds may relate to prior periods, which may make it difficult to interpret those amounts, thereby reducing decision usefulness. The feedback received from stakeholders during the exposure period was consistent with feedback considered by the Board during initial deliberations. The Board also considered but decided not to require additional qualitative disclosure of significant refunds received because of potential implementation issues associated with the qualitative disclosure, such as defining what is included in “refunds received” and what constitutes “significant.” The Board also noted that the intent was to further disaggregate the total amount of income taxes paid, which is typically disclosed on a net basis.

BC70. On the basis of stakeholder feedback, the Board decided to require that income taxes paid be disclosed on a net basis. Furthermore, the Board clarified that an entity should apply the 5 percent quantitative threshold by comparing the absolute value of the net payment or net 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 paragraph 740-10-50-23.

Reporting Frequency

BC71. The Board proposed that all entities disclose (a) the year-to-date amount of income taxes paid disaggregated by federal (national), state, and foreign categories on both an interim basis and an annual basis and (b) the amount of income taxes paid disaggregated by individual jurisdiction (based on the 5 percent quantitative threshold) on an annual basis. The Board noted that disaggregation of income taxes paid by federal (national), state, and foreign categories is relevant to investor analyses and that 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. The Board noted that disaggregation of income taxes paid by individual jurisdiction on an interim basis would not provide decision-useful information because taxes are generally computed on an annual basis; therefore, interim payments in an individual jurisdiction may not be ratable or representative of annual information.

BC72. Comment letter respondents had mixed views on the frequency of reporting for each of the disaggregated income taxes paid disclosures. More than half of respondents, including investors, did not support the proposal to require interim disclosure of income taxes paid disaggregated by federal (national), state, and foreign categories. Many respondents commented that income taxes paid on a quarterly basis would not be comparable because of the significant variation in timing of income tax payments due to factors such as estimated and extension payments, refunds, and settlements. Many respondents also noted that refunds and settlements often relate to prior periods and, therefore, they were concerned that providing this information on a quarterly basis may not be decision useful to investors. Some respondents also noted that disaggregation of income tax payments requires significant additional processes and changes to internal controls and accounting systems and may be difficult to achieve because of condensed time frames for quarterly reporting. Many respondents noted that providing income taxes paid disaggregated by federal (national), state, and foreign categories, as well as by individual jurisdiction, on an annual basis would be more operational and decision useful. During investor outreach, many investors indicated that annual disclosures would be sufficient. Some investors indicated that although they would prefer to receive this information on an interim basis, they would support annual disclosure if the information could be provided in a more timely manner.

BC73. On the basis of stakeholder feedback, the Board decided to require that entities disclose only on an annual basis the amount of income taxes paid disaggregated by (a) federal (national), state, and foreign categories and (b) individual jurisdictions on the basis of a quantitative threshold of 5 percent of

total income taxes paid. The Board noted that an annual disclosure frequency provides investors with sufficient information to perform trend analysis.

BC74. The Board also considered but decided not to require disclosure of comparative information by jurisdiction for all years presented. The Board noted that requiring comparative information for income taxes paid could result in operability challenges and may be contrary to the guidance on materiality in Topic 105 (such as when a jurisdiction meets the quantitative threshold and is material in the current period but was not presented in previous periods because the amount of income taxes paid was not material).

Private Company Considerations

BC75. The Board proposed to require that entities other than public business entities provide the same income taxes paid disclosures as public business entities. In arriving at its decision, the Board primarily considered the Private Company Decision-Making Framework and feedback from PCC members.

BC76. When disaggregated disclosures are being considered for private companies, the Private Company Decision-Making Framework indicates that 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, 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.

BC77. 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.

BC78. 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. Disclosures on income taxes paid align with that notion.

BC79. The Board considered feedback on the usefulness of disaggregated information about income taxes paid. At the June 2023 PCC meeting, some user PCC members expressed support for disclosing income taxes paid on a disaggregated basis, noting that they have limited access to management and that the information would help them assess trends and better understand an entity's income tax risks and opportunities and the sustainability of tax rates. Other user PCC members noted that they commonly have access to management and, therefore, may not need jurisdictional income taxes paid information disclosed. Feedback from comment letter respondents was mixed. One comment letter respondent indicated that the disaggregated income taxes paid disclosures would provide decision-useful information, while several respondents indicated that those disclosures would not provide decision-useful information.

BC80. The Board also considered feedback on the costs of disaggregated information about income taxes paid. At the June 2023 PCC meeting, several preparer and practitioner PCC members stated that jurisdictional information about income taxes paid is available or could be made available with limited costs. Several PCC members and several comment letter respondents expressed concerns about the 5 percent threshold, asserting that (a) it is too low, (b) it could potentially be burdensome for preparers, (c) it could result in the disclosure of immaterial information, and (d) access to management negates the need for this level of jurisdictional information. Some of those same concerns about the threshold were expressed in regard to public business entities.

BC81. The Board considered but decided not to require disaggregation of income taxes paid based on a higher threshold (for example, 10 percent) for entities other than public business entities. The Board observed that the disaggregated information is relevant for users of private company financial statements and that the information can be provided at a reasonable cost. Therefore, there was no compelling reason to provide a disaggregation threshold for entities other than public business entities that differed from that for public business entities. Additionally, the Board observed that the guidance on materiality in paragraph 105-10-05-6 is applicable. Therefore, the amendments in this Update on disclosures of income taxes paid based on the application of a quantitative threshold do not apply to immaterial items.

BC82. On the basis of private company stakeholder feedback and an analysis of the Private Company Decision-Making Framework, the Board affirmed the

requirement for entities other than public business entities to provide the same income taxes paid disclosures as public business entities.

Other Disclosures

BC83. This Update includes the following 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.

The Term Public Business Entity

BC84. Currently, some disclosure requirements in Topic 740 are required by public entities and some are required by nonpublic entities. In December 2013, the Board issued Accounting Standards Update No. 2013-12, *Definition of a Public Business Entity—An Addition to the Master Glossary*. The primary purpose of the amendments in that Update was to amend the Master Glossary definition to include one definition of the term *public business entity* for future use in GAAP.

BC85. Research previously performed indicated that certain community banks that may not have been considered public entities previously could be considered public business entities. Feedback from community banks indicated that the additional disclosures in Topic 740 currently required for public entities would not be costly because some of them already provide those disclosures and the population of community banks that would fall into the definition of a public business entity would not be significant.

BC86. Most comment letter respondents to the 2023 proposed Update and the 2019 revised proposed Update 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.

BC87. On the basis of previous research performed and comment letter feedback, the Board decided to replace the term *public entity* in Topic 740 with the term *public business entity* as defined in the Master Glossary.

Changes in Unrecognized Tax Benefits

BC88. Paragraph 740-10-50-15 requires disclosure of unrecognized tax benefits that could change in the next 12 months. Disclosure of estimates of amounts and timing related to future events is consistent with Chapter 8 of Concepts Statement 8 only if the estimate of the amount and timing is an input that explains a measurement in the financial statements or in the notes to financial statements. The disclosure in paragraph 740-10-50-15(d) is inconsistent with Chapter 8. Furthermore, that disclosure has limitations because an entity generally may know that an open tax issue is being resolved a couple of weeks to several months in advance of the settlement but may be unable to reasonably assess the likelihood of other settlements beyond that point. Therefore, the disclosure of estimates of changes in the next 12 months generally provides only estimated changes expected in the next 3 months. Accordingly, the Board decided to remove that existing disclosure.

BC89. Comment letter respondents to the 2023 proposed Update and the 2019 revised proposed Update 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.

BC90. One comment letter respondent indicated that while it supports the removal of the changes in unrecognized tax benefits disclosure, similar disclosures may continue to be required in accordance with the disclosure requirements included in Topic 275, Risks and Uncertainties. Paragraph 275-10-50-8 requires disclosure about an estimate that should be made when known information available before the financial statements are issued or are available to be issued indicates that both of the following criteria are met:

- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
- b. The effect of the change would be material to the financial statements.

BC91. On the basis of comment letter feedback, the Board decided to remove the disclosure in paragraph 740-10-50-15(d) about the changes in unrecognized tax benefits. In addition, the Board acknowledged that stakeholders should continue to consider whether disclosures should be provided in accordance with Topic 275, consistent with the broad scope of that guidance.

Cumulative Amount of Each Type of Temporary Difference

BC92. Paragraph 740-30-50-2 currently requires the following disclosures when a deferred tax liability is not recognized for undistributed foreign earnings:

- a. A description of the temporary differences for which a deferred tax liability is not recognized and the types of events that would cause those temporary differences to become taxable
- b. The cumulative amount of each type of temporary difference
- c. The amount of unrecognized deferred tax liability for the temporary differences related to earnings that are indefinitely reinvested or a statement that the determination is not practicable
- 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.

BC93. Before the enactment of the Tax Cuts and Jobs Act, investors had indicated that information about the tax consequences of remittance of undistributed foreign earnings was a primary area of focus. The Tax Cuts and Jobs Act generally allows entities to repatriate earnings from their foreign subsidiaries without incurring U.S. federal income taxes. After the enactment of the Tax Cuts and Jobs Act, an entity may, for example, still make an indefinite reinvestment assertion for its foreign earnings for state tax purposes. However, stakeholders indicated that the tax consequences of an indefinite reinvestment assertion are significantly less than those before the Tax Cuts and Jobs Act was enacted.

BC94. Stakeholders indicated that the changes as a result of the Tax Cuts and Jobs Act reduce the relevance of the existing disclosure of the cumulative temporary differences related to foreign subsidiaries when a deferred tax liability is not recognized (paragraph 740-30-50-2(b)). That is because a change in assertion about the indefinite reinvestment of foreign earnings would not result in the recognition of a material deferred tax liability in many cases. Stakeholders also indicated that the disclosure of a large temporary difference could be misleading when the tax effects, when incurred, likely are small

because users could infer that the tax consequences of a large temporary difference also would be significant, which likely would not be the case. Additionally, stakeholders indicated that the disclosure is costly to prepare.

BC95. The Board acknowledged that an entity may still assert indefinite reinvestment of foreign earnings so that it is not required to record a liability for the tax consequences of those earnings. However, the Board agreed with stakeholders that the tax consequences of that assertion will not be significant in many cases. The Board decided that the limited benefit of the disclosure requirement in paragraph 740-30-50-2(b) does not justify the expected costs and therefore removed the existing disclosure from that paragraph.

BC96. All comment letter respondents to the 2023 proposed Update and the 2019 revised proposed Update supported removing 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. 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 generally allows entities to repatriate earnings from foreign subsidiaries without incurring U.S. federal income taxes.

BC97. Some comment letter respondents requested that the Board also remove the disclosures in paragraph 740-30-50-2(c) through (d). The Board considered but decided not to address that request, noting that it is broader than the established scope of the income tax disclosures project and may delay the benefits to investors from the issuance of the amendments in this Update.

Disaggregation of Income (or Loss) from Continuing Operations before Income Tax Expense (or Benefit) and Income Tax Expense (or Benefit) from Continuing Operations

BC98. The Board decided to include in the amendments in this Update the requirement 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. Board members indicated that the SEC-required disclosures provide decision-useful information to investors and would enable investors to more fully analyze an entity's income tax risks and opportunities. The Board decided to require those disclosures for all entities.

BC99. Most respondents to the 2019 revised proposed Update supported the proposed amendment that would require the disaggregation of income (or loss) from continuing operations before income tax expense between domestic and foreign, indicating that it would provide decision-useful information to investors. One respondent noted that the disclosure would not bring any additional value for non-U.S.-domiciled multinational entities.

BC100. Most respondents to the 2019 revised proposed Update supported 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. Two respondents did not support the disaggregation of income tax expense (or benefit) from continuing operations by federal (national), state, and foreign, 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.

BC101. Respondents to the 2023 proposed Update that commented on those disclosures generally expressed their support, noting that the disclosures would provide decision-useful information to investors.

BC102. Several respondents to the 2019 revised proposed Update that generally supported the disaggregation of income tax expense (or benefit) from continuing operations by federal (national), state, and foreign also suggested that the Board consider further aligning the disclosure to SEC Regulation S-X by adding the “5 percent rule,” which excludes foreign or other income taxes that are less than 5 percent of the total tax expense from separate disclosure. The Board considered but decided not to add the “5 percent rule” because (a) materiality guidance in paragraph 105-10-05-6 indicates that the provisions of the Codification need not be applied to immaterial items and (b) whether an entity is applying the materiality guidance in the Codification or the 5 percent threshold in existing SEC guidance, a similar outcome may be reached.

BC103. One respondent to the 2023 proposed Update (and several respondents to the 2016 proposed Update) suggested that the Board clarify whether the disclosure to disaggregate income (or loss) from continuing operations before income tax expense should be presented before or after intercompany eliminations. The 2019 revised proposed Update specified that such information should be provided before intra-entity eliminations. However, comment letter feedback on the 2019 revised proposed Update strongly indicated that disclosing disaggregated pretax income (or loss) before intra-entity eliminations would require costly systems modifications. Additionally, respondents to the 2019 revised proposed Update indicated that the expected benefits (that is, the resulting correlation between pretax income and the related income tax expense by foreign and domestic components) may not be

as significant as previously thought. Respondents explained that the correlation is less useful following the enactment of the Tax Cuts and Jobs Act and, specifically, the provisions under the GILTI regime requiring that entities be subject to U.S. income taxes on earnings that would be reported as non-U.S. pretax income. Additionally, the Board received feedback that the correlation between foreign and domestic pretax income (or loss) and the related income tax expense (or benefit) also could be affected by certain intercompany activities such as dividends and intercompany sales of foreign subsidiaries. On the basis of stakeholder feedback and the likely cost-benefit of providing the disclosure before intra-entity eliminations, the Board did not specify whether the disclosure of pretax income (or loss) from continuing operations should be presented before or after intercompany eliminations.

BC104. Several respondents to the 2019 revised proposed Update and the 2023 proposed Update suggested that the Board clarify how disaggregation by *state* in the disclosure of income tax expense (or benefit) from continuing operations by federal (national), state, and foreign would apply to non-U.S. jurisdictions, noting that many countries do not have an equivalent jurisdictional level. The Board clarified that an entity that is not domiciled in the United States should apply this requirement by disclosing the *state* income tax expense (or benefit) by state, local, or similar territories within the country of domicile.

BC105. On the basis of stakeholder feedback, the Board decided to require that entities 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.

Private Company Considerations

BC106. The Board decided to require that entities other than public business entities 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 deciding this, the Board considered the Private Company Decision-Making Framework, comment letter feedback pertaining to private companies, and feedback from PCC members.

BC107. Respondents to the 2023 proposed Update that commented on those disclosures had mixed views on whether the information would be decision useful for private company investors. Additionally, one respondent indicated that the disclosures are clear and operable for private companies because the calculations for income (or loss) from continuing operations before income tax

expense and income tax expense (or benefit) are already being done in connection with the preparation of annual financial statements.

BC108. Two respondents to the 2019 revised proposed Update did not support the disaggregation of income (or loss) from continuing operations before income tax expense for private companies primarily because it would not offer decision-useful information to private company investors and it does not appear to align with areas that private company investors focus on, such as income taxes paid and compliance with taxing authorities.

BC109. Two respondents to the 2019 revised proposed Update did not support the disaggregation of income tax expense (or benefit) from continuing operations for private companies because 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, an entity would need to gather its state apportionment data and prepare its tax returns much earlier than the entity presently does.

BC110. At the June 2023 PCC meeting and in outreach meetings, user PCC members indicated that the disaggregated disclosure of income (or loss) from continuing operations before income tax expense would provide a better perspective on where cash flows are coming from and would allow a user to understand the degree of foreign income to domestic income, which would not otherwise be available unless requested from (and obtained from) management. A user PCC member noted that not all users have the same level of access to management; therefore, this information is important to disclose. User PCC members also stated that the disaggregation of income tax expense (or benefit) would provide insight into the breakdown of income tax expense and whether there are unusual fluctuations in federal, state, and foreign that may require further clarification for proper analysis. Another user PCC member indicated that the disaggregation of income (or loss) from continuing operations before income tax expense, income tax expense (or benefit) from continuing operations, and income taxes paid would help in analyzing the correlation between those amounts.

BC111. During 2023 PCC meetings, a preparer PCC member indicated that the information that would be required to be disclosed is not difficult to obtain because it is part of the tax provision, whereas a practitioner PCC member expressed concern that some small and medium-sized private companies may not have the systems in place to appropriately determine the disaggregation of income (or loss) from continuing operations before income tax expense by domestic and foreign. Another practitioner PCC member expressed concern that the disaggregated disclosure of income tax expense (or benefit) could be

misinterpreted by private company financial statement users as being more precise than an estimate. A user PCC member stated that he would expect most users to understand that the disclosed information represents an estimate because the disclosed amounts are derived from an estimate.

BC112. Acknowledging that the disaggregated disclosure of income tax expense (or benefit) will be a new requirement for entities other than public business entities and the feedback received from private company stakeholders, the Board observed that when an entity that has domestic and foreign operations is preparing its income tax provision, it determines the income that is attributable to those domestic and foreign operations and then uses that income determination in estimating its federal, state, and foreign income tax expense (or benefit). The information provided in the disaggregated disclosures of pretax income (or loss) and of income tax expense (or benefit) would be expected to be estimates because those disclosures are highlighting the information that is used in the computation of the income tax provision.

BC113. The Private Company Decision-Making Framework states that when disclosures are being considered for private companies, the Board should first determine whether the disclosure provides relevant information to the most common types of users of private company financial statements and, if so, whether the information can be provided at a reasonable cost. The Board noted that user PCC members expressed support for the disaggregated disclosures. From a cost perspective, the Board noted that feedback was mixed; however, stakeholders did not indicate that the costs to provide that information would be unreasonable. As such, the Board concluded that the information could be provided at a reasonable cost.

BC114. On the basis of private company stakeholder feedback and an analysis of the Private Company Decision-Making Framework, the Board decided to require that entities other than public business entities provide the same disaggregated disclosures on income (or loss) from continuing operations before income tax and income tax expense from continuing operations (or benefit) as do public business entities.

Transition and Effective Date

BC115. The Board decided that the amendments in this Update should be applied on a prospective basis and that retrospective application to all periods presented is permitted. The Board decided that the amendments should be effective for public business entities for annual periods beginning after December 15, 2024. The Board decided that for entities other than public business entities, the amendments should be effective for annual periods beginning after December 15, 2025. The Board decided to permit early

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

BC116. To improve comparability and consistency of income tax information disclosed, the Board proposed that the amendments in the proposed Update should be applied retrospectively. The Board observed that because the information that would be required under the proposed amendments should be readily available or could be acquired through existing processes or systems, retrospective transition would not be expected to result in significant cost or complexity. However, the Board acknowledged that entities may incur additional costs or need additional time to collect and compile the information needed to comply with certain proposed amendments.

BC117. Some respondents supported the proposed retrospective transition method, noting that it would be operable because of the availability of historical information and because it would provide comparable and decision-useful information. Other respondents expressed concerns about the cost and complexity in applying the amendments in the proposed Update retrospectively and asserted that the information resulting from retrospective transition would not provide decision-useful information. Several respondents recommended that the Board allow either prospective or retrospective transition. During investor outreach, many investors supported a prospective transition method if that method would result in gaining access to the enhanced disclosures sooner through an earlier effective date. In other words, investors generally indicated that they would prioritize an earlier effective date over a retrospective transition method.

BC118. Board members noted that requiring a prospective transition method (with a retrospective option permitted) and an earlier effective date compared with requiring a retrospective transition and a longer effective date will provide investors with the decision-useful information sooner and most appropriately achieves the Board's objective in this project. Additionally, the Board noted that the retrospective option, which should be applied to all amendments in this Update, provides entities that have ready access to comparative data with the ability to adopt retrospectively.

BC119. Some respondents stated that the amendments in the proposed Update should not require a significant amount of time to implement because the changes are straightforward and public business entities likely have the information available; therefore, they suggested an effective date of one year (or at least one year) after the issuance of the final Update. Other respondents suggested a range of two to five years for public business entities to implement the amendments to provide adequate time to update systems, procedures, and internal controls, as well as gather necessary data.

BC120. The Board noted that the amendments generally are an expansion of the existing disclosures and that public business entities generally have the information available to prepare those expanded disclosures. The Board concluded that the effective date (combined with the prospective transition method) will provide public business entities with the necessary time to review and gather the information and update systems and internal controls, while balancing the needs of investors to receive the information in a timely manner.

BC121. Some respondents provided feedback on whether entities other than public business entities would need more time than public business entities to implement the amendments in this Update. Almost all of those respondents and feedback from PCC members indicated that entities other than public business entities should have one to two additional years for implementation. Considering stakeholder feedback and the Private Company Decision-Making Framework, which states that because of private companies' resource limitations and the learning cycle, generally amendments should be effective for private companies one year after the first annual period for which public business entities are required to adopt, the Board decided to provide entities other than public business entities with an additional year to implement the amendments.

BC122. Almost all respondents that provided feedback on whether early adoption should be permitted indicated that it should be permitted. With its decision to allow entities to early adopt the amendments in this Update, the Board clarified that an entity that elects to early adopt the amendments should do so for annual financial statements that have not yet been issued or made available for issuance. The Board noted that it would not be operational to early adopt the rate reconciliation amendments on an interim basis because the details to provide a full rate reconciliation disclosure on an interim basis would not be available.

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). Those improvements, which will be incorporated into the proposed 2024 GAAP Taxonomy, are available through [GAAP Taxonomy Improvements](#) provided at www.fasb.org, and finalized as part of the annual release process.