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tax information.

Jason Bramwell • Mar. 16, 2023

The Financial Accounting Standards Board released a proposed Accounting Standards Update (ASU) on Wednesday that addresses requests from investors for improved income tax disclosures.

During the FASB's 2021 agenda consultation process and other stakeholder outreach,

possible enhancements to better:

- Understand an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities;
- Assess income tax information that affects cash flow forecasts and capital allocation decisions; and
- Identify potential opportunities to increase future cash flows.

The amendments in the proposed ASU would address investor requests for more transparency about income tax information, including jurisdictional information, by requiring:

- Consistent categories and greater disaggregation of information in the rate reconciliation, and
- Income taxes paid disaggregated by jurisdiction.

The proposed ASU states:

The amendments in this proposed Update would require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation

d. Effect of cross-border tax laws
e. Tax credits
f. Valuation allowances
g. Nontaxable or nondeductible items
h. Changes in unrecognized tax benefits.

2. Separate disclosure is required for any reconciling item listed below in which the effect of the reconciling item is equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before tax by the applicable statutory federal (national) income tax rate:
   a. If the reconciling item is within the effect of cross-border tax laws, tax credits, and nontaxable or nondeductible items categories, it must be disaggregated by nature.
   b. If the reconciling item is within the foreign tax effects category, it must be disaggregated by jurisdiction (country) and by nature.
   c. If the reconciling item does not fall within any of the categories listed in (1), it must be disaggregated by nature.
3. For the purpose of categorizing reconciling items, the state and local income tax category would reflect income taxes imposed at the state or local level within the jurisdiction (country) of domicile, the foreign tax effects category would reflect income taxes imposed by foreign jurisdictions, and the remaining categories listed in (1) would reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile.

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

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

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

For entities other than public business entities, the amendments in this proposed Update would require qualitative disclosure about specific categories of items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

"The FASB's proposed enhancements to income tax disclosures, primarily related to the rate reconciliation and income taxes paid information, are intended to help investors better assess how an entity's worldwide operations and related tax risks and tax planning and operational opportunities affect its tax rate and prospects for

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