Accounting for Income Taxes ASC 740: Business Combinations, Valuation Allowances, Recent Law Changes

TUESDAY, FEBRUARY 7, 2023, 1:00-2:50 pm Eastern

IMPORTANT INFORMATION FOR THE LIVE PROGRAM

This program is approved for 2 CPE credit hours. To earn credit you must:

- **Participate in the program on your own computer connection (no sharing)** – if you need to register additional people, please call customer service at 1-800-926-7926 (or 404-881-1141). Strafford accepts American Express, Visa, MasterCard, Discover.
- **Listen on-line** via your computer speakers.
- **Respond to five prompts during the program plus a single verification code.**
- To earn full credit, you must remain connected for the entire program.

WHO TO CONTACT DURING THE LIVE PROGRAM

For Additional Registrations:
-Call Strafford Customer Service 1-800-926-7926 (or 404-881-1141)

For Assistance During the Live Program:
-On the web, use the Chat function to send a message

If you get disconnected during the program, you can simply log in using your original instructions and PIN.

Tips for Optimal Quality

FOR LIVE PROGRAM ONLY

Sound Quality

When listening via your computer speakers, please note that the quality of your sound will vary depending on the speed and quality of your internet connection.

If the sound quality is not satisfactory, please e-mail sound@straffordpub.com immediately so we can address the problem.

Recording our programs is not permitted. However, today's participants can order a recorded version of this event at a special attendee price. Please call Customer Service at 800-926-7926 or visit Strafford's website at www.straffordpub.com.

Accounting for Income Taxes ASC 740: Business Combinations, Valuation Allowances, Recent Law Changes

February 7, 2023

Thomas M. Faas
Managing Tax Director
BDO USA
tfaas@bdo.com

Daniel Newton
Partner, National Tax Office
BDO USA
dnewton@bdo.com

Notice

ANY TAX ADVICE IN THIS COMMUNICATION IS NOT INTENDED OR WRITTEN BY THE SPEAKERS' FIRMS TO BE USED, AND CANNOT BE USED, BY A CLIENT OR ANY OTHER PERSON OR ENTITY FOR THE PURPOSE OF (i) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (ii) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.

You (and your employees, representatives, or agents) may disclose to any and all persons, without limitation, the tax treatment or tax structure, or both, of any transaction described in the associated materials we provide to you, including, but not limited to, any tax opinions, memoranda, or other tax analyses contained in those materials.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

ACCOUNTING FOR INCOME TAXES ASC 740

BUSINESS COMBINATIONS, VALUATION ALLOWANCES, RECENT LAW CHANGES

February 7, 2023

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

With You Today

DANIEL NEWTON
Tax Partner, NTO
ASC 740 Technical Practice Leader

617-239-7026
dnewton@bdo.com

THOMAS FAAS
Tax Managing Director
NTO – ASC 740

404-942-2920
tfaas@bdo.com

Agenda

- Inflation Reduction Act: Initial Overview of Corporate Alternative Minimum Tax
- Inflation Reduction Act: Stock Buyback Excise Tax
- CHIPS Act & Inflation Reduction Act ("IRA"): Credits
- Business Combinations: Traps For The Unwary
- Tax Accounting for Convertible Debt
- IRC §174 Capitalization
- Income Tax Internal Controls
- Year-End Reminders

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

Inflation Reduction Act

Initial Overview of
Corporate Alternative
Minimum Tax

Overview

- On August 16, 2022, President Biden signed the “Inflation Reduction Act of 2022” (the ACT) into law
- Included in the ACT is a new 15% minimum tax on corporations with book profits exceeding $1billion (Corporate Alternative Minimum Tax or CAMT)
- The CAMT would impose on an applicable corporation a 15% tax on the applicable corporation’s adjusted financial statement income (to be discussed) reduced by an “AMT foreign tax credit” to the extent it exceeds the corporations regular tax liability plus any anti-abuse tax (BEAT) imposed under section 59A for the year
- The CAMT paid can be carried forward indefinitely and used to offset a corporation’s regular tax liability to the extent it exceeds the tentative minimum tax for the year
- The CAMT is a tax attribute that will be recognized for financial reporting purposes subject to realization (see subsequent slides for discussion)
- The CAMT would be effective for tax years beginning after December 31, 2022
- Initial estimate is that the CAMT will impact 135-200 U.S. based companies

Applicable Corporation

- The term ‘applicable corporation’ means, with respect to any taxable year, any corporation (other than an S corporation, a regulated investment company, or a real estate investment trust) which meets the average annual adjusted financial statement income (AFSI) test for one or more taxable years which— ‘‘(i) are prior to such taxable year, and ‘‘(ii) end after December 31, 2021
- A corporation meets the average annual adjusted financial statement income test for a taxable year if the average annual adjusted financial statement income of such corporation (determined without regard to section 56A(d)(NOLs)) for the 3-taxable-year period ending with such taxable year exceeds $1,000,000,000

Example A calendar year corporation with a December 31, 2023, year-end would compute its annual average AFSI for 2020,2021 & 2022.

Clients should start assessing whether the rules might apply to them since it could become a Q1, 2023 event.

Separate rules apply with respect to foreign parented groups.

- Same 3-year billion-dollar test for the group and
- The U.S. corporation has $100 Million of average adjusted financial statement income over the 3-year testing period
- AFSI in this case would include U.S. ECI - related adjusted financial Statement profit of foreign corporations and AFSI of domestic corporations, which includes CFC income

Applicable Corporation

- Solely for purposes of determining whether a corporation is an applicable corporation under this paragraph, all adjusted financial statement income of persons treated as a single employer with such corporation under subsection (a) (controlled group of corporations) or (b) (employees of partnerships, proprietorships, etc., which are under common control) of section 52 (determined with certain modifications) shall be treated as adjusted financial statement income of such corporation
- The provisions of the Act provide rules for short years as well as rules when a corporation has not been in existence for a 3-year period
- Once a corporation meets the 3-year test for a taxable year it will be an applicable corporation subject to the CAMT unless an exception applies
- Exceptions would include
  - A change in ownership
  - Does not meet the book income test for its current taxable year and a number of consecutive previous years (to be determined by Treasury)
  - Could still become an applicable corporation in the future if it satisfies the book income test

Adjusted Financial Statement Income

For purposes of this part, the term ‘adjusted financial statement income’ means, with respect to any corporation for any taxable year, the net income or loss of the taxpayer set forth on the taxpayer’s applicable financial statement for such taxable year subject to certain adjustments.

For purposes of this section, the term ‘applicable financial statement’ means, with respect to any taxable year, an applicable financial statement (as defined in section 451(b)(3) or as specified by the Secretary in regulations or other guidance) which covers such taxable year (can be based on accepted international standards e.g., IFRS).

Adjustments

- Consolidated returns—only takes into account the income of the members of the consolidated return but includes dividends received from corporations that are not members of the consolidated group as well as income or deductions with respect to non-member affiliates
- Includes distributive share of partnership income as set forth on its applicable financial statement
- If the applicable corporation is a shareholder in a controlled foreign corporation(CFC) it takes into account its pro rata share of the CFCs book income or loss under rules similar to section 951(a)(2), Pro Rata Share of Subpart F Income
  - If a negative adjustment, then no adjustment will be made in the taxable year, but it will be carried forward to reduce any adjustments in future years until utilized

Adjusted Financial Statement Income

- Effectively connected income—In the case of a foreign corporation, to determine AFSI, the principles of section 882 shall apply.
- Adjustments for certain taxes—AFSI shall be appropriately adjusted to disregard any Federal income taxes, or income, war profits, or excess profits taxes (within the meaning of section 901) with respect to a foreign country or possession of the United States, which are taken into account on the taxpayer's applicable financial statement. To the extent provided by the Secretary, the preceding sentence shall not apply to income, war profits, or excess profits taxes (within the meaning of section 901) that are imposed by a foreign country or possession of the United States and taken into account on the taxpayer's applicable financial statement if the taxpayer does not choose to have the benefits of subpart A of part III of subchapter N (foreign tax credit) for the taxable year.
- Depreciation-AFSI income shall be reduced by depreciation deductions allowed under section 167 with respect to property to which section 168 applies to the extent of the amount allowed as deductions in computing taxable income for the taxable year, and "(B) appropriately adjusted— (i) to disregard any amount of depreciation expense that is taken into account on the taxpayer's applicable financial statement with respect to such property, and (ii) to take into account any other item specified by the Secretary in order to provide that such property is accounted for in the same manner as it is accounted for under this chapter."

Adjusted Financial Statement Income

- ‘‘QUALIFIED WIRELESS SPECTRUM.—‘‘(A) IN GENERAL.—AFSI shall be—‘‘(i) reduced by amortization deductions allowed under section 197 with respect to qualified wireless spectrum to the extent of the amount allowed as deductions in computing taxable income for the taxable year, and ‘‘(ii) appropriately adjusted— ‘‘(I) to disregard any amount of amortization expense that is taken into account on the taxpayer’s applicable financial statement with respect to such qualified wireless spectrum, and ‘‘(II) to take into account any other item specified by the Secretary in order to provide that such qualified wireless spectrum is accounted for in the same manner as it is accounted for under this chapter. ‘‘ (B) QUALIFIED WIRELESS SPECTRUM.—For purposes of this paragraph, the term ‘qualified wireless spectrum’ means wireless spectrum which— ‘‘(i) is used in the trade or business of a wireless telecommunications carrier, and ‘‘(ii) was acquired after December 31, 2007, and before the date of enactment of this section.
- Other items—adjustment with respect to disregarded entities, special rule for cooperatives for amounts described in section 1382(b),certain deductions for Alaska Native Corporations, elections for direct payment of certain credits, exclusion of certain mortgage servicing income of a taxpayer other than a regulated investment company; exclusion of book income, cost or expense related to a covered benefit plan that is not taken into account under applicable tax provisions; and exclusion of income derived by tax-exempt entities, other than unrelated trade or business income.
- SECRETARIAL AUTHORITY TO ADJUST ITEMS—The Secretary shall issue regulations or other guidance to provide for such adjustments to AFSI as the Secretary determines necessary to carry out the purposes of this section.

Deduction for Financial Statement Net Operating Loss Carryover & Corporate AMT Credit Carryover

The AFSI NOL is limited to AFSI losses incurred for taxable years ending after 12/31/2019. The CAMT carryover has an unlimited life and is subject to the same limitations as regular tax (80% for indefinite lived carryovers).

- Could have a negative impact if the applicable corporation has NOLs for prior periods which can be used for regular tax purposes

Corporate AMT Foreign Tax Credit - An applicable corporation can claim a foreign tax credit against its tentative minimum tax under sections 901 and/or 960. Corporate AMT foreign tax credit" generally equals the sum of (1) foreign taxes paid or accrued by a domestic applicable corporation and taken into account on the domestic applicable corporation's applicable financial statement (such as withholding taxes, or foreign income taxes on branch income, that would give rise to a section 901 credit); and (2) foreign taxes paid or accrued by the applicable corporation's CFCs that are taken into account on the applicable financial statement of the CFCs (and therefore included in the applicable corporation's adjusted financial statement income ratably). Furthermore, the corporate AMT foreign tax credit, with respect to the foreign taxes paid or accrued by the CFCs, is limited to 15% of the applicable corporation's CFC Adjustment for the taxable year described above. For this purpose, the excess is generally carried forward to the succeeding five years.

Again, the Secretary shall provide regulations or other guidance.

General Business Credits & Corporate Minimum Tax Carryover

General business credits (GBCs) – for purposes of the CAMT a company's tax liability for the year plus BEAT will not be reduced by GBCs.

However, the new law amends Section 38 to take into account the Corporate CAMT. The same percentage limitations apply but the tax base includes the regular tax liability plus the CAMT.

CAMT carryover - the legislation allows any CAMT paid to be carried forward indefinitely to be used to offset the regular tax liability in excess of the tentative minimum tax

- Is an attribute for ASC 740 purposes and would be recorded at its gross amount subject to utilization (VA considerations)
- Could be used to offset reversing taxable temporary differences including indefinite lived DTLs
- Appears that it would be subject to Code Sec. 383

Recent IRS Guidance

In late December 2022, the IRS issued Notice 2023-7 which clarified several of the CAMT provisions. The Notice discusses, in part:

- A new safe harbor in determining whether a taxpayer is an applicable corporation for the first CAMT year. The safe harbor simplifies the computation of AFSI, however the thresholds are less under the safe harbor
- Partnership AFSI- the Notice clarifies the treatment of the distributive share limitation of Section 56A(c)(2)(D)(i) in determining if a taxpayer is an applicable corporation
- Treatment of refundable credits- certain proceeds from credits under section 48D, Sections 6417 and 6418 are removed from AFSI
- Depreciation-the Notice defines which property under Section 168 is eligible for the depreciation adjustment. Depreciation claimed through cost of goods sold is also eligible for the adjustment
- Book gain or loss on certain non-recognition transactions-if a gain or loss is recorded for financial statement purposes with respect to a Covered Non-recognition Transaction, it is disregarded in determining AFSI. Certain basis adjustments recorded for financial statement purposes with respect to such transactions are also disregarded
- The Notice does not address whether earnings or losses recorded in other comprehensive income are excluded from AFSI

Other Issues/Unanswered Questions

- Timing of any regulations – short window since would be applicable for calendar year companies in Q1, 2023
- State and local – will any states adopt these rules?
- How are items in OCI handled if at all?
- Mark to market items?
- Sec. 382 & SRLY limits with respect to CAMT loss carryovers?
- How are acquisitions and dispositions handled? Could the regulations when issued push a group into the status of an applicable corporation?
- Perpetual CAMT payers and impact on carryovers? Extractive industries e.g., with % depletion (Recent informal FASB guidance stating it is a policy election)
- Impact of accounting changes and impact on AFSI –accounting body driving tax changes (e.g., FASB, IASB)
- Do deferred taxes have to be considered in AFSI e.g., state tax
- How does the CAMT interact with the Global minimum tax—will they affect each other?
  - Does not appear that the CAMT would automatically mean that the U.S. has implemented the Global minimum tax rules; unlikely that the CAMT would be considered a Qualified Domestic Minimum Top Up Tax;
- Tax control considerations

CAMT Example

	Current Tax		CAMT
PBT	1,000,000	Book income after tax	1,729,000
FDII	(1,000,000)	Foreign income	(750,000)
GILTI	1,000,000	Foreign per 951(a)(2)	750,000
GILTI Sec 250	(500,000)	Foreign taxes	250,000
Excess SBC	(200,000)	U.S. deferred tax expense	21,000
Excess deprec.	(100,000)	Excess deprec.	(100,000)
Taxable income	200,000	CAMT income	1,900,000
Tax Rate	21%	Tax Rate	15%
Tax	42,000	Tax	285,000
FTC	(42,000)	FTC	(150,000)
Tax	-	CAMT	135,000
	CAMT	135,000	

CAMT Credit Recognition

Facts:

Regular Tax c/overs		CAMT Carryovers	
2019	500	2019	0
2020	1000	2020	900
2021	1,000	2021	900
2022	1,000	2022	900
Total	3500		2700
163J carryover	500		
Naked credit	3,000		
CAMT credit c/over	500		

Not able to project at end of 2022

Scheduling:

	Regular Tax	CAMT
Naked credit	3,000	3,000
163j useage	(500)	
NOL useage	(2,000)	(2,400)
Net	500	600
Rate	21%	15%
Tax	105	90
Benefit		15

Inflation Reduction Act

Stock Buyback Excise Tax

Excise Tax on Repurchases

- IRA added new Code Section 4501 which imposes a 1% nondeductible excise tax on a covered corporation equal to the fair market value of any stock repurchased by such corporation after December 31,2022, during any tax year
- A covered corporation, for this purpose, is any domestic corporation whose stock is traded on an established securities market as defined in Code Section 7704(b)(1)

A Repurchase Means

- A redemption within the meaning of Code Section 317(b) with regard to the stock of a covered corporation
  - **Code Section 317(b)** Redemption of Stock — For purposes of this part, stock shall be treated as redeemed by a corporation if the corporation acquires its stock from a shareholder in exchange for property, whether or not the stock so acquired is cancelled, retired, or held as treasury stock
  - Until regulations are issued it appears that preferred stock redemptions are subject to the excise tax
- Any transaction "determined by the Secretary" to be economically similar
  - One example that may not meet the definition of a redemption but could be viewed as economically similar is a partially taxable acquisition under Code section 351(double dummy transactions)
  - Hopefully, regulations will add clarity this area

Excise Tax on Repurchases

The amount of repurchases are reduced by issuances during the year which may include

- Stock issued in a traditional primary public offering
- Stock issued as compensation to employees
- Stock issued to acquire property, including stock issued in mergers and acquisitions

The tax would also apply to repurchase of stock of certain foreign corporations

Exceptions that might otherwise be treated as repurchases but are not subject to the excise tax would include

- Repurchase is part of a Code Section 368(a) reorganization and **no gain or loss** is recognized on such repurchase by the shareholder by reason of such reorganization
- Any cash or boot issued in a reorganization might trigger the tax e.g., in a Code Section 368(a)(1)(A) transaction in which certain levels of cash consideration can be used
- The repurchased stock (or an amount of stock equal to the value of the stock repurchased) is contributed to an employer-sponsored retirement plan, employee stock ownership plan, or similar plan
- The total value of stock repurchased during the taxable year is $1 million or less;
- Under regulations prescribed by the Secretary of the Treasury, a repurchase by a dealer in securities in the ordinary course of business

Excise Tax on Repurchases

Exceptions

- Repurchases by regulated investment companies (RICs) or real estate investment trusts (REITs)
- To the extent the repurchase is treated as a dividend for purposes of the Code

Excise taxes are generally paid on a quarterly basis (IRS Form 720)

- Need to involve a tax member with Sub C skills in order to determine the amount to accrue
  - Would be a quarterly consideration.
  - Need to plan and understand transactions whether potential or actual

Excise Tax on Repurchases

RECENT IRS GUIDANCE

In late December 2022, the IRS issued Notice 2023-02 providing operating rules with respect to the excise tax. The Notice discusses:

- Types of typical corporate transactions which will or will not be treated as repurchases
- Ordering and operating rules for purposes of computing the excise tax
- Reporting requirements, including new Form 7208. It is expected to be provided in regulations that the excise tax will be paid annually, and the form will be filed annually. However, until regulations are issued, the timing of payment is unclear.
- The Notice provides that taxpayers may rely on certain provisions in Notice 2023-2 until the issuance of proposed regulations

Excise Tax on Repurchases

FINANCIAL REPORTING CONSIDERATIONS

- Excise tax is determined on a non-income tax base and thus is not considered an income tax pursuant to ASC 740
- **Still a tax and need to understand the accounting**
- Questions regarding the accounting
  - Record as a direct cost of the transaction (reduced for any issuances) thus record in equity

  OR

  - Pretax expense
- Direct costs of acquiring permanent equity-classified stock(treasury stock) as well as costs associated with the acquisition of temporary equity classified are generally considered in the cost of acquiring the shares and would be recorded in equity
- Direct costs of extinguishing mandatorily redeemable preferred liabilities are included as part of the extinguishment gain or loss and no tax benefit recorded for the tax (assumes that preferred stock redemptions are subject to the tax)
- What impact do these provisions have on EPS calculations?

Excise Tax on Repurchases

FINANCIAL REPORTING CONSIDERATIONS (cont'd)

The excise tax is computed based on the full year activity which may include buybacks as well as stock issuances

- For interim periods, the excise tax is recognized in the quarter in which the buyback occurs
- It would not be appropriate to reduce the excise tax for anticipated stock issuances in future interim periods
- Therefore, if stock issuances in future quarters reduce the annual excise tax associated with a buyback in a prior interim period, the reduction of the tax should be recorded discretely in the interim period in which the stock is issued. The reduction due to such discrete adjustment would normally be backward traced
- For compensatory non-qualified stock options and restricted stock, the reduction to the excise tax, if applicable, occurs when the option is exercised, or the restricted stock is transferred to the employee, respectively.

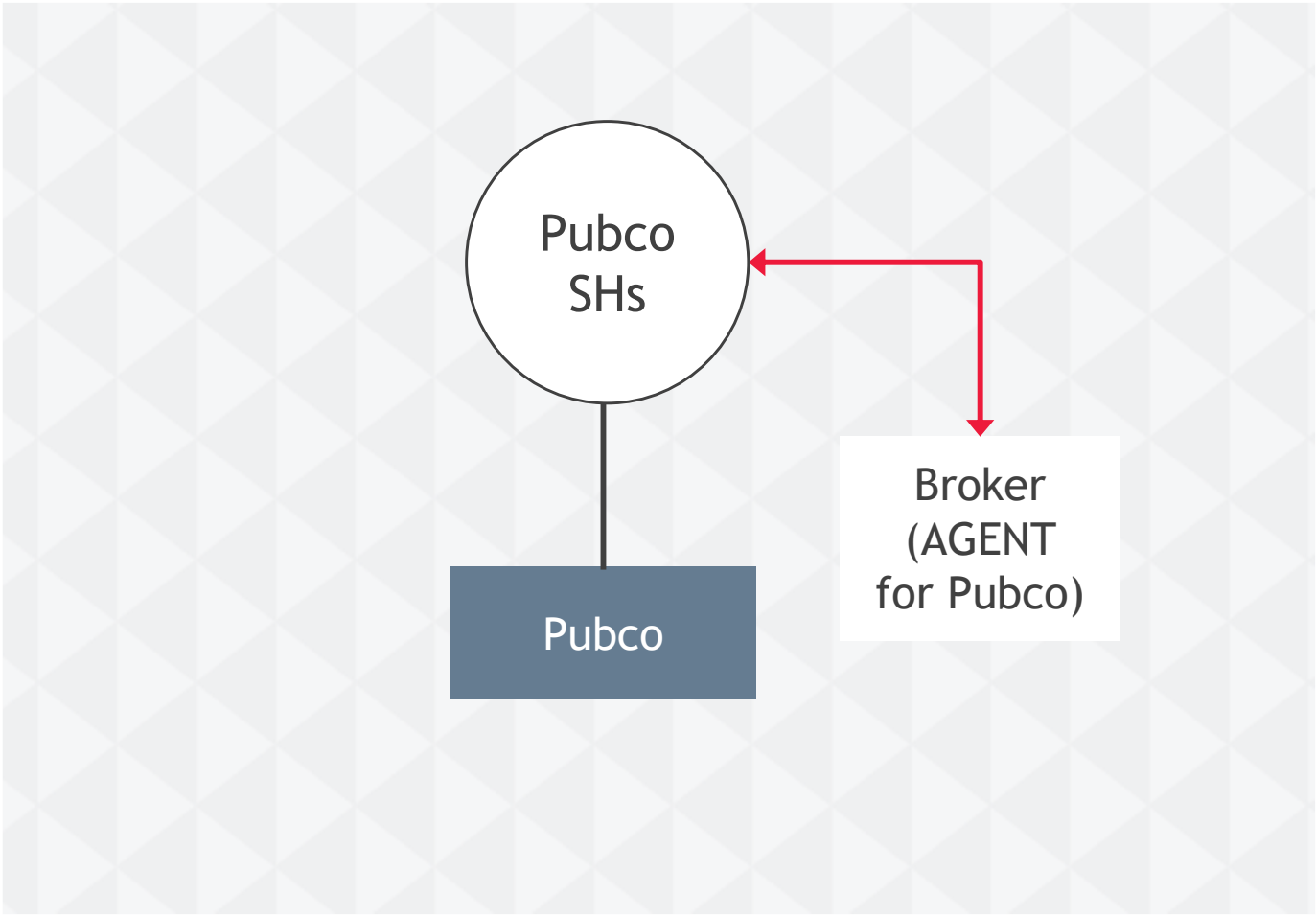
Example 1

Facts

- Pubco has an ongoing stock repurchase program. For 2024, Broker on behalf of Pubco, repurchases $100 million of Pubco stock on the open market

Result

- Pubco would owe $1 Million of excise tax since this is likely a redemption per Code Sec. 317 absent any issuances and/or exceptions



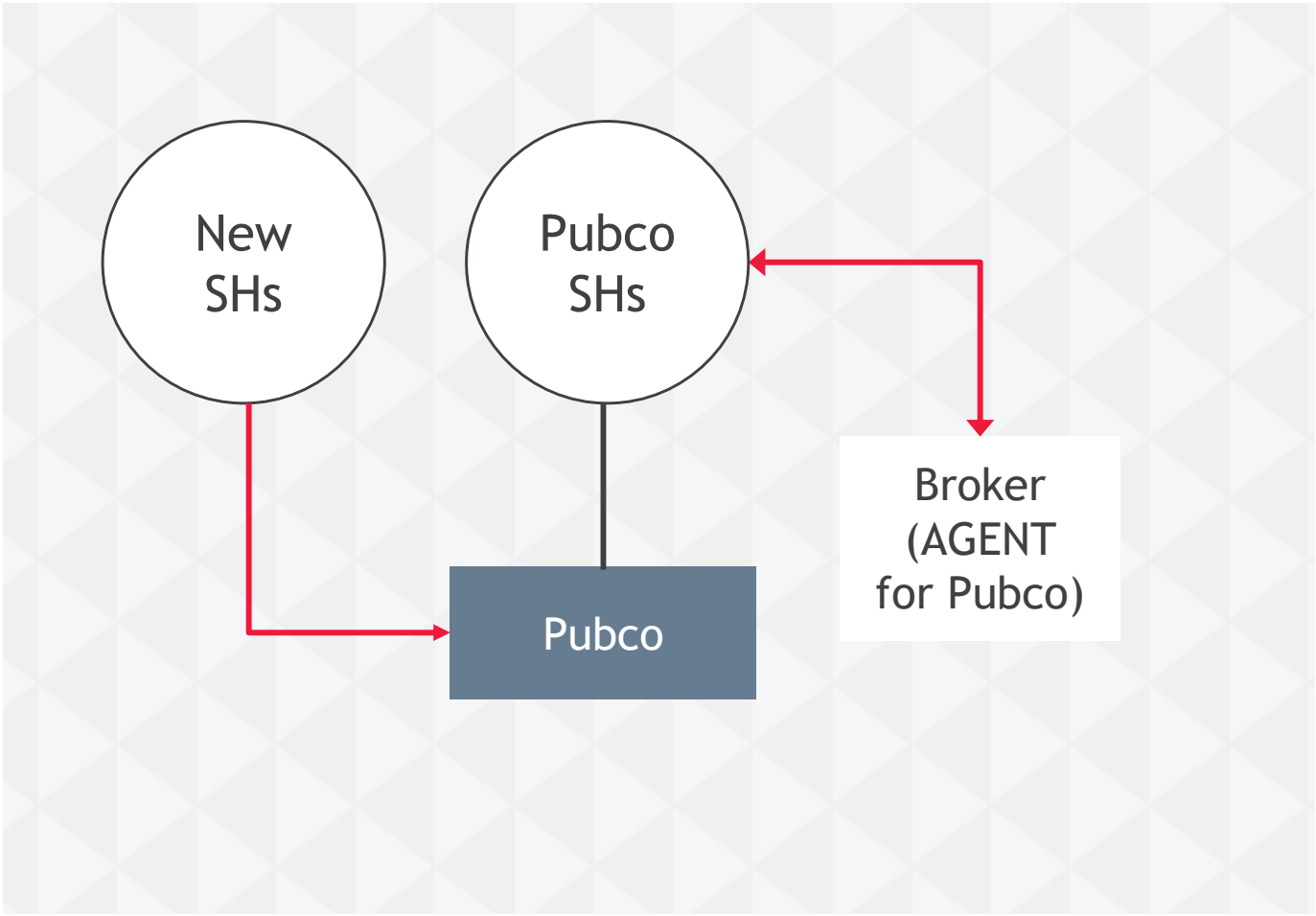
Example 2

Facts

- Same as the previous example except Pubco raises additional capital of $25 Million

Result

- Since the issuance reduce the repurchases, the excise tax liability would be reduced with the resultant tax equal to $750K



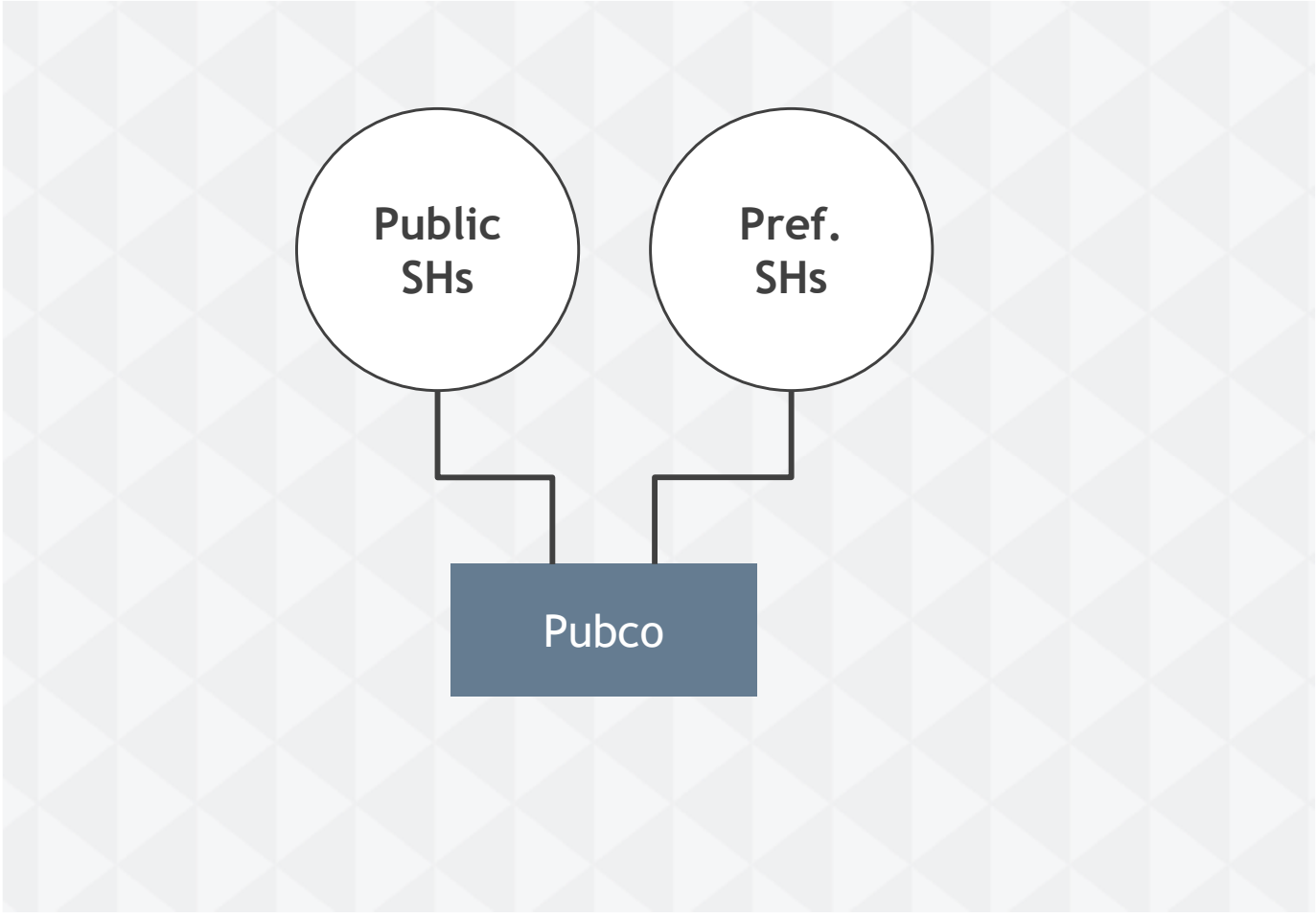
Example 3

Facts

- Pubco issued preferred stock in 2019 of $100 Million that is redeemable by its terms in 2024. The shareholders exercise their redemption rights in 2024

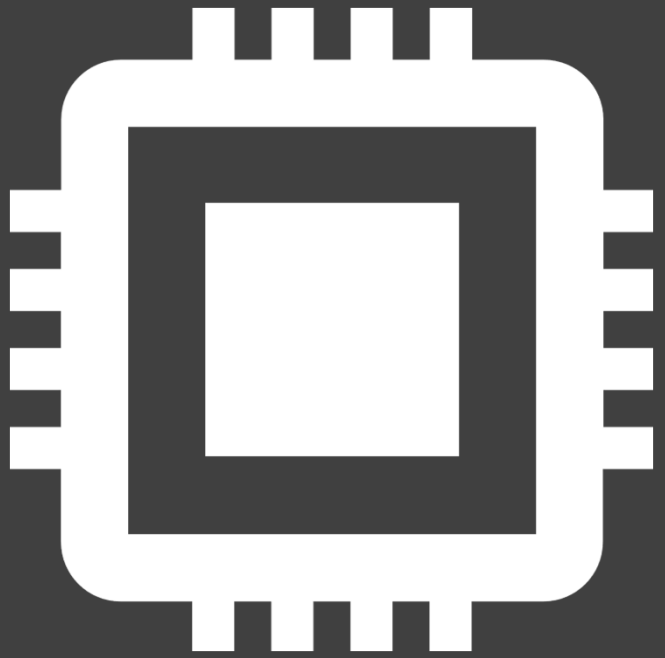
Expected Result

- Absent any issuances or exceptions, the redemption of the preferred stock would fall under Code Section 317 with Pubco owing $1 Million in excise tax



Chips Act & Inflation Reduction Act

Advanced Manufacturing Investment Credit & Clean Energy Credits & Incentives



CHIPS and Science Act (CHIPS)

ADVANCED MANUFACTURING INVESTMENT CREDIT

CHIPS Act – Relevant Provisions

- Section 48D introduces an Advanced Manufacturing Investment Credit (AMIC) equal to 25% of the cost of qualifying equipment placed in service after December 31,2022. Basis of property constructed before January 1, 2023, will qualify only to the extent of construction or reconstruction after August 9, 2022
- Qualifying property is tangible property (acquired or constructed), including buildings and structural components subject to depreciation where the original use commences with the taxpayer and is integral to the operation of an advanced manufacturing facility
- A direct pay election may be made by a taxpayer in lieu of claiming the credit against the tax on the tax return
- Partnerships may also elect to make the direct pay election, and not the partners. In such case, the payment is made directly to the partnership and treated as tax exempt income to the allocated partners
- The credit claimed(including a credit through the direct pay election) will reduce the tax basis of the acquired (or constructed) property

CHIPS Act

TAX ACCOUNTING CONSIDERATIONS

Due to the fact that eligible taxpayers have the option to elect the direct pay option and treat the credit as a deemed payment made against its tax liability, the credits will be treated as refundable credits and will be accounted for under IAS 20 (government grants) or other applicable guidance, not ASC 740.

- This is true even if the direct pay election is not made

The credit will be accounted for through pre-tax as either (a) a reduction to the book basis of the asset acquired or (b) as deferred income that is recognized in revenue over the useful life of the property.

- Reduction to book basis approach - since tax basis is required to be reduced by the full amount of the credit, there should be no book/tax basis difference in the asset and no deferred taxes would need to be recorded under the asset acquisition rules of ASC 740-10-25-51
- Deferred income approach - we would expect a result similar to the first approach, e.g., that no net deferred taxes would need to be recorded under ASC 740-10-25-51. This is because the book over tax basis difference in the asset would be offset by the book over tax basis in the deferred income liability

Inflation Reduction Act Clean Energy Credits and Incentives

GENERAL PROVISIONS

The IRA contains a significant amount of climate related tax credits. Certain of the credits are extensions and enhancements of existing credits and others are new credits.

- In general, the credits can be described as either investment tax credits (ITC) or production tax credits (PTC)
- Many of the credits are available for property acquired beginning in 2023 or production beginning in 2023. Certain credits, however, have an earlier or later effective date. For example, Sections 45Y and Sections 48D are effective for facilities placed in service after Dec 31, 2024
- Many of the credits have a two- tiered structure whereby there is a base credit rate and also a bonus credit rate. The bonus credit amounts are available at the same time as the base rate but have additional criteria:
  - Prevailing wage requirement - a prevailing wage must be paid for laborers
  - Apprenticeship requirement - a minimum of labor hours must be performed by qualified apprentices
  - Domestic content requirement- facility materials must have significant U.S. content
- Further, certain bonus credits are available where the credits are generated in certain locations, e.g., “energy communities” and low-income communities

IRA Credits

DIRECT PAY ELECTION AND TRANSFERABILITY OPTIONS

Direct Pay Election - Section 6417

Approximately 12 credits (both PTC and ITC) allow for a direct pay election, but only for 'applicable entities', which are tax-exempt entities, The Tennessee Valley Authority, Indian tribal govts, or Alaska Native corporations.

There are three exceptions to the 'applicable entity' restriction:

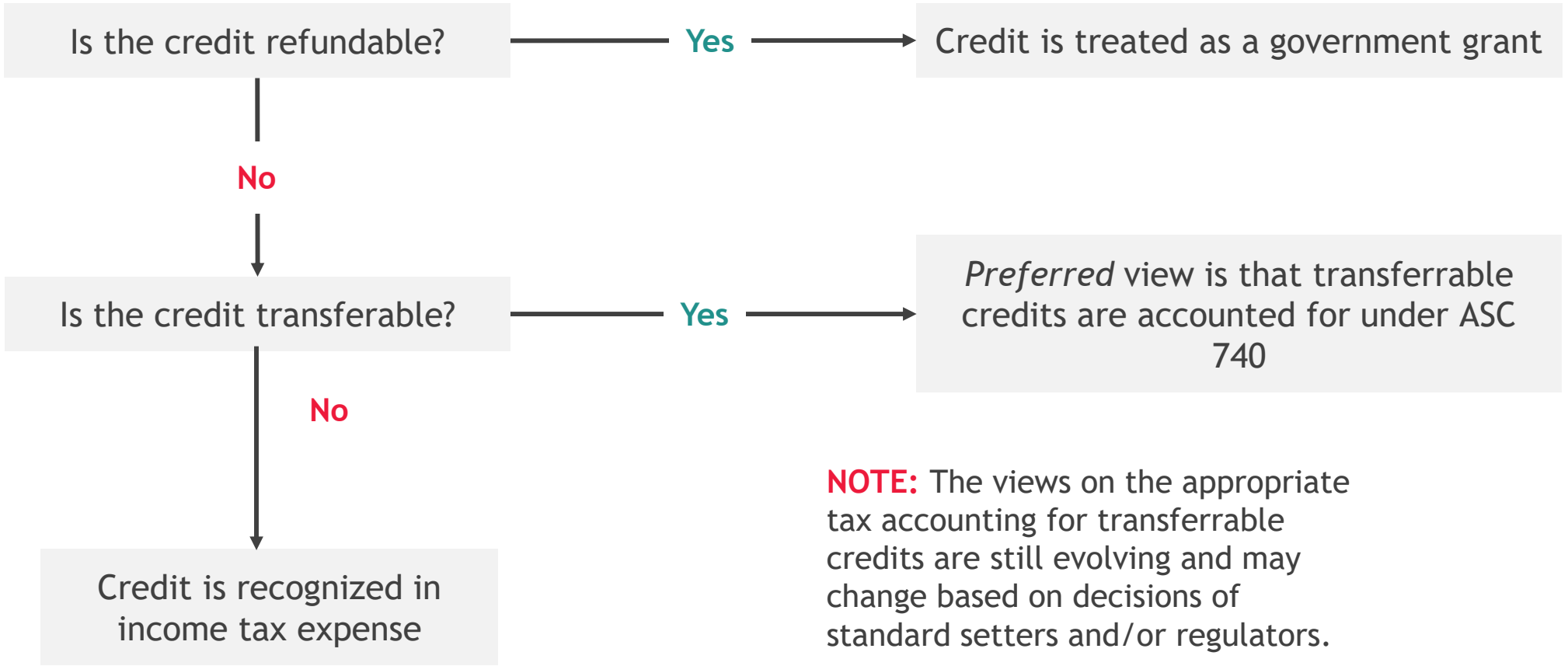
- Section 45V credit - Hydrogen PTC
- Section 45Q credit - Carbon Capture credit
- Section 45X credit - Advanced manufacturing credit

Transferability Options

Under Section 6418, taxpayers can make an irrevocable election to transfer some or all of certain credits to unrelated taxpayers.

- Eleven categories of credits are transferable
- The amounts must be one-time transfers for cash
- The election to transfer must be made by the due date of the return for the year in which the credit is determined
- Amounts are not included in income of the seller, nor deductible by the buyer
- The tax basis reduction is one half of the eligible credit, not one half of the amount realized.
- 'Applicable entities' who make the direct pay election are not eligible for the transferability option

Decision Tree for Accounting for Refundable Credits



NOTE: The views on the appropriate tax accounting for transferrable credits are still evolving and may change based on decisions of standard setters and/or regulators.

Factors to Consider in Accounting for Credits Under the IRA

The following relevant factors should be considered in determining whether the credits are accounted for as income tax credits under ASC 740 or through pre-tax income under govt. grant or other accounting guidance.

1. Is the credit creditable against the taxpayer's income tax liability?
2. Is the credit transferable and if so, does the taxpayer intend to transfer the credit to an unrelated party within the applicable time period?
3. Is the credit eligible for the direct pay election?
4. Is the credit an ITC or a PTC?

- If the direct pay election is available for a certain credit type, then the credit will be accounted for through pre-tax income **even if the election is not made**
- If the direct pay election is not available and it is not transferable, the credit should be accounted for under ASC 740
- If the credit is transferable, the preferred accounting is under ASC 740, although IAS 20 or other models may be acceptable.
- Diversity in practice exists so understand the view of your attest firm

NOTE: The views on the appropriate tax accounting for transferrable credits are still evolving and may change based on decisions of standard setters and/or regulators.

IRA CREDITS

Summary of Accounting Treatment

INVESTMENT TAX CREDITS

If Accounted for Under ASC 740, Use the Flow Through or the Deferral Method

- Flow through method-recognize the credit through tax expense in the period it is generated and meets the MLTN recognition criteria
- Deferral method (preferred method)- two options, which are accounting policy elections
  - **Reflect as a reduction to the book basis of asset:** Record benefit as a reduction to book depreciation expense or as a credit to income tax expense (policy election)
  - **Reflect as deferred income:** Record benefit of credit to income tax expense
- Under the deferral method, further policy election to record the deferred benefit or expense as direct impact to tax expense (income statement approach) or as a further reduction to book basis of asset (ASC 740-10-25-51) creating simultaneous equation

If accounted for through pre-tax income,

- Most would apply IAS 20 (reduce book basis or create deferred income liability) and record benefit in accordance with ASC 740-10-25-51

PRODUCTION TAX CREDITS

- If accounted for under ASC 740, record the credit in the period it is earned and meets MLTN recognition criteria
- If accounted for through pre-tax income,
  if the allowance of credit meets probable threshold, record the credit over the period in which expenses are recognized to which the credit relates

Listing of Examples

Example 1	Refundable ITC-transferable credit with intent to transfer
Example 2	Non-refundable ITC - Deferral method, income statement approach, record credit as a reduction to tax expense
Example 3	Non-refundable ITC - Deferral method, income statement approach, record as a reduction to book depreciation
Example 4	Non-refundable ITC – Flow-through method
Example 5	Production tax credit

EXAMPLE 1

ITC Energy Credit Transferred to Unrelated Party

- Credit transfer to unrelated party
- Qualified energy (solar) investment tax credit
- C corporation purchases $10,000 of qualified assets on Jan. 1, 2022
- Taxpayer intends to elect to sell the credit
- Taxpayer transfers the credit for 90% of the credit amount on Dec. 31, 2022
- Taxpayer qualifies for bonus rate of 30%
- IAS 20 govt. grant accounting applied and pursuant to ASC 740-10-25-51, credit reduces book basis of the property
- Tax rate is 25%

NOTE: This example illustrates Government Grant accounting treatment for transferable credits. Note, the preferred view is to account for transferable credits under ASC 740

EXAMPLE 1

ITC Transferred to Unrelated Party

ITC TRANSFERRED TO UNRELATED PARTY

Qualifying Property		A	$	10,000	
Bonus Credit Rate			$	0.30	
Credit Allowed			$	3,000	
Sales Price % to Third Party			$	0.90	
Credit Recog Under IAS 20		B	$	2,700	
Book Basis of Asset		C	$	7,300	(A-B)
Tax Basis			$	8,500	
Tax Over Book Basis			$	1,200	
Simultaneous Factor			$	0.33	(25%/1-25%)
DTA to Record		D	$	400	
Proof:					
FINAL Book Basis		E	$	6,900	(C-D)
Final Tax Basis			$	8,500	
Tax Over Book Basis			$	1,600	
Tax Rate			$	0.25	
Deferred Tax Asset Needed			$	400	
Entry:					
Other Asset	$ 2,700				
Fixed Asset	$ 6,900				
DTA	$ 400				
		Cash	$	10,000	
To record purchase of asset and expected proceeds on sale of credit					
Cash	$ 2,700				
		Other asset	$	2,700	
To record the sale of credit to third party					

EXAMPLE 1

ITC Transferred to Unrelated Party

ENTRIES FOR YEAR OF ACQUISITION

Book and Tax Depreciable Life Is 5 Years

Def Tax Expense			Book	Tax	Difference
Basis in Asset Upon Acquisition			$ 6,900	$ 8,500	
Depreciation			$ (1,380)	$ (1,700)	
Basis at End of Year			$ 5,520	$ 8,500	$ 1,280
Tax Rate					$ 0.25
DTA Required at End of Year					$ 320
DTA at Acquisition Date					$ 400
Def Tax Expense					$ 80
Current Tax Expense					
Book Income					$ 10,000
Depreciation Difference					$ (320)
Taxable Income					$ 9,680
Current Tax Expense					$ 2,420
Current Tax Expense		$ 2,420			
	Taxes payable		$ 2,420		
Deferred Tax Expense		$ 80			
	DTA		$ 80		

EXAMPLE 2

ITC Deferral Method

Assume the Same Facts as Example 1 Except

- ITC is not transferred and is not available for direct pay election. It is thus accounted for under ASC 740
- The company adopts the Deferral method as its accounting policy and elects to reduce book basis by the credit
- The company makes a further accounting policy election to record the deferred tax benefit to tax expense (so-called income statement approach) and further to recognize the benefit of the credit through income tax expense

EXAMPLE 2

ITC Deferral Method Adopted

EXAMPLE 2 DEFERRAL METHOD

Entry Upon Acquisition				
Qualifying Property			$	10,000
Credit Rate			$	0.30
Credit Allowed			$	3,000
Book Basis			$	7,000
Tax Basis			$	8,500
Basis Difference			$	1,500
Tax Rate			$	0.25
DTA to Record			$	375
Fixed Asset	$ 10,000			
Taxes Payable	$ 3,000			
		Cash	$	10,000
		Contra asset	$	3,000
To record benefit to taxes payable and to record fixed asset and contra				
DTA	$ 375			
		Deferred tax benefit	$	375

(Note no simultaneous equation used since the company adopted the “income statement” approach and thus DTA is adopted the “income statement” approach and thus DTA is recorded to tax expense, not as a reduction to book basis of asset)

EXAMPLE 2

ITC Deferral Method Adopted

EXAMPLE 2 DEFERRAL METHOD - REDUCTION TO BOOK BASIS, INCOME STATEMENT APPROACH, RECORD BENEFIT TO TAX EXPENSE

Entries for year of acquisition

Def Tax Expense					Book	Tax	Difference
Basis In Asset Upon Acquisition					$ 7,000	$ 8,500	$ 1,500
Depreciation					$ (2,000)	$ (1,700)	$ 300
Amort Of Contra Asset					$ 600		$ (600)
Basis At End Of Year					$ 5,600	$ 6,800	$ 1,200
Tax Rate							$ 0.25
DTA Required At End Of Year							$ 300
DTA At Acquisition Date							$ 375
Def Tax Expense							$ 75
Current Tax Expense							
Book Income							$ 10,000
Depreciation Difference							$ 300
Taxable Income							$ 10,300
Current Tax Expense							$ 2,575

Current Tax Expense		$ 2,575		
	Taxes payable		$	2,575
Deferred Tax Expense		$ 75		
	DTA		$	75
Contra Asset		$ 600		
	Tax benefit		$	600

To reflect the benefit of the credit through tax expense over life of property

ETR	20.50%

EXAMPLE 3

Deferral Method

EXAMPLE 3: DEFERRAL METHOD (INCOME STATEMENT APPROACH), REDUCE BOOK DEPRECIATION

Entry upon acquisition		
Qualifying Property		$ 10,000
Credit Rate		$ 0.30
Credit Allowed		$ 3,000
Book Basis		$ 7,000
Tax Basis		$ 8,500
Basis Difference		$ 1,500
Tax Rate		$ 0.25
DTA to Record		$ 375
Fixed Asset	$ 7,000	
Taxes Payable	$ 3,000	
	Cash	$ 10,000
To record benefit to taxes payable and to record fixed asset and contra		
DTA	$ 375	
	Deferred tax benefit	$ 375

(Note no simultaneous equation used since the company adopted the "income statement" approach and thus DTA is recorded to tax expense, not as a reduction to book basis of asset)

Assume the same facts are Example 2, except that the company elects to reduce book depreciation for the credit generated

Income Statement Approach, Elect To Reduce Book Depreciation

EXAMPLE 3

Deferral Method

EXAMPLE 3: DEFERRAL METHOD - REDUCTION TO BOOK BASIS, INCOME STATEMENT APPROACH, REDUCE BOOK DEPRECIATION

Entries for year of acquisition

Def Tax Expense	Book	Tax	Difference
Basis In Asset Upon Acquisition	$ 7,000	$ 8,500	$ 1,500
Depreciation	$ (1,400)	$ (1,700)	$ (300)
Amort Of Contra Asset	$ -	$ -	$ -
Basis At End Of Year	$ 5,600	$ 6,800	$ 1,200
Tax Rate			$ 0.25
DTA Required At End Of Year			$ 300
DTA At Acquisition Date			$ 375
Def Tax Expense			$ 75
Current Tax Expense			
Book Income (After Depreciation)			$ 10,000
Depreciation Difference			$ (300)
Taxable Income			$ 9,700
Current Tax Expense			$ 2,425

Current Tax Expense		$ 2,425	
	Taxes payable		$ 2,425
Deferred Tax Expense		$ 75	
	DTA		$ 75
ETR		**25.00%**	(excludes initial def tax benefit of $375)

This method produces a higher ETR but lower book depreciation

Income Statement Approach, Elect To Reduce Book Depreciation

EXAMPLE 4

ITC “Flow Through” Method Adopted

Assume the same facts as Example 2 except

- The company adopts the so-called flow through method
- Under the flow through method, the credit is recognized as a reduction to tax expense, and assessed for realizability if the credits cannot all be used in the period generated

EXAMPLE 4

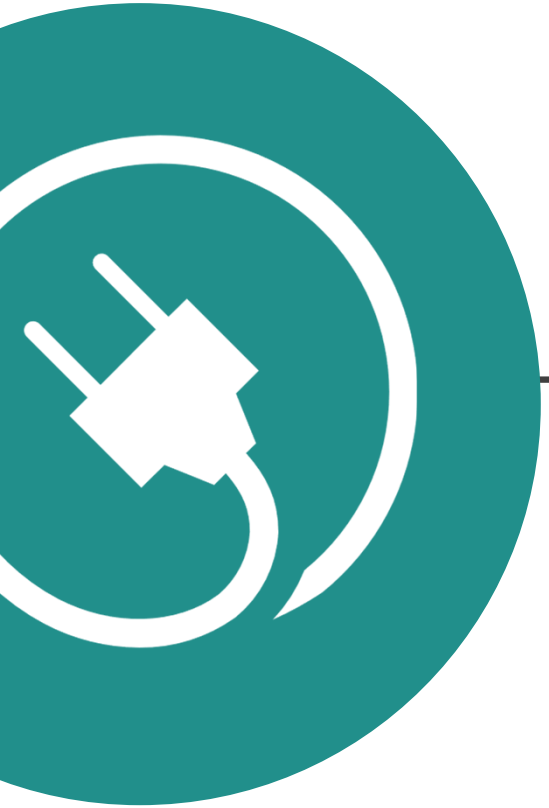
ITC Flow Through Method

EXAMPLE 4 FLOW THROUGH METHOD			
Entry Upon Acquisition			
Qualifying Property		$	10,000
Credit Rate		$	0.30
Credit Allowed		$	3,000
Book Basis		$	10,000
Tax Basis		$	8,500
Basis Difference		$	1,500
DTL Required		$	375
Taxes Payable	$ 3,000		
	Current tax benefit	$	3,000
Deferred Tax Exp	$ 375		
	DTL	$	375

Note: there is no reduction to the book basis of the assets under the flow through method. However, due to tax basis reduction for 50% of the credit, a def tax liability is recognized

EXAMPLE 5

Energy PTC



- The company is building a new facility in 2022 for production of renewable energy
- 2,000,000 kilowatt hours were generated during 2022 production
- The company expected to meet the bonus rate criteria (wages and apprenticeship requirements) and the domestic content requirements for 2022
- In year 2023, the company received documentation that it did not meet the domestic content rules. What is the appropriate accounting for the credit if
  - The direct pay election is available to the entity (credit accounted for through pre-tax income)
  - The credit cannot be monetized except through claiming a credit on the income tax return (credit accounted for under ASC 740)
- Assume the company is taxable and can use the credits

EXAMPLE 5

Energy PTC

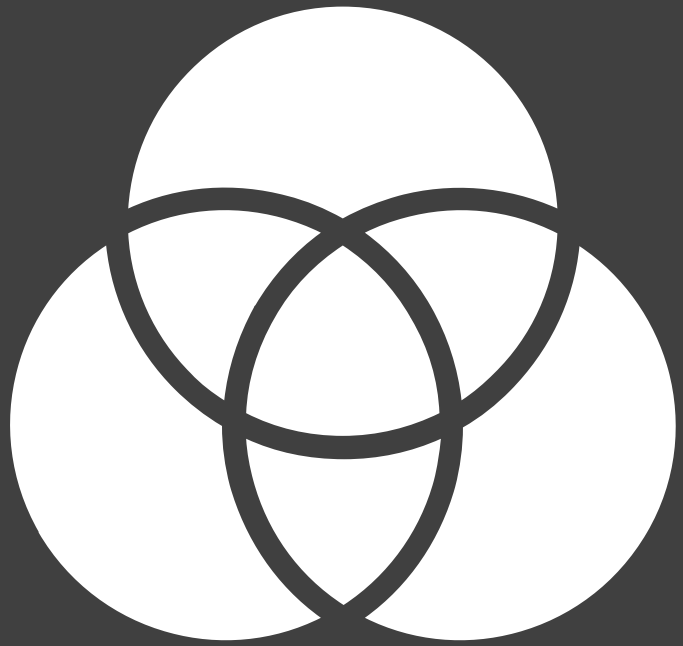
ENERGY CREDIT PTC

			Bonus	Domestic Content
	2022 Kilowatt hours		2,000,000	2,000,000
	rate		0.026	0.0286
	Total credit		$ 52,000	$ 57,200
Alternative 1- Credit is accounted for outside of ASC 740				
31-Dec-22				
Cash		$ 57,200		
	Pre-tax earnings		$ 57,200	
31-Dec-23				
Pre-tax earnings		$ 5,200		
	ASC 450 reserve		5,200	
Establish reserve for risk that domestic content requirement are not met in 2022				
Alternative 2- Credit is accounted for under ASC 740				
31-Dec-22				
Taxes Payable		$ 57,200		
	Current tax benefit		$ 57,200	
31-Dec-23				
Tax Expense		$ 5,200		
	FIN 48 payable		$ 5,200	
Establish UTP due to failing of domestic content requirements				

Business Combinations

TRAPS FOR THE UNWARY

- Goodwill
- Valuation Allowances
- Contingent Consideration
- Deferred Revenue



ASC 740 Goodwill

Two types of goodwill can be recognized in business combinations:

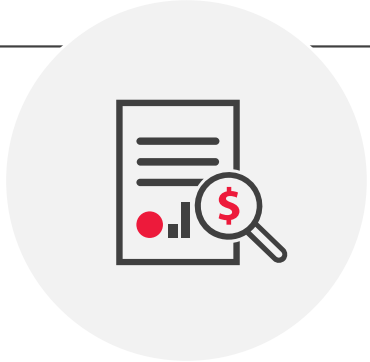
Tax Deductible

Tax Non-Deductible

ASC 740 requirements differ whether goodwill can be deducted for tax purposes or not

IMPAIRMENT

Goodwill



Goodwill is not subject to amortization for book purposes (exception for private companies by election) but must be tested for impairment at the **reporting unit** level

Goodwill must be tested for impairment at least **annually**

Non-Deductible Goodwill

- Non-Deductible Goodwill: No tax benefit recorded
- Subsequent book impairments are treated as a permanent difference
- **NOTE:** FASB project on Identifiable Intangible Assets And Subsequent Accounting For Goodwill removed from agenda June 15, 2022

Deductible Goodwill Component 1

- Deferred taxes ARE recognized on the date of acquisition for differences between book and tax bases of goodwill when there is excess tax basis of goodwill
  - The amortization of tax-deductible goodwill is NOT a beneficial permanent difference and may NOT reduce a company's effective tax rate
- Deferred taxes may need to be recognized in a future period when the book and tax bases of goodwill are no longer the same
  - A deduction in a company's current tax provision for the amortization of goodwill will be offset by an adjustment in the deferred tax asset/liability for the difference between the unamortized basis of tax goodwill (Section 197) and the basis in book goodwill
- If tax goodwill amortization creates a deferred tax liability (naked credit) then generally can only be considered a source of income for indefinite lived deferred tax assets
  - Post TCJA U.S. NOLs (includes net reversing deductible temporary differences that when scheduled creates "new" NOLs)
  - Post TCJA Section 163(j) interest limitation
  - Inflation Reduction Act – new Corporate Minimum tax

Goodwill and Deferred Taxes

No deferred taxes recognize for nondeductible goodwill.

TWO COMPONENTS OF GOODWILL:

COMPONENT 1	COMPONENT 2
Lesser of financial reporting or tax-deductible goodwill	Excess financial reporting or tax-deductible goodwill

PRELIMINARY TEMPORARY DIFFERENCE					
Book Greater Than Tax			Tax Greater Than Book		
Component	Book	Tax	Component	Book	Tax
1	$1,000	$1,000	1	$1,000	$1,000
2*	1,000	--------	2*	--------	1,000
	$2,000	**$1,000**		**$1,000**	**$2,000**

* No deferred tax liability is recognized for the excess of Book over tax basis goodwill

* A deferred tax asset is recorded for the excess of tax basis goodwill over book basis goodwill since the implementation of ASC 805

Excess Tax Goodwill

- Recognize DTA for any excess of tax goodwill (i.e., Component 2) over financial reporting goodwill
- Apply simultaneous equation to determine the DTA

[Tax Goodwill – Book Goodwill]
x [Tax Rate/(1-Tax Rate)]

- In the previous example, if the tax rate is 25%, DTA to be recognized at date of acquisition would be $333

[$2,000-$1,000] x [25%/(1-25%]

- Financial reporting goodwill is reduced to $667 ($1,000-$333)
- Journal entry at acquisition date:
  - Dr DTA $333
  - CR Goodwill $333

FINAL GOODWILL TABLE		
Component	**Book**	**Tax**
1	$667	$667
2	------	1,333
Total Goodwill	**667**	**2,000**

Valuation Allowances in Business Combinations

- Established at time of business combination
- Evaluate evidence
  - Combined company's past and expected future results of operations as of the acquisition date
  - Consider tax law provisions that restrict future use of temporary differences (Code Section 382 limitations)
  - Consider impacts to future combined operations of changes in debt levels, amortization of intangibles, etc. resulting from the acquisition
  - Scheduling may be required as part of acquisition accounting. Determining how much of the acquirer vs. targets valuation allowance is released/recognized due to recognition of DTL's on intangibles can be complex. See next slide.

Valuation Allowances in Business Combinations

Two deferred tax assets and valuation allowances need to be considered in these transactions

ACQUIRED COMPANY

- Adjustments to target company's valuation allowance established for DTAs at the date of acquisition are reflected as adjustments to goodwill

ACQUIRING COMPANY

- Adjustments to the acquirer's valuation allowance is recorded as a component of income tax expense (P&L) and not included as part of acquisition accounting

In cases where a portion of the combined DTA's can be supported by the acquired temporary differences, a policy election should be made to determine whether the acquirer or target's v/a are reduced

- Tax law ordering- follow the tax law in determining which entities DTA's are supported, or
- Assume that the targets DTA's are supported first

DAY 1

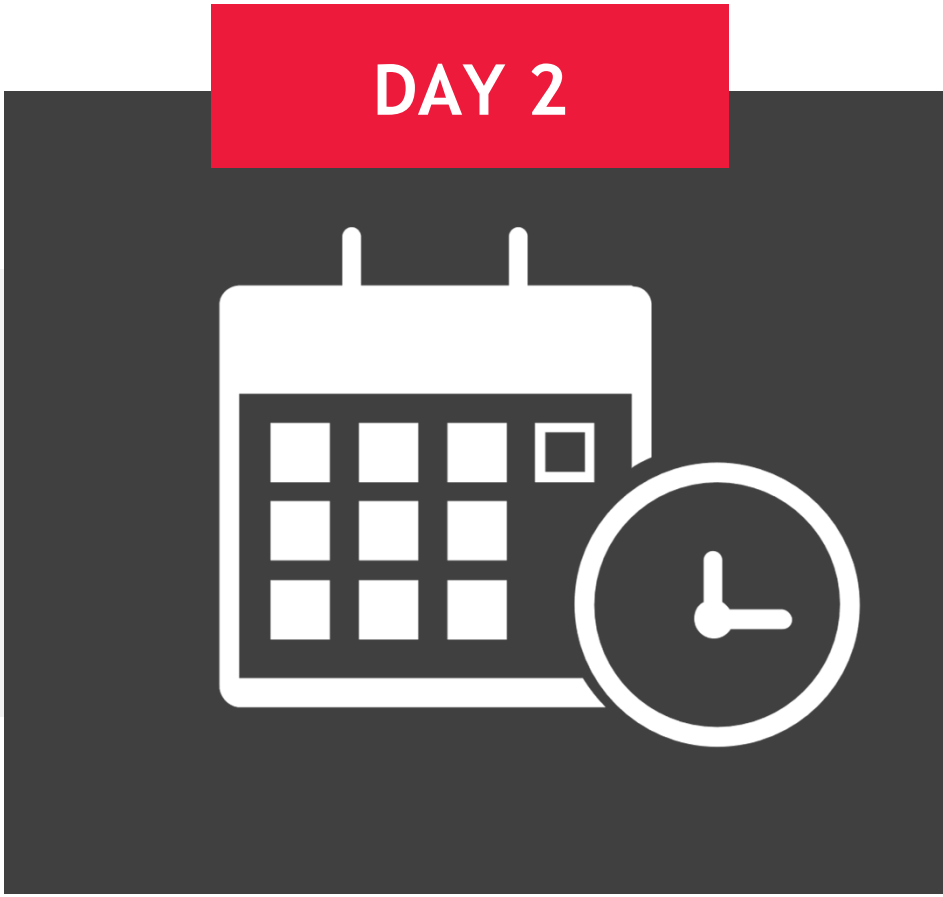
Contingent Consideration

- Recognize contingent consideration at fair value as of the acquisition date, even if contingency not probable of occurrence
- Classify as either equity or liability per ASC 480, ASC 815-40 (EITF 00-19), or other applicable GAAP
- Most contingent consideration arrangements likely to be classified as liabilities

DAY 2

Contingent Consideration

- **Liability:** classified contingent consideration remeasured through income statement
- **Equity:** classified contingent consideration not remeasured



Tax Effects of Contingent Consideration

- For tax purposes, contingent consideration is generally not recognized until it becomes fixed and determinable
- Companies should “peak ahead” and consider tax consequences upon resolution of the contingency at its book carrying amount to determine the deferred tax effect
- Resolution of contingency may result in tax-deductible expense if amortizable tax basis (e.g., in tax goodwill) or as additional tax basis in the stock
- For non-taxable business combinations:
  - If settlement results only in additional tax basis in stock (i.e., outside tax-over-book-basis) no DTA should be established (ASC 740-30-25-9)
  - Downward adjustment to contingent consideration that trigger higher book-over-tax outside basis would trigger a DTL unless certain exceptions in ASC 740 (ASC 740-30-25-7 for domestic corporations and ASC 740-30-25-18(b) for foreign corporations)) are met

Tax Effects of Contingent Consideration

For Taxable Business Combinations	Subsequent Increase to Liability (Higher Contingent Consideration)	Subsequent Decrease to Liability (Lower Contingent Consideration)
▶ Contingent consideration that is ultimately paid will often impact tax deductible goodwill in the business combination ▶ Hypothetical tax goodwill that would arise upon settlement (limited to the amount accrued as of day 1) would factor into the determination of component 1/component 2 calculation (ASC 805-20-25-19 & ASC 805-30-25-5) ▶ Note – some firms also support an alternative view	▶ Do not adjust component 1/component 2 goodwill calculation ▶ Book CC expense is a temporary difference ▶ Recognize DTA	▶ Do not adjust component 1/component 2 goodwill calculation ▶ Book CC gain is a temporary difference ▶ If transaction had excess tax goodwill, reduce DTA first then set up DTL ▶ If transaction did not have excess tax goodwill, record DTL

Accounting for Deferred Revenue in a Business Combination

Non-Taxable Acquisition (Stock Acquisition)

Follow guidelines at 1.451(c) (formerly in Rev Proc. 2004-34)

- Deferred tax asset is recorded for the difference between the “book” deferred revenue amount recorded in acquisition accounting and the remaining deferred revenue amount for income tax purposes. Include in income the amount recognized in applicable financial statement in short period and remainder in next tax year
- Be aware of short period rule (period of 92 days or less) on income recognition at 1.451(c)(4) (in Section 5.02(2) of Rev. Proc. 2004-34)
- Write down to fair value of deferred revenue in acquisition accounting does not eliminate the obligation to report in taxable income the total advance payment
  - Note: FASB issued ASU 2021-08 in late 2021 which when adopted, will change the GAAP accounting for deferred revenue in acquisition accounting
  - Upon adoption, deferred revenue will no longer be "haircut" for GAAP purposes. An entity will account for deferred revenue as if it had originated the contract
  - Effective for PBE’s in fiscal years beginning after 12/15/2022. All other entities will be required to adopt in fiscal years beginning after 12/15/2023. Early adoption is permitted.

Accounting for Deferred Revenue in a Business Combination

Non-Taxable Acquisition (Stock Acquisition)

ASC 740 implications of nontaxable acquisition

- Deferred tax asset is recorded for the difference between the "book" deferred revenue amount recorded in acquisition accounting and the remaining deferred revenue amount for income tax purposes
- Post adoption of ASU 2021-08, the identification of the deferred tax asset to be recorded should be simplified due to the removal of the haircut on deferred revenue

Accounting for Deferred Revenue in a Business Combination

TAXABLE ACQUISITION- two views on buyer treatment

Seller	Buyer 1	Buyer 2
Seller[1] records the non recognized portion of deferred revenue in income, recognizes the "fair value" (pre-ASU 2021-08) of the deferred revenue as an assumed liability and also recognizes as an ordinary deduction the fair value of the deferred revenue	Recognizes a liability for the fair value of the deferred revenue balance assumed (theory is that a taxable payment was received from the seller and deferred to the same extent the seller was permitted to defer when it received the original payment from its customers). Buyer would expense fulfillment costs as incurred (fragmentation theory)	Buyer treats the deferred revenue liability as a contingent liability and capitalizes rather than deducts the cost of fulfillment as incurred (assumption theory)

[1] See New York Bar Association Tax Section Report on Treatment of "Deferred Revenue By The Buyer In Taxable Asset Acquisitions (January 7, 2013); See AICPA comment letter of April 23, 2015, Re: Recommendations on the Tax Treatment of Deferred Revenue in Taxable Asset Acquisitions

Accounting for Deferred Revenue in a Business Combination

TAXABLE ACQUISITION

ASC 740 Implications of Taxable Acquisitions

- **First Alternative**: book equals tax and thus no temporary difference
  - Once ASU 2021-08 is adopted, book and tax will no longer be equal.
  - Book deferred revenue will be higher thus creating a deferred tax asset
- **Second Alternative:** record a deferred tax asset for the difference between the book basis of the deferred revenue liability recorded in acquisition accounting and its tax basis of NIL

Tax Accounting for Convertible Debt

Convertible Debt General Tax Accounting Concepts/Developments

Deferred tax accounting required for different book and tax basis in the debt

- Embedded derivatives (e.g., Conversion features) will give rise to book and tax basis differences
- Often, derivatives are bifurcated for books and recorded as equity giving rise to debt discount for book purposes
- Alternatively, derivatives are bifurcated and recorded as a liability, not a charge to equity

Certain book tax differences are NOT temporary differences where the reversal will not give rise to taxable or deductible amounts (ASC 740-10-25-30)

- Treat as permanent differences
- Examples are:
  - Detachable warrants issued with debt
  - Derivatives where book basis in liabilities exceed tax basis and settlement of liabilities will not give rise to a tax deduction

Convertible Debt General Tax Accounting Concepts/Developments

ASU 2020-06 will change the book accounting for convertible debt, whereby a beneficial conversion feature or cash conversion option will not give rise to a book/tax difference

- Adoption (see below) would unwind existing deferred tax accounting in the cumulative effect adjustment
- In simple terms when adopting, the instrument is restated to what its balance would have been had the standard been effective on the date of issuance. Restatement causes unwinding of existing deferred tax balances.
- Changes to VA assessments:
  - Upon adoption, would lose a source of income that could support an entity's DTAs (might increase a VA or result in the recognition of a VA; changes in VA that are the direct result of the adoption are recorded in the cumulative effect adjustment)
- Effective for public entities for tax years beginning after 12/15/2021,all other entities for years beginning after 12/15/2023 which can be early adopted for periods beginning after 12/15/2020
- Need to discuss with management whether they will be early adopting

CONVERTIBLE DEBT

Specific Matters Conversion to Equity-Intraperiod Allocation

- Where debt with certain bifurcated derivatives is extinguished/retired early, the de-recognition of the instrument can give rise to gain or loss for book purposes
- Gain or loss is recognized for the difference between the FMV of the debt component and the net book value of the debt component. Such gain or loss is recorded through earnings
- Whether the debt is retired with cash or equity, if book gain or loss arises, the Intraperiod allocation rules will require the current (if applicable) and deferred tax consequence be allocated to continuing operations and equity

- **STEP 1:** compute the total tax expense or benefit associated with the conversion/retirement of the debt
  - Equals total current tax, if any, plus the deferred taxes which are eliminated due to the conversion/retirement
- **STEP 2:** compute the tax expense or benefit allocable to continuing operations
  - Equals book gain or loss multiplied by the tax rate
- **STEP 3:** residual tax expense or benefit is allocated to equity

Example Conversion of Notes Intraperiod Allocation

- Convertible debt issued with cash conversion option on Jan 1 2021 for $100,000,000
- The bond can be settled by delivering cash for the principal amount of the debt and shares equal to the value of the “in the money” value
- The cash conversion option results in a debt discount of $30,000,000 on issuance
- The tax basis of the debt is $100,000,000
- The company does not have a valuation allowance
- Tax rate is 25%
- On 12 31 22, the bond holders exercise the conversion option solely for shares with a FMV of $115,000,000
- No tax deduction is allowed for settlement amounts in excess of tax basis
- ASU 2020-06 has not been adopted

Example Conversion of Notes Intraperiod Allocation

ENTRY UPON ISSUANCE OF DEBT		
Cash	$ 100,000,000	
Debt discount	$ 30,000,000	
Debt		$ 100,000,000
APIC		$ 30,000,000
APIC	$ 7,500,000	
Deferred Tax Liability		$ 7,500,000
To record deferred taxes with a charge to equity for the excess of tax over book basis in the debt (100M-70M)		

Example

AMORTIZATION OF THE DEBT DISCOUNT AND RELATED DEFERRED TAXES THROUGH 12 31 22(CONV DATE)

	12 31 21	12 31 22	
Discount amortization	$ 4,900,000	$ 5,200,000	
Book basis in debt	$ 74,900,000	$ 80,100,000	
Tax basis in debt	$ 100,000,000	$ 100,000,000	
Taxable temporary difference	$ 25,100,000	$ 19,900,000	
Deferred tax liability	$ 6,275,000	$ 4,975,000	
At the time of conversion, the FMV of the debt and conversion option have to be determined for book purposes to determine how the proceeds of $115,000,000 should be allocated between the debt and equity (conversion component). The value of the debt was determined to be 85,100,000, resulting in a book loss on the debt portion of 5,000,000 (85,100,000 FMV less 80,100,000 book basis).			
Entry upon conversion at 12 31 22			
Conv debt	$ 100,000,000		
Loss on conversion	$ 5,000,000		
APIC	$ 29,900,000		
Debt discount		$ 19,900,000	
APIC		$ 115,000,000	
Determination of the Intraperiod allocation impact of the conversion			
Step 1 total tax provision(benefit)	$ (4,975,000)	(conv debt deferred tax liability at 12 31 22)	
Step 2 provision(benefit) attrib to cont ops	$ (1,250,000)	($5,000,000 loss on conversion @.25)	
Step 3 provision(benefit) attrib to equity	$ (3,725,000)		
Entry to record			
Deferred tax liability	$ 4,975,000		
APIC		$ 3,725,000	
Deferred tax benefit		$ 1,250,000	
To record the elimination of deferred taxes as a result of conversion of debt to equity			

CONVERTIBLE DEBT

Adoption of ASU 2020-06

WHEN ADOPTING, THE JOURNAL ENTRIES WILL REQUIRE THE FOLLOWING

- Determine the DTL relating to book and tax basis difference in the debt as of the date of adoption and remove the DTL (net of v/a impact, if any) as part of cumulative effect adjustment
- Eliminate the original tax entry made to APIC upon issuance of the debt
- An entry to retained earnings should be recorded to reverse the deferred tax impact recorded under the prior accounting guidance for period from date of issuance to date of adoption of ASU 2020-06
- V/A situations, particularly with scheduling, can create additional complexities

Entry (assuming no v/a and use of modified retrospective method) would look like this:

DTL	xxxx
R/E	xxxx
APIC	xxxx

EXAMPLE

ASU 2020-06

Example of Unwind

In December 2020, Delta issued a $1,150,000 convertible debt instrument that carried a 0% coupon rate with a 5-year maturity. Delta determined that it would account for the debt under the cash conversion option model because the conversion option provided for a cash settlement including partial cash settlement. At the time of issuance Delta recorded the following entry.

	Dr.	(Cr.)
Cash	1,135,500	
Discount	245,500	
Fees allocated to debt	11,600	
Bond payable		(1,150,000)
APIC		(242,600)
The company incurred $14,500 in transaction costs of which $11,600 were allocated to debt and $2,900 were allocated to equity.		
Delta recorded the following deferred tax adjustments upon issuance:		
APIC	61,375	
DTL		(61,375)
To record the discount on the conversion discount (245,500x25%)		
DTA	725	
APIC		(725)
To record the difference between the book and tax basis of the amortizable debt issuance costs ($2,900 X 25%)		

Example

THE COMPANY RECORDED THE FOLLOWING ENTRIES FROM DECEMBER 1 TO 12-31 2020

Interest Expense	2,179	
Debt Discount		(2,179)
Amort Of Debt Issue Costs	858	
Debt Issue Costs		(858)
To record the amortization of the debt discount and debt issue costs.		
DTL	545	
DTA		(12)
Deferred tax Benefit		(533)
To record the deferred tax consequences of the amortization		
of the discount and debt issue costs.		

Assume the company amortized **$908** ($848 for book) of debt issue costs for tax purposes in December 2020 and the discount accreted by **$2,179**

Example

As of January 1, 2021, the company early adopts ASU 2020-06 due to the provision of the cash conversion option in the instrument.

The balances at December 31 after reflecting the one month of activity are as follows:

CONVERTIBLE NOTE:	
Book Basis	906,679
Tax Basis	(1,150,000)
Difference	(243,321)
Tax Rate -25%	25%
DTL	(60,830)
ISSUANCE COSTS:	
Book Basis	10,742
Tax Basis	13,592
Difference	(2,850)
Tax Rate -25%	25%
DTA	713

Example

	Dr.	(Cr.)
APIC	243,321	
Discount		(243,321)
To eliminate the remaining conversion discount upon the adoption of ASU 2020-06		
DTL	60,830	
APIC		(60,830)
To reverse the deferred effect of the unamortized discount		
APIC	2,179	
Ret. earnings		(2,179)
To reclassify the amortized balance of the discount from RE to APIC		
Ret. Earnings	545	
APIC		(545)
To reclassify the deferred impact of the benefit recognized from the reversal of the DTL		

	Dr.	(Cr.)
Issuance costs	2,850	
Ret. Earnings	50	
APIC		(2,900)
To record the unamortized asset balance at the date of conversion as well as record hypothetical amortization of the $2,900 for book purposes to RE and residual to amount initially allocated to APIC.		
APIC	725	
Ret. Earnings		(12)
DTA		(713)
To reverse initial amount allocated to APIC, reclassify deferred tax expense on the tax amortized portion of the $2,900 recorded in in equity from RE to APIC and eliminate the remaining DTA		

IRC §174 Capitalization

Change in Method

and

Valuation Allowance Considerations

Recent Developments

REVENUE PROCEDURES 2023-8 AND 2023-11

- Rev Procedure 2023-8 and 2023-11 discusses the procedural rules concerning changing to the TJCA capitalization rules under section 174
- The change to the capitalization method is considered a change in method of accounting
- For taxpayers changing to the new method for the first year beginning after 12 31 21, the change is an automatic change and is applied using the cut off method (no section 481(a) adjustment)
  - No form 3115 is required, and a paper statement is required to be attached to the tax return
  - No audit protection for pre 2022 years.
- If taxpayer does not apply the new rules in its first taxable year beginning after 12 31 21, (adopts beginning in 2023 for example), there is no audit protection for 2022, thus form 3115 may not be filed in 2023 with respect to the 2022 period in an attempt to get audit protection. See Rev Proc 2023-11
  - In this case, a UTP would be recognized for the 2022 year.
- Rev Proc 2023-11 was possibly issued in response to concerns that taxpayers would adopt the new rules beginning in 2023, file form 3115 in 2023 with respect to the 2022 year to obtain a four year Section 481(a) spread and audit protection.

Share-Based Compensation

- Share-based compensation included in section 174 costs will now be capitalized for U.S. tax purposes and generally expensed for book purposes
- ASC 740 considerations:
  - DTA, subject to realizability, should be recognized for book compensation incurred.
  - Upon exercise of non-qualified options or vesting of restricted stock, no immediate current tax benefit nor deferred tax benefit would be recorded for amounts capitalized for tax purposes.
  - DTA will be charged to deferred tax expense, and current tax benefit will be recognized, as capitalized amounts are amortized(and reduce taxes payable) for tax purposes
  - Windfalls and shortfalls are recorded discretely, but as deferred tax benefit vs. current benefit (under current rules)

VALUATION ALLOWANCE

Forecasting Future Taxable Income (FTI)

Overview

The new Section 174 rules may create taxable income in 2022 and future years. Entities who can reliably forecast may consider FTI as a source of income for v/a purposes, even if entity is in a cumulative loss position. Forecast methodology would be similar to approach used for Section 163(j). To the extent that existing NOL's can be utilized against FTI, some or all of the v/a may be released. Based on informal discussions, most large firms support this view. Consult with audit firm.

SECTION 174 CAPITALIZATION

Forecasting Future Taxable Income (FTI)

FTI is future taxable income exclusive of existing temporary differences. Thus, FTI includes originating differences and their reversals. Certain interpretive guidance of large firms can lead to questions on the application of 'substitution' principle to forecasting FTI.

General Substitution Principle

- Originating deductible differences may provide additional taxable income to utilize reversing deductible differences and NOL's
- In effect, the new deductible difference simply replaces the reversing deductible difference
- If the originating temporary difference does not provide a tax benefit when it reverses, ASC 740-10-55-37 provides that no tax benefit has been realized
- For this reason, forecasts of FTI have historically often included only book income inclusive of permanent differences, since temporary differences are expected to fully reverse over the life of the company
- Despite the substitution principle, most large firms have been comfortable with the approach that there is no substitution

Section 174 Capitalization Forecasting FTI Example

FACTS

- U.S. Company is in cumulative losses
- Section 174 costs are incurred in U.S. and are projected to be $1000 per year.
- Entity can reasonably forecast future earnings
- Company forecasts book losses of $200 per year
- Prepaid expenses and reserves will fully reverse in 2022 and differences remain constant in future periods

Temporary Differences	12 31 2021	Tax Effect
DTA(DTL)		
Prepaid expenses	$ (1,000)	
Reserves	$ 800	
Pre 2018 NOL's	$ 2,500	
Net DTA's	$ 2,300	$ 483
v/a		$ (483)
Net DTA's		$ -

Cumulative income (loss)	
12 31 2019	$ (500)
12 31 2020	$ (400)
12 31 2021	$ (300)
Cumulative Losses	$ (1,200)

Section 174 Capitalization Forecasting FTI Example

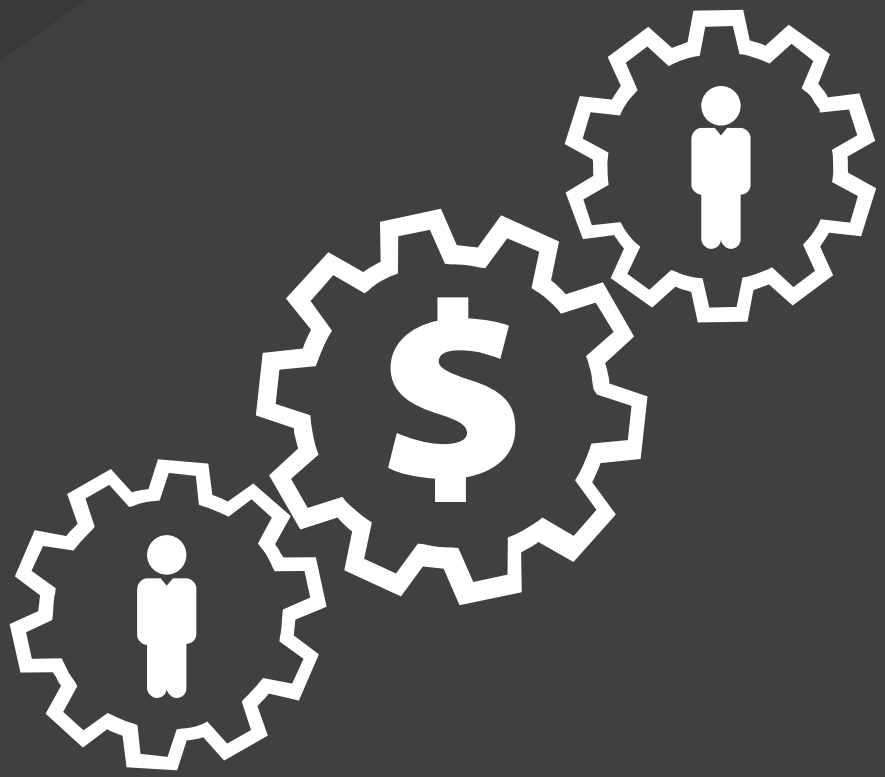
TAX AMORTIZATION FOR FORECAST													
			2022		2023		2024		2025		2026		2027	
2022	$	1,000	$ 100	$	200	$	200	$	200	$	200	$	100	
2023	$	1,000		$	100	$	200	$	200	$	200	$	200	
2024	$	1,000				$	100	$	200	$	200	$	200	
2025	$	1,000						$	100	$	200	$	200	
2026	$	1,000								$	100	$	200	
2027	$	1,000										$	100	
			$ 100	$	300	$	500	$	700	$	900	$	1,000	Tax amortization
			$ 1,000	$	1,000	$	1,000	$	1,000	$	1,000	$	1,000	Book expense
			$ 900	$	700	$	500	$	300	$	100	$	---	Temporary difference

FORECASTING FTI EXAMPLE

Section 174 Capitalization

Temporary differences	Bal @ 12 31 2021	2022 activity	Bal @ 12 31 2022	Bal @ 12 31 2023	Bal @ 12 31 2024	Bal @ 12 31 2025	Bal @ 12 31 2026	Bal @ 12 31 2027	
Section 174 costs	$	$ 900	$ 900	$ 1,600	$ 2,100	$ 2,400	$ 2,500	$ 2,500	
Prepaid expenses	$ (1,000)	$ -	$ (1,000)	$ (1,000)	$ (1,000)	$ (1,000)	$ (1,000)	$ (1,000)	
Reserves	$ 800	$ -	$ 800	$ 800	$ 800	$ 800	$ 800	$ 800	
Pre 2018 NOL's	$ 2,500	$ (900)	$ 1,600	$ 1,100	$ 800	$ 700	$ 800	$ 1,000	
Net deductible temp differences	$ 2,300	$ -	$ 2,300	$ 2,500	$ 2,700	$ 2,900	$ 3,100	$ 3,300	
Tax at 21%	$ 483								
V/A	$ (105)								
Net DTA	$ 378								
			2022	2023	2024	2025	2026	2027	
Forecast ("combination approach")									
Book Income (loss)			$ (200)	$ (200)	$ (200)	$ (200)	$ (200)	$ (200)	
Book Section 174 Expense			$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	
Tax Section 174 Amortization			$ (100)	$ (300)	$ (500)	$ (700)	$ (900)	$ (1,000)	
Prepaid Expenses			$ 1,000						
Reserves			$ (800)						
Taxable Income			$ 900	$ 500	$ 300	$ 100	$ (100)	$ (200)	
NOL			$ (900)	$ (500)	$ (300)	$ (100)	$ -	$ -	
Taxable income (loss)			$ -	$ -	$ -	$ -	$ (100)	$ (200)	
Tax benefit of NOL utilized in forecast of future taxable income			$ 189	$ 105	$ 63	$ 21	$ -	$ -	$378

Income Tax Internal Controls



Why Are We Here?

REDUCE YOUR INCOME TAX REPORTING RISK

In a complex reporting environment, in which public company filings are highly scrutinized, properly accounting for and disclosing income taxes under ASC 740 is increasingly important to mitigating your risk of restatement, material weakness and SEC comments. These issues can be costly, result in loss of stakeholder confidence, and adversely impact stock prices.

Here Is What You Need to Know

ACCOUNTING FOR INCOME TAXES under ASC 740 requires the preparer to have in-depth technical knowledge of both tax and financial reporting. However, it is uncommon for management teams to have experience in all technical areas especially when accounting for non-routine transactions that a company may encounter.

In recent years, tax has accounted for approximately **12%** of all restatements.

A COMMON SOURCE of material weakness can be accounting for income tax errors. To mitigate the risk associated with financial reporting weakness, an entity's tax providers should work closely with their external auditors to help meet their audit documentation needs.

In 2021, income taxes ranked 2nd in the number of adverse ICFR auditor attestations at 13%.

CLEAR AND TRANSPARENT disclosures allow the SEC and stakeholders to gain a better understanding of the reporting entity's income tax environment, reducing the possibility of SEC comment letters.

In 2022, the FASB revised the project objective for its income tax disclosure agenda item to focus on "Targeted Improvements."

TOP RESTATEMENT ISSUES 2021-2015*

30 Restatements in 2021 Related to Income Taxes

Top 7 Restatement Issues	2021 (331)	2020 (364)	2019 (484)	2018 (554)	2017 (580)	2016 (683)	2015 (757)
Debt, Warrants and Equity	19.1%	14.3%	15.3%	15.5%	15.3%	17.9%	21.4%
Income Taxes	**8.8%**	**12.1%**	**13.0%**	**11.4%**	**14.5%**	**15.4%**	**12.5%**
Revenue Recognition Issues	12.0%	17.3%	16.7%	17.0%	14.1%	14.2%	11.8%
Cash Flow Statement	7.3%	-*-	16.1%	12.6%	14.1%	14.8%	17.3%
Liabilities, Payables, Reserves, Accrual Estimate Failures	11.7%	12.6%	12.2%	14.4%	11.7%	11.6%	11.8%
Expense Recognition (Payroll, SGA, other)	10.9%	11.0%	8.9%	10.3%	10.9%	11.6%	10.7%
Accounts / Loans Receivable, Investments, Cash	-*-	-*-	10.3%	11.4%	8.8%	8.6%	8.1%

* Data does not include over 1,000 SPAC-Centered Restatements in 2021

-*- Not reported

Source: *2021 Financial Restatements - A Twenty-One-Year Review*, Audit Analytics, May 2022

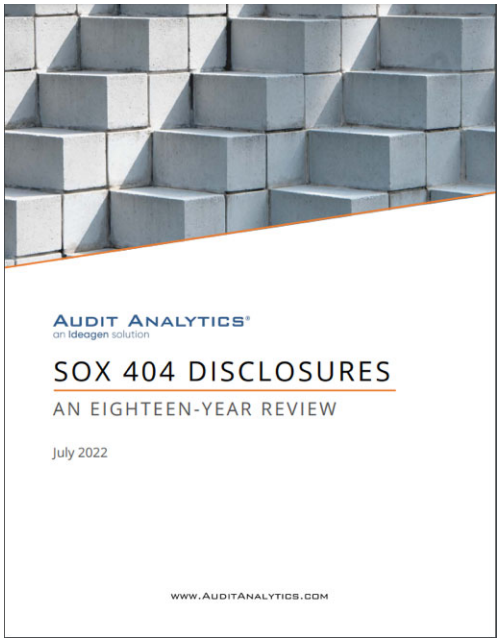
SOX 404 DISCLOSURES

An Eighteen-Year Review

The Sarbanes Oxley Act ("SOX") celebrated its 20th anniversary in August. Audit Analytics releases an annual report analyzing SOX 404 disclosures, which require management to disclose whether internal controls are effective or ineffective, and auditors to provide attestation on management's report.

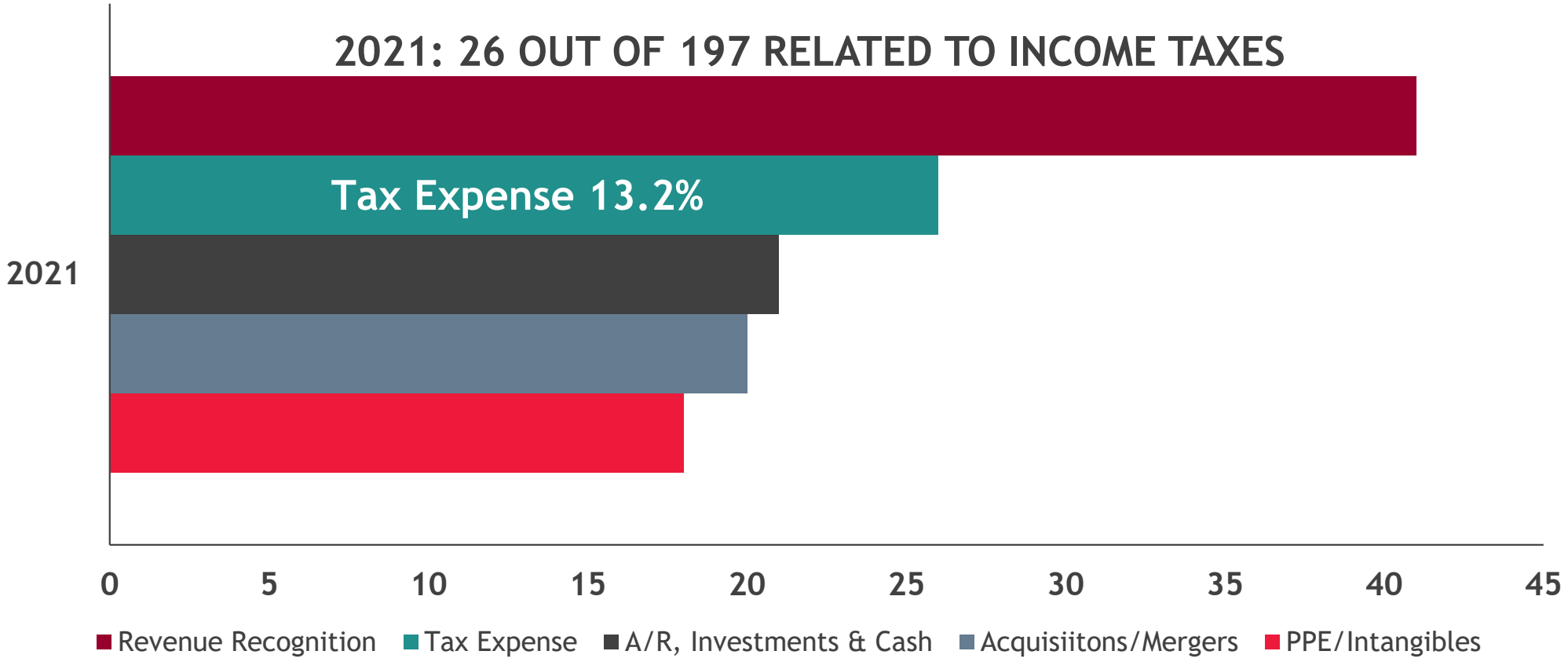
Key highlights from this year's report included:

- Increase in adverse ICFR in FY 2021. Adverse auditor assessments of ICFR increased to 5.8%; adverse management reports increased to 23.7%
- Poor controls observed in first ICFR reports. More than half (55.2%) of first-time management reports and more than a quarter (28.4%) of first-time auditor assessments disclosed adverse controls, which is a notable increase from prior year results of 44.4% and 20.9% respectively
- Lack of company accounting personnel continues to cause control issues. A lack of trained accounting staff was cited as a control issue in 48.7% of adverse auditor assessments and 71.5% of adverse management assessments. Information technology, segregation of duties and disclosure controls continue to rank in the top 5 internal control issues cited in adverse ICFR auditor assessments with material/numerous year-end adjustments falling from #1 to #5 over the past 2 years



Click here to access the Review

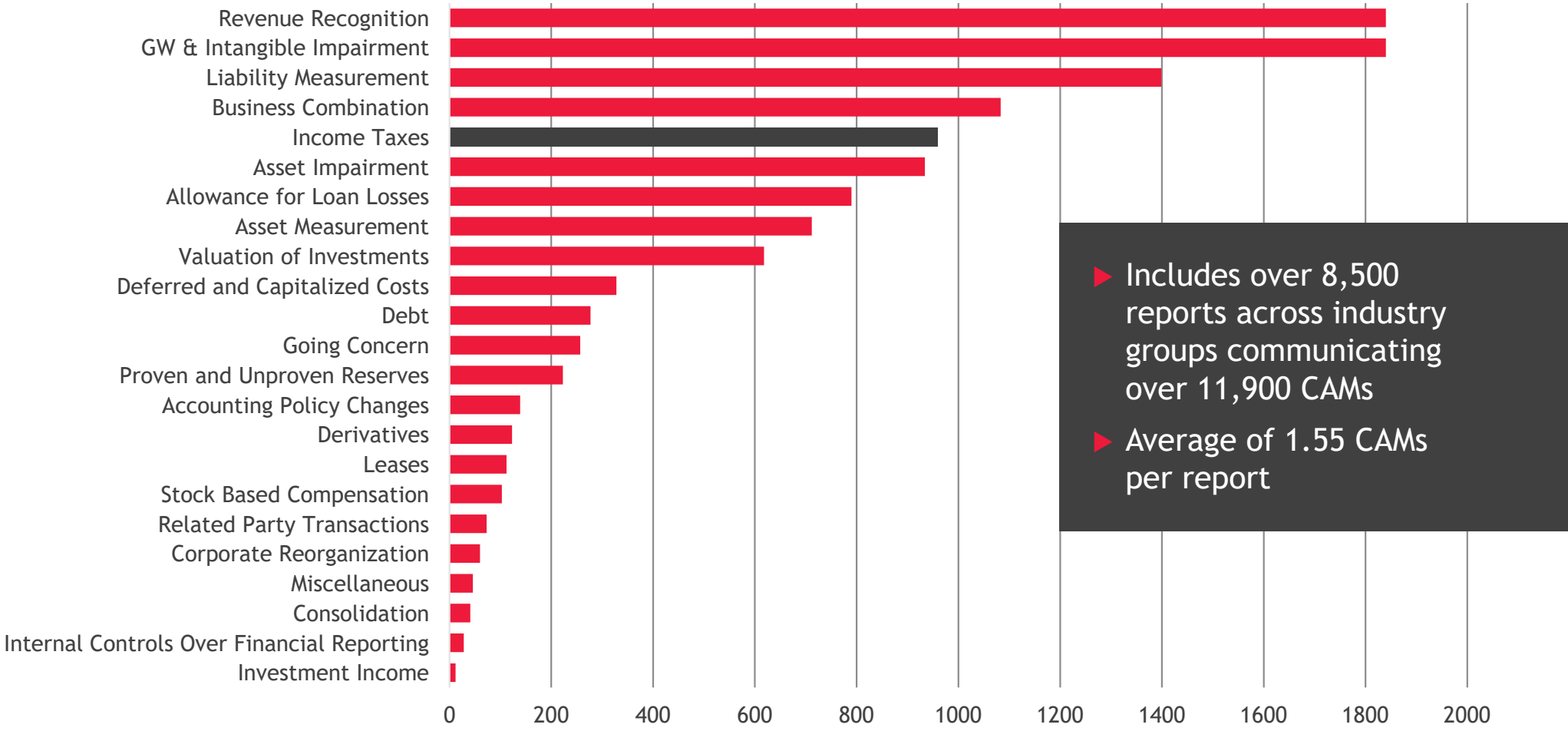
Top 5 Accounting Issues Cited in Adverse ICFR Assessments



Source: SOX 404 Disclosures – An Eighteen-Year Review, Audit Analytics, July 2022

CAM OBSERVATIONS (ALL INDUSTRIES)

Reports Filed Through December 31, 2021†



- Includes over 8,500 reports across industry groups communicating over 11,900 CAMs
- Average of 1.55 CAMs per report

†Data furnished by Audit Analytics

COMMON RESTATEMENT AREAS

Income Taxes & Risk

Effective Tax Rate

Valuation Allowance

Investment in Subsidiaries

Business Combinations

Other

Recent FASB Activity

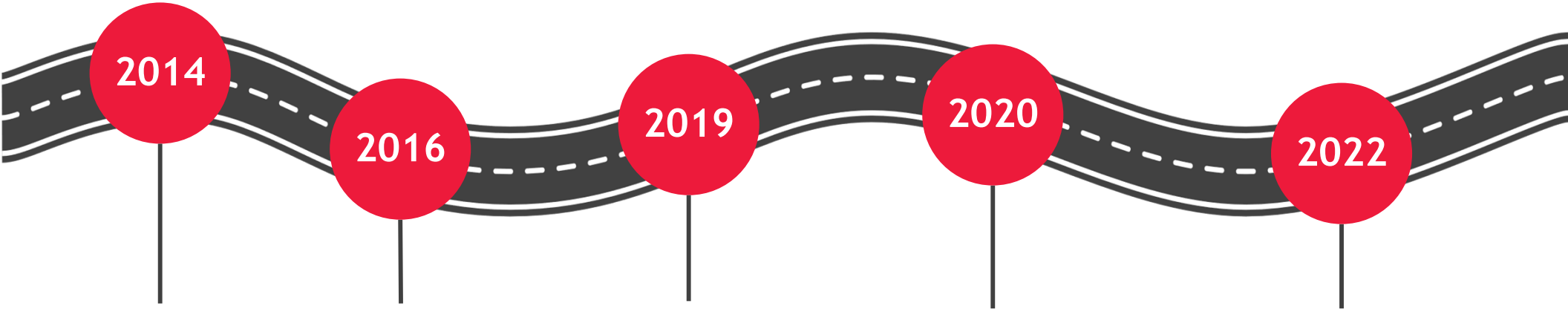
1: FASB Board Meetings – May 11, 2022 & November 30, 2022

- Targeted Improvements to Income Tax Disclosures
- The Board directed staff to further explore
  - Disaggregation of income taxes paid by jurisdiction, and;
  - Require disclosure of individual reconciling items in the rate reconciliation on the basis of a quantitative threshold and specific categories of reconciling items, such as the foreign rate differential by jurisdictions
- *Based on Nov. 2022 meeting, proposed ASU expected early 2023*

2: FASB Board Meeting – July 13, 2022

- Understand EITF 21-A, Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method
- The board ratified the consensus-for-exposure on EITF 21-A reached by the EITF
- 45-day comment period ended October 6, 2022

Income Tax Disclosure Framework



2014

Income tax disclosure project added to board's technical agenda in 2014

Purpose: Improve effectiveness of Income Tax Disclosure

2016

First exposure draft issued July 26, 2016, with 58 comment letters received

2019

On March 25, 2019, the FASB issued an updated proposed Accounting Standard Update (ASU), which considered previous comment letters and the TCJA. Board received 42 comment letters and mixed feedback (investors, analysts, preparers)

2020

Board discussed in February 2020, but no decisions were made, board requested staff to do additional research based on feedback

2022

Board met in 2022 and FASB Staff identified two paths forward

A: retain project and scope, B: revise scope to disaggregation of certain income tax information.

Board decided to refocus on disaggregation of income tax information and cash taxes – **Proposed ASU expected early 2023**

Tax Risk Assessment Process

Disaggregation of Income Tax Provision into 16 Key Elements

1. Provision to Return
2. Current & Deferred Provision
3. Tax Rates
4. Tax Law & Accounting Standards Update
5. Disclosures
6. Effective Tax Rates
7. Uncertain Tax Positions
8. Foreign Tax Provisions

Disaggregation of Income Tax Provision into 16 Key Elements

9 State & Local Tax

10 Tax Calendar for Compliance

11 Valuation Allowances

12 Non-Income Taxes

13 Interim Provision

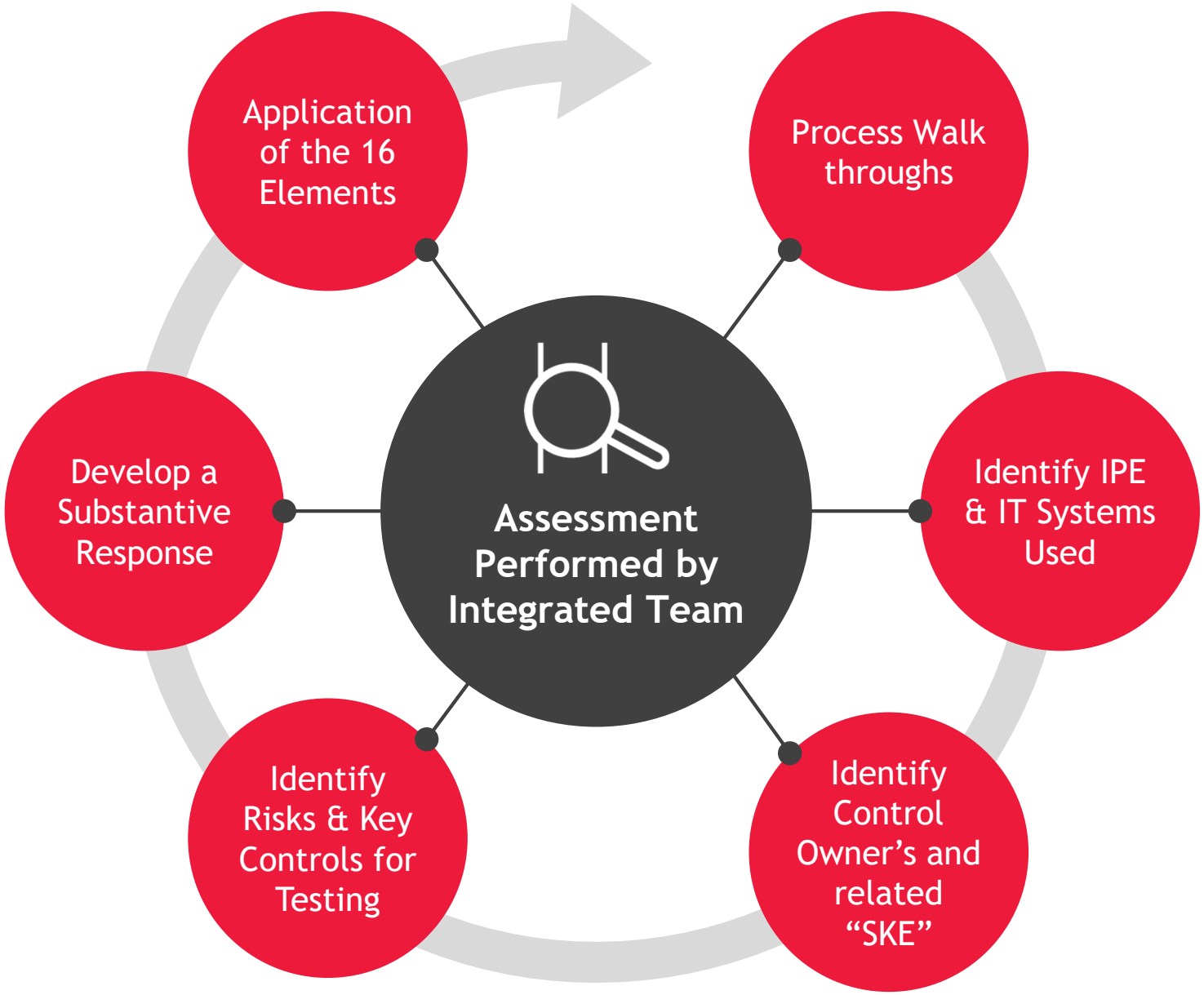
14 Transfer Pricing

15 Income Tax Account Rollforwards

16 Significant Transactions and Business Developments

BDO

Risk Assessment Process



CONTROL DESIGN

Top Areas of Consideration

- Determine if the control design appropriately covers the elements of the income tax provision based on Company tax profile and risk assessment, and then consider the build out of control attributes, as necessary
- Determine if the control is a management review control (MRC) based on inherent management judgement within the control design
- Consider if the control design combines key income tax elements that are generally designated as management review controls and/or operate at different times (i.e., combination of annual provision, valuation allowance and uncertain tax positions into one control and/or combination of interim and annual provision into one control)
- Designate appropriate control owner (i.e., sufficient level of experience, not a third party or the control preparer)
- Properly document the level of precision at which the control operates and if that level of precision is adequate to cover risk

CONTROL DESIGN, IMPLEMENTATION & OPERATING EFFECTIVENESS

Evidence Considerations

HOW CAN MANAGEMENT HELP IMPROVE DOCUMENTATION AND DRIVE EFFICIENCIES?

- Maintain evidence in support of the control outlining how a conclusion was reached (e.g., emails, notations on hard copies, minutes of meetings and how follow up items were identified and resolved)
- Document the basis for key judgments and how they were evaluated
- Consider inviting auditors to observe how specific elements of the control operate (e.g., observe meetings, etc.)
- Clearly define what is the process vs. what is the design of control
- Segregation of duties between preparer and reviewer with clearly assigned responsibilities
- Define what the control owner is expected to accomplish in the execution of each control activity
- Nature of review procedures including assessment of reasonableness of data, models and assumptions suggested by an outside expert (e.g., fair value estimates, etc.)
- Establish and define the precision for each review control and gather evidence to support consistent application of precision. Note! Various levels of precision could be used in the same control – be specific

Testing Operating Effectiveness of Controls

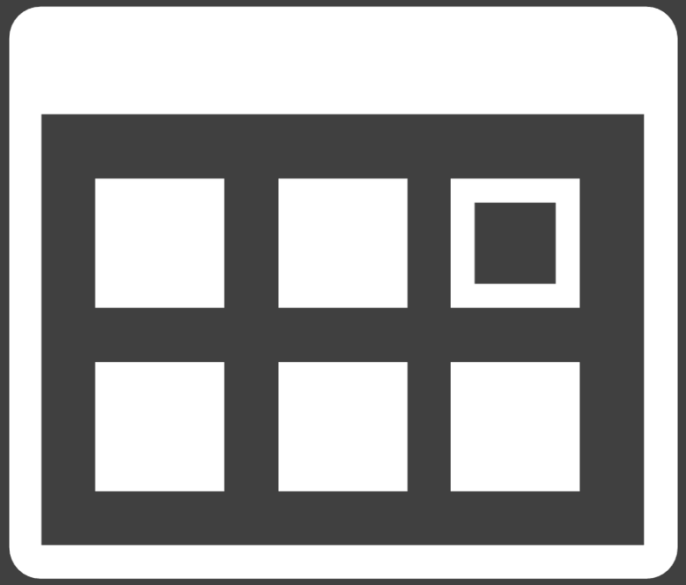
OBSERVATION: Seeing the physical control being performed by others to support inquiries of management and others or to ensure the control operates as expected.

INQUIRY: Seeking information of knowledgeable persons, both financial and non- financial, within the entity or outside the entity. This may range from formal written inquiries to informal oral inquiries. Evaluating and corroborating responses to inquiries is an integral part of the inquiry process. Note that inquiry alone is never sufficient as evidence to support a conclusion about the effectiveness of a control.

REPERFORMANCE: Independent execution of procedures or controls that were originally performed as part of the entity's internal control (Note: the auditor cannot reperform management judgment).

INSPECTION/EXAMINATION: Examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset to assess whether internal control measures have been executed.

Year-End Reminders



VALUATION ALLOWANCES

Other Year-End Considerations

- Fourth Quarter releases
  - Why Q4?
  - Release while in three-year cumulative loss position
  - Consider thoroughness of documentation
- Consider early warning language if reasonable that release could occur in the future
- MD&A/Risk Factors for OECD Pillar Two?
- Forecasted gains on the sale of a business and impact on forecasted income
- Consider tax planning strategies in addition to scheduling
  - Intercompany sale of assets
  - Non-economic tax planning strategies
- Scheduling to support DTAs
  - Unlimited carryovers and indefinite lived intangibles and goodwill
  - Limitation on utilization of credits
  - Code Sec. 163(j) limitations
  - Support for reversal pattern of deferred tax items
  - Refer to previous examples of scheduling inclusive of Code Sec 174 capitalization

Other Year-End Considerations

SHARE BASED COMPENSATION

162(m) and Deferred Tax Asset Recognition

- Methods
  - Stock compensation last
  - Cash compensation last
  - Pro rata method
- Treatment of underwater stock options
- Provisions of American Rescue Plan of 2021
- Amended 162(m) by adding five additional highly paid employees from tax years beginning after 12/31/2026
- Assure that deferred balance agrees to underlying documentation of ending temporary difference and is not just based on a roll forward analysis

INTRA PERIOD ALLOCATION

- ASU 2019, simplification, exception to incremental approach already effective for public business entities and will be effective for private business entities for periods beginning after December 15,2021
- Area is still difficult and still contains various exceptions
- Exceptions
  - VA releases
  - Change in unremitted earnings position
  - Changes in tax laws or rates
  - Change in tax status
  - Tax deductible dividends paid to shareholders
- Not a direct tracing model

Other Year-End Considerations

Impact of Q4 Tax Law Changes

- Foreign law changes included but not limited to tax rate changes, carryover periods, interest deductibility
- State issues (same as above and below)
- Federal issues
  - Newly issued IRS guidance (regulations, rulings, notices)
  - Will there be any tax law changes(eliminate Code Sec. 174 capitalization?)
- Enacted (U.S. GAAP) V. substantively enacted (IFRS)
- Consider indirect effects

DISCLOSURE (NOT ALL INCLUSIVE)

- Pillar 1&2
- IRA
- Prior year provision to return adjustments not already considered in Q3 reporting
  - Error V. change in estimate and related documentation
  - Can be prepared prior to year end
- Impact of RE capitalization on cash flow
- Significant fluctuations in footnote items e.g., significant changes in rate reconciliation items might warrant consideration of a separate discussion
- Internal restructurings and intercompany transactions e.g., on shoring transactions
- EPS impact of tax holidays
- Change in current year valuation allowance
- NOL limitations
- Disclose method of accounting for ITC (flowthrough V. deferral method)

Other Year-End Considerations

Goodwill Impairments ASU 2017-04

- Effective for public entities and will be effective for private entities for years beginning after December 15, 2021
- Component 1 and component 2 goodwill allocation complexities
- Valuation allowance implications, including scheduling if in deferred tax liability position

Discontinued Operations and Available for Sale Status

- Need to record outside basis differences?
- Income statement geography for deferred taxes

Questions?

Presenter Bios

Daniel Newton

Tax Partner, ASC 740 Technical National Tax Office Practice Leader

617-239-7026

dnewton@bdo.com

Click HERE for Daniel's LinkedIn Bio

EXPERIENCE

Dan is the ASC 740 Technical Practice Leader in BDO's National Tax Office (NTO) in addition to serving as a consultant in the firm's National Assurance ASC 740 group. As the technical practice leader, Dan supports BDO's Tax practice on ASC 740 matters, and as the Northeast regional consultant, Dan conducts formal ASC 740 consultations for assurance teams on various technical matters. In his dual role, Dan is responsible for firm leadership regarding ASC 740 matters for both tax and assurance, including training development, technical advice, and thought leadership tools.

Dan has over 30 years of tax experience including tax compliance, planning, and consulting with extensive experience in accounting for income taxes in accordance with both U.S. GAAP and IFRS (IAS 12). His experience includes working in Big 4 public accounting and in industry and has worked with large multinational corporations and flow-through entities. He has vast experience both in preparing and reviewing complex provisions for income taxes under ASC 740.

Prior to joining BDO, Dan worked in industry for a major medical device manufacturer and focused on income tax accounting for all M&A transactions and tax planning initiatives. In addition, his initial role at the company was being responsible for the income tax provision process for 200+ Non-U.S. subsidiaries. Dan also developed and led in-house training sessions on ASC 740.

Prior to his last role in industry, Dan worked for a Big 4 accounting firm for over 9 years as a Senior Tax Manager and worked in their Boston, USA and Paris, France offices. Dan's time in Paris was spent solely focusing on U.S. GAAP requirements for Accounting for Income Taxes and worked with numerous multi-national clients of the firm's global network.

Dan was also a member of the Tax Executives Institute while working in industry.

Thomas Faas

Tax Managing Director
ASC 740 – National Tax Office

404-942-2920

tfaas@bdo.com

Click HERE for Tom's LinkedIn Bio

EXPERIENCE

Tom is a tax managing director in the Atlanta office of BDO and is a member of the firm's NTO advisory practice specializing in income tax accounting. Tom has over thirty- eight years of experience in public accounting, working with public and private clients in the technology, biotech and manufacturing sectors. He has extensive experience in corporate taxation, including international tax and M&A. Before joining BDO, Tom spent 21 years with PwC and 13 years with KPMG in Boston. Tom advises engagement teams on complex ASC 740 matters and is a regular instructor for internal BDO training as well as external seminars.

Tom is a member of the AICPA and the Georgia Society of CPA's

About BDO USA

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes — for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

www.bdo.com

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2023 BDO USA, LLP. All rights reserved. www.bdo.com