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Hot Topics in Accounting for Income Taxes

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Agenda

- Presidential Candidate Tax Plans / Expiring Tax Provisions
- ASU 2023-09 Improvements to Income Tax Disclosures

Presidential Candidate Tax Plans / Expiring Tax Provisions

2024 Presidential Outlook

Nearly unprecedented:

- Latest a leading modern candidate has dropped out was Truman on March 29, 1952 and Johnson on March 31, 1968 (July 21!)
- Last sitting president declining to run was Johnson in 1968
- Last election loser renominated was Nixon in 1968
- · Last candidate to run after surviving an assassination attempt was Reagan in 1984

More unknowns than knowns:

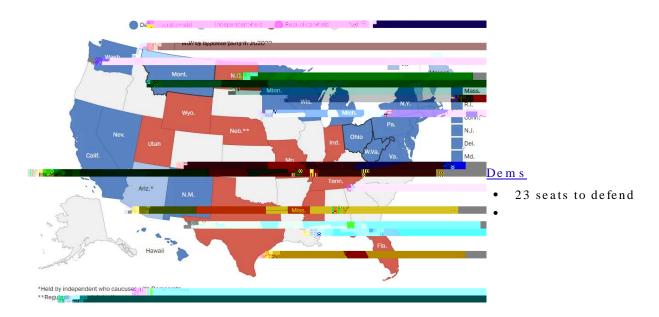
- · Very little precedent for current environment
- Are polls worthless?

It's not all about the results: Policy outcomes also hinge on what emerges during campaigns

Key Aspects of Tax Platforms

Trump	Harris
Retain 21%15% rate for domestic activity	• Increase to 28% Previous at 35%?
	• Retain 21%

2024 Senate Outlook



Taxmageddon 2025

Expiring provision Individual tax provisions, including: Section 199A deduction SALT deduction AMT thresholds Rate and bracket changes Itemized and standard deductions Estate and gift tax exemption Expiring tax benefits, including: Work opportunity tax credit

Triggers are in place to force major tax legislation next year

Not necessarily offense v defense

- New markets tax credit \$216 billion
- CFC look-through rule
- Bonus Depreciation phase out (ending 2026)

International provisions:

- GILTI deduction from 50% to 37.5%
- FDII deduction from 37.5% to 21.875%
- BEAT rate from 10% to 12.5%

\$197 billion

What Does it Mean for Planning?

Despite uncertainty, there are things you can consider now:

- Pillar 2: Complex data-driven exercise to assess in-scope entities and safe harbors, modeling, new automated processes, return prep and filing, proactive planning
- Hold off on energy projects? What will survive?
- Estate and gift planning
- Section 163(j) and 174 and fixed assets: Interest capitalization to mitigate limit on interest deduction
- Timing plays with rate changes: Be careful of downsides with uncertain outlook (FDII?)

Would expiration dramatically alter entity choice? CBO thinks so. . .but many policy

Potential Tax Rate Increases - Timing Examples

Taxpayers may be able to generate permanent tax savings with a change in the tax rates by:

- Accelerating income Recognizing more income in a lower tax rate environment versus a higher future rate
- Deferring deductions Claiming more deductions in a future, higher, tax rate environment
- Where to start and where to look?
 - -Schedule of deferred tax assets and liabilities
 - -Current tax payable US domestic, GILTI, etc.
- Goal is the opposite of traditional tax planning
 - -Creating deferred tax assets
 - -Accelerating deferred tax liabilities

Methods and Elections

Planning idea	Election, Method Change, Action Item	U.S.	Int'l	Section 481(a) Adjustment*
Direct reallocation method under section 263A	Method Change	X	X	Yes
Full inclusion method for advance payments under section 451(c)	Method Change	X	X	Yes
Capitalize software development costs under Rev. Proc. 2000-50	Method Change	X	X	Depends on current method
Electing section 59(e) on year 1 IRC section 174 amortization amount	Election	X	X	No
Interest capitalization under sections 263A(f) and/or 266	Election (Section 266) Method Change (Section 263A(f))	X	X	No
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Will Chevron make the regs vulnerable?

Supreme Court throws out Chevron test for assessing reg validity:

- Is the statute silent or ambiguous?
- If yes, is the agency ruling reasonable?

New test?

- Not as clear: Potentially Skidmore: Thoroughness of the agency's analysis, validity of its reasoning, consistency of interpretation with other agency interpretations
- Big difference if specific grant of authority

Other Impacts of Chevron

Potential consequences:

- More frequent challenges to regs
- Slower reg process with exhaustive analysis
- Less aggressive attempts to bend statute
- More specific grants of authority from lawmakers? More expansive legislative history? Statutory fixes to address ch()-6.3(-pL)17B(-0.032 0 0 20.0(S441(i)0.(M)²

Tax Accounting Effects - Reminder

- The effect of a tax law change is reported as a discrete
 - item in continuing operations in the period of enactment
- The effect includes any necessary adjustments to existing deferred tax assets and liabilities
- Since deferred taxes are measured at the enacted tax rate at which the underlying temporary differences are expected to reverse, scheduling the reversal of existing temporary differences may be necessary in some cases
- The forthcoming highlights, of both legislative and non-

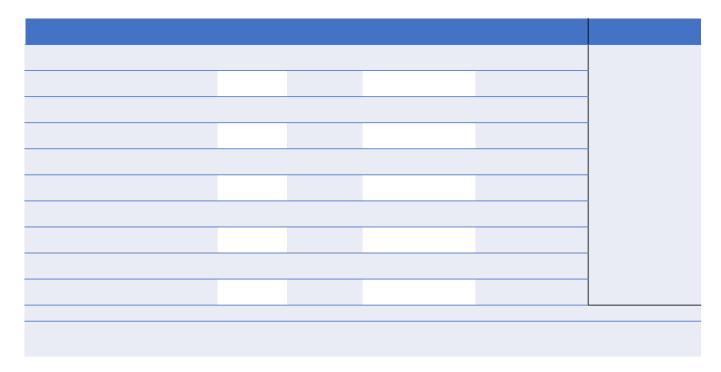
ASU 2023-09 Improvements to Income Tax Disclosures

All entities - disclose ((annual basis on	ily) income taxes	paid (net of refunds	received) disaggre	gated by:

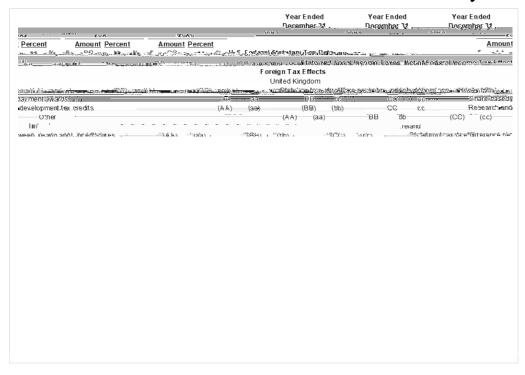
- Federal, state, and foreign taxes.
 Individual jurisdiction on basis of quantitative threshold of 5% of total income taxes paid (net of refunds received).
 Comparative disclosures are not required.

Public Business Entity:		

Effective Tax Rate Reconciliation



Rate Reconciliation—Public Business Entity Example



Others

Pretax income (loss) from continuing ops disaggregated between domestic and foreign Income tax expense (benefit) from continuing ops disaggregated between federal (national), state, and foreign. Application of country of

Income Tax Disclosure - Example

Adoption/ Transition

- PBEs: Annual periods beginning after December 15, 2024, and interim periods beginning after December 15, 2025
- All other entities: Annual periods beginning after December 15, 2025, and interim periods beginning after December 15, 2026
- Early adoption is permitted for annual financial statements that have not been issued or made available for issuance
- Prospective application is required, retrospective application is permitted

