Accounting for Income Taxes

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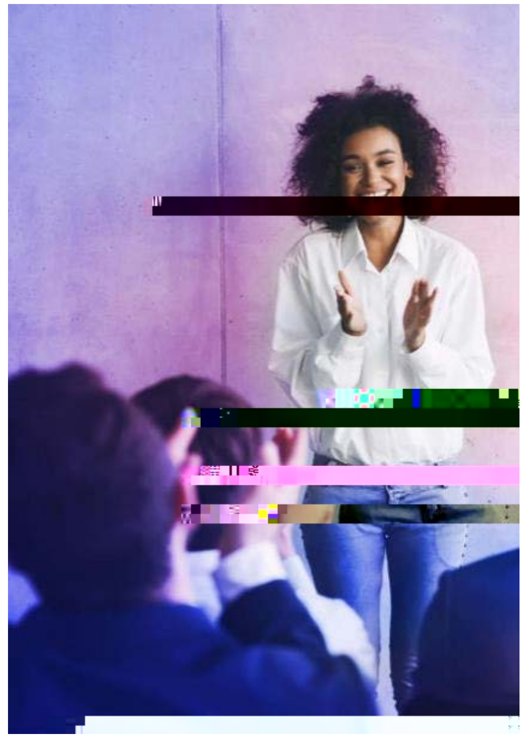


Agenda

- Section 174 research and experimental expenditures
- Organization for Economic Co-operation and Development (OECD) Pillar Two
- Accounting for refundable & transferable credits
- Income tax disclosure developments

- TCJA resulted in significant changes to the treatment of R&E expenditures under Section 174.
  - For tax years beginning after 2021, taxpayers are required to capitalize and amortize all R&E expenditures reg(r)7(07uon 174.S1 cs g3[174.S1 cs g3[174.S1 cs g3[17

Section 174 R&E Expenditures

Financial statement impact

- Potential new book-tax differences and related deferred tax assets
- Potential impact effective tax rates if a valuation allowance is required for the deferred tax asset, or due to the indirect effects on other calculations, including:
  - Interest expense limitation under Section 163(j)
  - Base erosion and anti-abuse tax (BEAT)
  - Tax on global intangible low-taxed income (GILTI)
  - Foreign-derived intangible income (FDII)
- State conformity impact on deferred tax assets
- Transactions between related parties should be considered:
  - If CFC is reimbursed by US parent, for example, then agreements must be analyzed to determine which party retains IP rights.

Section 174 R&E Expenditures

Valuation allowance considerations

- Limited impact on VA where replacing DTAs (e.g. Utilizing NOL/R&D credits)
- Generally no impact on VA when new capitalized costs result in tax liabilities
- GILTI Perm differences can have a material impact on VA analysis

Provision to Return true ups

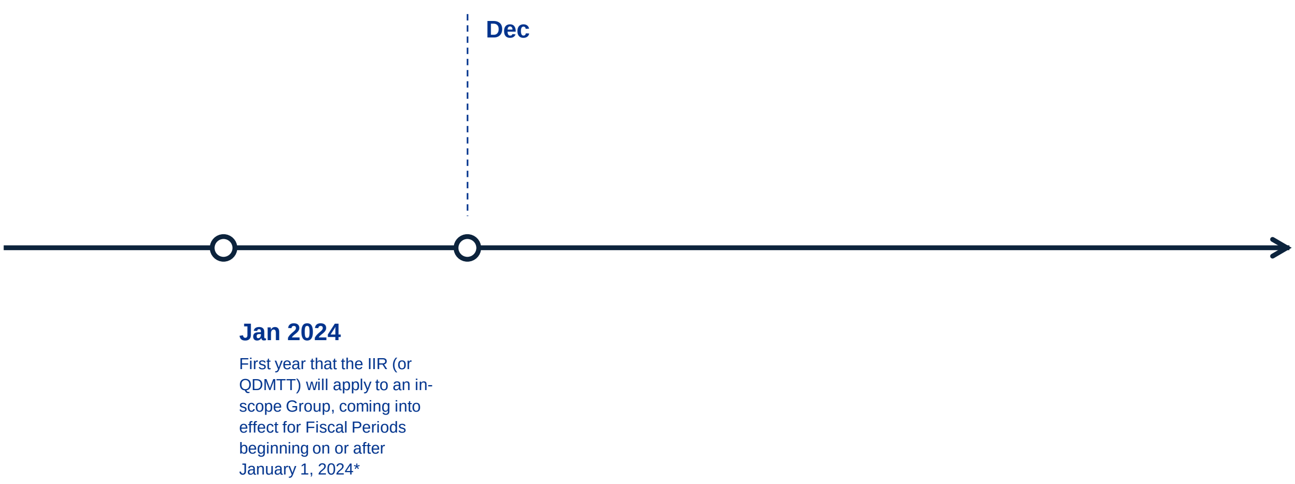
- Due to refined method for calculation may result in a change in estimate
- Notice 2023-63 impact on calculation may result in new guidance impacting estimate

Overview: The Pillar 2 Charging Rules

Auditors are starting to release audit programs covering the information they expect to be available to review in relation to Pillar Two, this can include:

- Confirmation that an MNE Group is in-scope of Pillar Two.
- Understanding and documentation of processes adopted to identify the UPE and Constituent Entities.
- Understanding and documentation of processes to identify impact of Pillar Two, including Transitional CbCR Safe Harbor rules where applicable.
- Understanding and documentation of processes to identify data required to compute any Pillar Two tax liability.
- Documentation of transactions that have taken place between December 1, 2021 and

Reporting and Compliance Timeline



- Realization does not depend on the entity’s generation of taxable income or the entity’s ongoing tax status or tax position, treated as a government grant or assistance
- Outside the scope of income tax accounting under ASC 740
- No specific authoritative guidance under U.S. GAAP for government grants (except the disclosure guidance under ASU 2022-10, Disclosures by Business Entities about Government Assistance)
- Acceptable recognition and measurement framework
  - IAS 20*
  - Capital approach
    - Deferred income
    - Reduction to carrying amount of the asset
  - Income approach
    - Credit to income or reduction to the related expense

Refundable Tax Credits

- Change in tax law – non-refundable credits becoming refundable credits
  - Generally, continue to apply ASC 740 to the credits recognized at the time of the law change
  - Any new refundable credits earned after the tax law change would be accounted for in accordance with the refundable tax credit guidance

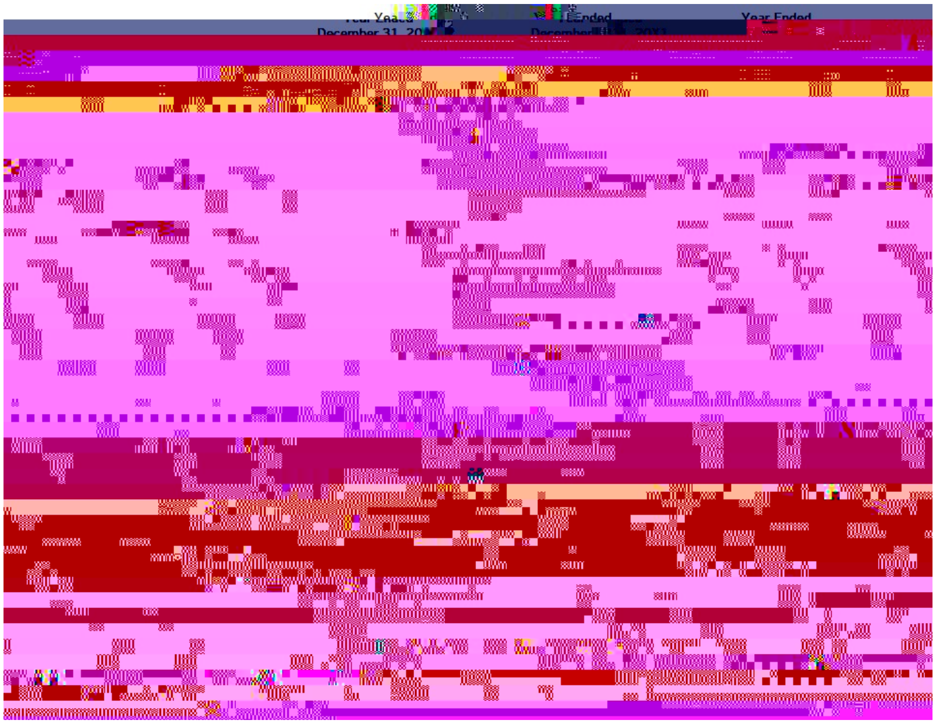
Transferable Credits

- Some tax jurisdictions allow sale of all or portion of credits (e.g., IRA introduced a number of tax credits that can be transferred/sold)
- Seller (regardless its intent how the credits will be monetized, offsetting its own tax liability or selling the credits):
  - Within scope of ASC 740 (if this accounting policy is chosen, additional accounting policies related to the presentation of the proceeds and expected gain or loss from the sale & consideration of the expected proceeds for valuation allowance purposes)
  - Outside the scope of ASC 740 (similar to refundable credits)
- Buyer – within scope of ASC 740

Income Tax Disclosure Developments

- FASB tentative decisions on targeted improvements to income tax disclosures
  - Income taxes paid disaggregation
  - Rate reconciliation
  - Elimination of certain disclosures
- Expected to be finalized by Q4 2023
- Tentative effective dates
  - PBEs - Fiscal years beginning after December 15, 2024
  - Non-PBEs – Fiscal years beginning after December 15, 2025

Illustration of rate reconciliation



The following information is not intended to be “written advice concerning one or more