Accounting for Income Taxes
Quarterly Hot Topics

In this issue:

- US Federal
- US Multistate
- International
- Accounting Developments
- Did You Know
- Learn More
US Federal

Treasury and the IRS recently issued proposed Treasury Regulations and Notices related to the Tax Cuts and Jobs Act (the “Tax Act”)

The recently issued proposed Treasury Regulations and Notices may impact the financial statement income tax accounting calculations pursuant to ASC 740 of companies for the period of enactment or subsequent quarters.

Effect of sequestration on AMT credit

On January 14, 2019, the Internal Revenue Service (“IRS”) updated its announcement Effect of Sequestration on the Alternative Minimum Tax Credit for Corporations to clarify that refundable alternative minimum tax (AMT) credits under Internal Revenue Code section 53(e) are not subject to sequestration for taxable years beginning after December 31, 2017. We understand that the SEC staff will not object to either of the following approaches:

- Recognition in 2018 since the Office of Management and Budget’s (OMB) decision constituted “new information” in December 2018 that could be relied upon and reflected in the financial statements at that time.
- Recognition in 2019 since the “new information” in December 2018 was not “widely understood and known” because it was not officially announced until January 2019.

Final Treasury Regulations on Transition Tax

On January 15, 2019, the US Department of Treasury (“Treasury”) and the IRS released final Treasury Regulations under IRC section 965 (the “transition tax” provision of the Tax Act). The proposed regulations under IRC section 965 were released on August 1, 2018, please refer to a summary of the final regulations from Deloitte Tax LLP regarding key changes from the proposed Treasury Regulations under IRC section 965.

For additional details, please see the tax@hand article dated January 16, 2019.

Proposed Treasury Regulations released on deduction for FDII and GILTI

On March 4, 2019, the Treasury and the IRS released the proposed Treasury Regulations under IRC section 250, pertaining to deductions for Foreign-Derived Intangible Income (“FDII”) and Global Intangible Low-Taxed Income (“GILTI”) that were enacted as part of the Tax Act.

The proposed Treasury Regulations provide guidance for determining the amount of the IRC section 250 deduction allowed to a domestic corporation for its FDII and GILTI, including:

- Rules for determining the amount of the deduction, including rules for applying the taxable income limitation of IRC section 250(a)(2);
- General rules for computing a domestic corporation’s FDII;
- Rules for determining a domestic corporation’s qualified business asset investment (QBAI), which is a component of the computation of FDII;
- General rules for determining gross income included in foreign-derived deduction eligible income (FDDEI), which is a component of the computation of FDII;
- Rules for determining FDDEI from sales of property;
- Rules for determining FDDEI from the provision of a service; and
- Rules relating to the sale of property or the provision of a service to a related party.
US Multistate

New state legislative/judicial updates

California Chief Counsel Ruling: mortgage servicing contracts and interest rate hedging contracts do not generate financial income

The California Franchise Tax Board ("FTB") recently published Chief Counsel Ruling 2018-01 to provide guidance on whether income derived from mortgage servicing contracts and interest rate hedging contracts constitute income from general or financial sources for California state income tax purposes. This Multistate Tax Alert summarizes this ruling and provides some taxpayer considerations.

For additional details, please refer to the December 5, 2018 Multistate Tax Alert.

California FTB Notice applies IRC section 367 regulations to transactions with insurers

California law generally provides for recognition of gain on certain transfers of appreciated property from a combined reporting taxpayer member to an insurance company (excluded from the combined tax report) and an earnings and profits ("E&P") inclusion rule for certain liquidations of an insurer into a combined reporting taxpayer member. New California FTB Notice 2019-1 states the FTB intention to apply the principles of the regulations promulgated under IRC section 367 to California Revenue & Taxation Code section 24465 in the context of the transfer of appreciated property to an insurance company.

For additional details, please refer to the March 1, 2019 Multistate Tax Alert.

Colorado DOR adopts permanent rules in light of new law implementing market-based sourcing and conformity to MTC provisions

The Colorado Department of Revenue ("DOR") has adopted permanent administrative regulations reflecting corporate income tax legislation enacted in 2018, which is applicable for tax years beginning after 2018. The new law requires a corporate taxpayer to calculate its income tax sales apportionment factor by utilizing market-based sourcing for sales of services and intangible property and provides definitions for apportionable income and receipts that are generally based on the most recent version of the Multistate Tax Commission’s ("MTC") related model act and regulations.

For additional details, please refer to the March 8, 2019 issue of State Tax Matters.

Florida DOR explains sales factor market basis sourcing of taxpayer provided services

The Florida DOR recently released an administrative ruling concluding that a taxpayer must source income from the different types of services that the taxpayer provides to the location of the customer to which the services are provided on a market basis.

For additional details, please refer to the February 22, 2019 issue of State Tax Matters.
Kentucky DOR issues revised version of proposed amended rule reflecting new law that imposes single-sales factor apportionment and market-based sourcing

The Kentucky DOR has revised its proposed state corporate income tax sales factor regulation reflecting Kentucky tax reform legislation enacted in 2018 that included adoption of a single sales factor apportionment formula and market-based sourcing provisions effective for tax years beginning on or after January 1, 2018. The proposed changes attempt to provide market-based sourcing rules for various types of sales including sales of intangible properties and services, as well as a “throw-out rule” for situations in which a business is not taxable in the state where its sales are assigned or if the state of assignment cannot be reasonably determined using Kentucky’s new market-based sourcing rules. The changes also reflect new law that excludes receipts from treasury functions from the sales factor, provides revised apportionment for some specific industries, and clarifies the required standards in alternative apportionment petitions.

For additional details, please refer to the March 22, 2019 issue of State Tax Matters.

Louisiana DOR issues amended rules implementing 2016 legislation that imposes market-based sourcing

The Louisiana DOR has issued administrative rule changes pursuant to legislation enacted in 2016. The changes reflect a sales factor “throw-out” rule, wherein sales sourced to a state in which the taxpayer is not taxable or sales where the proper state assignment cannot be determined or reasonably approximated under the law must be excluded from the sales factor.

For additional details, please refer to the January 11, 2019 issue of State Tax Matters.

Maryland Tax Court holds that out-of-state SMLLCs owe Maryland income tax

The Maryland Tax Court recently held that various out-of-state single member limited liability companies (“SMLLC”) wholly-owned by another out-of-state limited liability company owed Maryland income tax under state law that imposes an income tax on each pass-through entity.

For additional details, please refer to the February 8, 2019 issue of State Tax Matters.

New Jersey Tax Court rules that subsidiary must add back tax liabilities from combined reporting states for CBT purposes based on pro rata share of parent’s total tax obligations

The New Jersey Tax Court recently held that for purposes of New Jersey’s corporation business tax (“CBT”) addback adjustment for separate return filers, state law requires the addback of taxes attributable to a New Jersey taxpayer’s income in non-separate reporting states.

For additional details, please refer to the February 8, 2019 issue of State Tax Matters.

New Jersey Tax Court grants taxpayer’s motion for summary judgment in case involving an exception to CBT’s intercompany royalty expense “addback” provisions

The New Jersey Tax Court recently granted a taxpayer’s motion for summary judgment and full underlying refund claims in a case involving New Jersey’s CBT intercompany royalty expense “addback” adjustment, holding that the New Jersey Division of Taxation did not reasonably and fairly exercise its discretion in
deeming only a portion of the royalty expenses paid by the taxpayer to its subsidiary as excepted from the CBT addback requirements simply because the subsidiary paid a smaller amount of CBT based on its New Jersey allocation factor, which was lower than the taxpayer’s New Jersey allocation factor.

For additional details, please refer to the March 8, 2019 issue of State Tax Matters.

**New York City Department of Finance addresses issuer allocation percentage for sourcing investment income from issuers and obligors taxed under the Business Corporation Tax**

The New York City Department of Finance has issued a memorandum addressing the issuer’s allocation percentage under New York City’s Unincorporated Business Tax and General Corporation Tax for issuers and obligors taxed under New York City’s business corporation tax given that after the enactment of the business corporation tax, determination of the issuer’s allocation percentage for C corporations is not specifically defined.

For additional details, please refer to the February 1, 2019 issue of State Tax Matters.

**Pennsylvania administrative bulletin explains that receipts from hedging transactions generally must be excluded from the sales factor**

The Pennsylvania DOR has issued a bulletin stating that for state corporate net income tax purposes, the federal practice for identifying hedging transactions generally should be followed for Pennsylvania purposes and that receipts from hedging transactions generally must be excluded from the numerator and denominator of a taxpayer’s Pennsylvania apportionment fraction.

For additional details, please refer to the January 18, 2019 issue of State Tax Matters.

**City of Philadelphia adopts bright-line economic nexus standard for BIRT purposes**

The City of Philadelphia DOR has amended a Business Income and Receipts Tax (“BIRT”) regulation to update its nexus standard, including a bright line economic nexus standard of $100,000 in annual Philadelphia sales to trigger BIRT filing requirements in some instances. The DOR explains that it will not update associated sourcing rules at this time but will “seek additional input in the future.

For additional details, please refer to the February 1, 2019 issue of State Tax Matters.

**Multistate tax considerations of federal tax reform**

 Typically, states address conformity to the IRC through legislation, although certain states may seek to address essential details through administrative guidance as well. Legislative responses are expected to continue through 2019, depending upon when each state is in session.

The following states have recently enacted new tax legislation and/or administrative guidance in connection with the Tax Act and other new legislative updates:

**New legislative updates related to the Tax Act**

**Florida**

The Florida DOR has issued rule amendments incorporating some aspects of state corporate income tax legislation enacted during 2018, including the repeal of the AMT provision. Other revisions involve Florida’s
corporate income tax “addback” adjustment for federal bonus depreciation and computation of the carryover available for Florida’s “Capital Investment Tax Credit” for investments of $100.0 million or more for years 21 through 30.

For additional details, please refer to the January 11, 2019 issue of State Tax Matters.

**Idaho**

The Idaho State Tax Commission has finalized a new administrative rule regarding certain provisions of the Tax Act specifically addressing how to report the deemed repatriation income under IRC section 965 on an Idaho tax return.

New law updates select corporate and personal income tax statutory references in Idaho to conform to federal IRC provisions. Another signed bill allows state income taxpayers to deduct any amount disallowed under IRC section 461(l)(1)(B) that is treated as part of the taxpayer’s net operating loss (“NOL”) carryforward for federal income tax purposes.

Also, a recently revised temporary administrative rule concerning state “water’s edge” filers reflects state legislation enacted in 2018 that addressed the state corporate income tax treatment of GILTI and the deemed repatriation provisions.

For additional details, please refer to the January 11, 2019 and the February 15, 2019 issues of State Tax Matters.

**Massachusetts**

The Massachusetts DOR has issued permanent revisions to an administrative regulation that addresses the requirements and procedures for obtaining classification as a manufacturing corporation for various tax purposes under Massachusetts law, which reflects the impacts of IRC sections 951A and 965. The revisions include clarification that certain changes under the Tax Act should not impact such classification, particularly with regard to calculating the “gross receipts fraction” used to determine whether a taxpayer qualifies as a manufacturing corporation.

For additional details, please refer to the December 5, 2018 issue of State Tax Matters.

**Mississippi**

The Mississippi DOR has issued an administrative notice addressing the state personal and corporate income tax treatment of certain provisions of the Tax Act, including the state corporate income tax treatment of deemed repatriation income under IRC sections 951A and 965. Among other pronouncements, the guidance generally states that Mississippi will not follow the IRC section 951A provision that requires US shareholders owning at least 10% in one or more controlled foreign corporations ("CFC") to include GILTI in its current taxable income, as Mississippi does not tax foreign income or subpart F income.

For additional details, please refer to the February 1, 2019 issue of State Tax Matters.

**Missouri**

The Missouri DOR has issued guidance on Missouri’s corporate income tax treatment of IRC section 951A GILTI income inclusion, explaining that the net GILTI amount generally must be included in a corporate taxpayer’s federal taxable income and that, for many Missouri corporate taxpayers, this amount
potentially may be offset in whole or in part as nonbusiness income, non-Missouri dividends, or as part of Missouri’s dividends deduction.

For additional details, please refer to the February 8, 2019 issue of State Tax Matters.

**Nebraska**

The Nebraska DOR has issued guidance addressing the state corporate income tax treatment of certain provisions of the Tax Act, specifically the state treatment of deemed repatriation income under IRC section 965 for the 2017 tax year. The guidance generally concludes that Nebraska law conforms to the IRC section 965 transition tax provisions, “except the elections to pay the tax in installments or to defer the tax.”

For additional details, please refer to the January 11, 2019 issue of State Tax Matters.

**New Jersey**

The New Jersey Division of Taxation has issued an updated bulletin discussing the application of IRC sections 250 and 951A for state CBT purposes in light of New Jersey’s recent tax reforms and amendments that couple and/or decouple from various provisions under the Tax Act. In order to prevent distortion, the bulletin announces that the relevant allocation factor for computing the tax on net GILTI and net FDII amounts will be equal to the ratio of New Jersey’s gross domestic product (“GDP”) over the total GDP of every US state and the District of Columbia in which the taxpayer has economic nexus.

For additional details, please refer to the January 11, 2019 issue of State Tax Matters.

**New Mexico**

The New Mexico Taxation and Revenue Department has issued an administrative bulletin for New Mexico’s corporate income taxpayers that are required by IRC section 965 to pay the transition tax on the untaxed foreign earnings of certain foreign corporations under the Tax Act. Regarding the state corporate income tax treatment of IRC section 965 deferred foreign income, the bulletin explains that because subpart F deemed dividends are included in federal taxable income, these dividends are generally included in New Mexico taxable income. Additionally, as New Mexico tax law allows a corporation reporting to New Mexico as a separate entity to deduct a portion of its income from foreign dividends, depending on its ownership share of the foreign dividend payor. These same rules also apply to IRC section 965 income.

For additional details, please refer to the March 1, 2019 issue of State Tax Matters.

**New York**

The New York Department of Taxation and Finance ("Department") has issued guidance on various provisions of the Tax Act involving the GILTI income inclusion provision of IRC section 951A, through updated form instructions for 2018 New York State Forms CT-3 and CT-3-A.

The Department has also issued memoranda addressing the state treatment of certain provisions of the Tax Act involving income earned from overseas operations, including GILTI, FDII and mandatory deemed repatriation income.

For additional details, please refer to the January 18, 2019 and February 15, 2019 issues of State Tax Matters.
Oregon
The Oregon DOR has adopted a permanent administrative rule providing guidance for calculating the modification allowed under Oregon state tax law that permits a subtraction adjustment to prevent double inclusion of listed jurisdiction income (repatriated foreign-source income) in Oregon taxable income. For additional details, please refer to the January 11, 2019 issue of State Tax Matters.

Pennsylvania
The Pennsylvania DOR has issued a bulletin on how the GILTI and FDII provisions of the Tax Act are treated for Pennsylvania Corporate Net Income Tax (“CNIT”) purposes.

Regarding GILTI inclusion income, the bulletin generally explains that:

- The CNIT base starts with federal taxable income as reported on a CNIT taxpayer’s federal income tax return or, for companies included in a consolidated return group, as would have been reported on a federal income tax return on a separate company basis; and
- Pennsylvania generally treats subpart F income as dividend income for CNIT purposes.

For additional details, please refer to the February 1, 2019 issue of State Tax Matters.

City of Philadelphia
The City of Philadelphia DOR has issued a policy update on how it treats the federal repatriation transition tax provisions under the Tax Act for City BIRT purposes, clarifying that both the repatriation transition tax income and the deduction would be reflected in the BIRT income tax base for “Method II” taxpayers (i.e., those who determine the Philadelphia income tax base with reference to their federal taxable income).

For most BIRT Method II taxpayers, the advisory notice explains that the net repatriation transition tax income will be eligible for the following deductions:

- Dividends received from another corporation of the same affiliated group, or
- Dividends received from a corporation of which the receiving corporation or partnership owns at least 20% of the voting power of all classes of stock and at least 20% of each class of nonvoting stock.

The advisory notice guidance released indicates that the BIRT treatment generally will mirror the Pennsylvania CNIT treatment but while the City of Philadelphia DOR does not conform to the FDII provision, it does allow an exclusion of amounts from an affiliated company that may lead to a similar result.

For additional details, please refer to the February 1, 2019 and February 22, 2019 issues of State Tax Matters.

South Dakota
New law updates statutory references to the IRC as it existed from January 1, 2018 to January 1, 2019, for state financial institution/bank franchise tax purposes.

For additional details, please refer to the February 15, 2019 issue of State Tax Matters.
Utah

Signed on February 26, 2019, recently enacted legislation modifies the definition of “unadjusted income” as the definition relates to deferred foreign income pursuant to certain provisions of the Tax Act and subsequent state legislation enacted in 2018. The legislation essentially removes specific references to the 2017 tax year, both for the inclusion of IRC section 965 income in Utah unadjusted income, as well as for the installment payments of transition tax in Utah, all with retroactive application.

For additional details, please refer to the March 8, 2019 issue of State Tax Matters.

Virginia

Signed on February 15, 2019 and effective immediately and applicable retroactively to tax years beginning on or after January 1, 2018, new law generally updates state corporate and individual income tax statutory references to the IRC as it existed on December 31, 2018 (previously, February 9, 2018). The new law provides a state corporate income tax subtraction for GILTI included in federal taxable income under the provisions of the Tax Act, and provides a state corporate and individual subtraction equal to 20% of business interest disallowed pursuant to IRC section 163(j).


West Virginia

Signed on February 27, 2019, the recently enacted legislation adopts all amendments made to federal law after December 31, 2017, but prior to January 1, 2019, for West Virginia corporation net income and personal income tax purposes to the same extent those changes are allowed for federal income tax purposes, whether the changes are retroactive or prospective.

For additional details, please refer to the March 8, 2019 issue of State Tax Matters.

International

Belgium – ATAD interest deduction limitation rules apply as from January 1, 2019

On January 31, 2019, a bill containing tax, anti-fraud, financial and miscellaneous provisions was adopted by the Belgian parliament in a plenary session and will enter into force when published in the official gazette. The measures apply from various dates as stated.

The bill contains two major tax impacts:

The first comprises various tax measures announced by the government in the context of the so-called "Summer Agreement" in July 2017, namely:

- Earlier entry into force of interest deduction limitation rules in accordance with the European Union ("EU") anti-tax avoidance directive ("ATAD") 1, as agreed after consultation with the European Commission. The limit on the deduction of arm’s length excess borrowing costs to the higher of 30% of the taxpayer’s earnings before interest, tax, depreciation and amortization or EUR 3 million applies as from tax year 2020 starting on or after January 1, 2019, instead of tax year 2021; and
The second impact includes anti-fraud provisions, of which the following are the most significant and will apply 10 days after publication in the official gazette:

- The period in which the tax authorities can issue an assessment will be extended to a total of 10 years where the taxpayer is using a legal arrangement in a zero or low-tax jurisdiction (as defined in Belgian legislation) with which no tax treaty providing for exchange of information has been concluded.

In addition, this bill dictates the Ruling Commission no longer will be allowed to grant rulings in respect of transactions or situations involving zero or low-tax jurisdictions, unless the jurisdiction has concluded a tax treaty with Belgium that contains an exchange of information clause and the obligation to exchange information on the ultimate beneficial owner register will be extended to include jurisdictions outside the EU where a legal basis exists for the exchange of such information.

For additional details, please refer to the tax@hand article dated February 6, 2019.

**Belgium – EU General Court annuls excess profit rulings state aid decision**

On February 14, 2019, the European General Court ("General Court") delivered a judgment annulling a 2016 European Commission decision that Belgium’s excess profit rulings ("EPR") regime constitutes illegal state aid.

The European Commission now has two months to decide whether to file an appeal against the General Court’s decision with the Court of Justice of the European Union ("CJEU"). If the Commission decides not to appeal the judgment, it could initiate proceedings against (selected) individual rulings.

The Belgian state only will reimburse recovered aid (including compound interest) to beneficiaries if no timely appeal is lodged against the General Court’s decision. If an appeal is filed, any reimbursement will be postponed until after the CJEU’s decision.

For additional details, please refer to the tax@hand article dated February 18, 2019.

**France – Finance Law for 2019 implements ATAD 1 measures**

On December 20, 2018, the French finance law for 2019 was approved by the parliament, declared by the Constitutional Court to be in conformity with the French constitution, and published in the official journal on December 30, 2018. The law includes measures designed to ensure that French tax rules for enterprises are in line with Organisation for Economic Cooperation and Development ("OECD") and EU initiatives, while maintaining the attractiveness of France as a place to invest. The main measure in the law implements the EU ATAD 1, specifically to revise France’s interest expense limitation rules and introduce the ATAD general anti-avoidance rule. The finance law also makes changes to the tax consolidation regime to conform to decisions of the Court of Justice of the European Union.

For additional details, please see the tax@hand article dated December 29, 2019.

**Italy – legislative decree transposing EU ATAD includes significant changes to tax law**

On December 28, 2018, a legislative decree transposing the EU ATAD 1, as amended by ATAD 2 into Italy’s domestic law was published in the official gazette. The new legislation provides material changes relating to the interest expense deduction limitation, exit taxation, the CFC rules, dividends and capital
gains associated with foreign subsidiaries and hybrid mismatches. The decree does not include changes to the general anti-avoidance rule, as the Italian government considers the current domestic legislation to be in line with the ATAD.

The new rules entered into force for calendar-year companies on January 1, 2019, with the exception of the hybrid mismatch and tax residence mismatch rules that will apply from January 1, 2020 and the reverse hybrid rules that will apply from January 1, 2022.

For additional details, please see the tax@hand article dated January 16, 2019.

**Italy – 2019 budget law introduces new digital services tax**

Italy’s 2019 budget law, which was published in the official gazette on December 31, 2018 and generally applies as from January 1, 2019, makes a number of significant changes to the country’s tax rules. Among other provisions that affect corporations, the new law introduces a new tax on digital services and re-opens the window for taxpayers to step-up the basis of certain business assets.

For additional details, please see the tax@hand article dated January 15, 2019.

**Luxembourg – law implementing ATAD 1 published in official gazette**

The law transposing the EU ATAD 1 into Luxembourg law was published on December 21, 2018, following parliament’s approval on December 18, 2019. The ATAD 1 provisions will be applicable in Luxembourg for fiscal years starting on or after January 1, 2019, except for the exit tax provisions that will apply as from 2020.

The ATAD 1, which is part of the anti-tax avoidance package presented by the European Commission in 2016, aims to provide a minimum level of protection for the internal market and ensure a harmonized and coordinated approach in the EU to the implementation of some of the recommendations under the OECD base erosion and profit sharing (“BEPS”) project. The ATAD 1 contains three measures that build on actions in the BEPS project: hybrid mismatches (Action 2), CFC rules (Action 3) and interest expense deductibility restrictions (Action 4). Two other measures—a general anti-avoidance rule and exit taxation rules are not found in the BEPS initiative.

For additional details, please see the tax@hand article dated December 24, 2018.

**Mexico – rules issued for tax offsets and incentives for taxpayers in northern border region**

Mexico’s Tax Administration Service (SAT) issued regulations (in the Omnibus Tax Bill) on January 7, 2019 that clarify the measures in decrees released on December 28th and 31st of 2018. The two decrees eliminate the ability to offset different taxes against each other and introduce new incentives for taxpayers located in 43 municipalities along the northern border, respectively. The clarifying regulations generally apply as from January 1, 2019.

For additional details, please see the tax@hand article dated January 10, 2019.
Netherlands – 2019 tax package enacted

On December 18, 2018, the Dutch Senate approved the 2019 tax package originally published by the Ministry of Finance on September 18, 2018, and subsequently amended on October 15, 2018. The tax package became effective on January 1, 2019 and includes the following amendments to Dutch corporate income tax:

- Implementation of the EU ATAD 1, in particular, the earnings stripping rule and CFC rules;
- Gradual reduction of the corporate income tax rate; and
- Changes to the rules regarding tax losses and the depreciation of buildings.

The initial proposals to abolish the current dividend withholding tax and introduce a withholding tax on intercompany dividend distributions to low-tax jurisdictions and in abusive situations were withdrawn.

For additional details, please see the tax@hand article dated January 11, 2019.

United Kingdom – new compliance facility introduced for diverted profits tax

On January 10, 2019, HM Revenue & Customs (“HMRC”) announced a profit diversion compliance facility to give multinationals using arrangements targeted by diverted profits tax (“DPT”) the opportunity to bring their UK tax affairs up to date.

The facility is designed to encourage multinationals with arrangements that may fall within its scope to review the design and implementation of their transfer pricing policies and use the facility to put forward a report with proposals to pay any additional tax, interest and, where applicable, penalties due. In doing so, multinationals can resolve uncertainty in an accelerated process without investigation from HMRC if a full and accurate disclosure is made. The facility gives unprompted penalty treatment if HMRC have not already started an investigation into profit diversion.

HMRC has identified a list of several hundred high-risk taxpayers that it intends to investigate. Accompanying the launch of the profit divergence compliance facility (“PDCF”), HMRC issued letters to some taxpayers on the list, highlighting the availability of the PDCF. Failure to respond appropriately to these letters is likely to result in an investigation.

Guidance has been issued on how to use the facility, what should be included in a disclosure report and what HMRC views as indicators of profit diversion risk.

For additional details, please see the tax@hand article dated January 11, 2019.
Accounting Developments

FASB proposes revised improvements to income tax disclosure requirements

On March 25, 2019, the Financial Accounting Standards Board ("FASB") issued a revised proposed Accounting Standards Update ("ASU") intended to improve the relevance of income tax disclosure requirements to financial statement users. Stakeholders are encouraged to review the revised proposed ASU and provide comment by May 31, 2019.

In July 2016, the FASB issued a proposed ASU that set forth enhanced disclosure requirements for income taxes. The proposed ASU was part of the FASB's broader disclosure framework project to improve the effectiveness of disclosures in notes to financial statements.

The FASB delayed finalizing the original July 2016 proposed ASU because of potential federal income tax reform and ultimately decided to revise its original proposed ASU because the Tax Act substantially changed how US businesses are taxed for federal income tax purposes.

The resulting proposed ASU reflects these revisions, as well as stakeholder input on the original July 2016 proposed ASU. The revised proposed ASU would remove disclosures that no longer are considered beneficial or relevant and add disclosure requirements identified as relevant to financial statement users.

Did You Know

ASC 842 – Leases is effective for public business entities

For public business entities, not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and employee benefit plans that file financial statements with the SEC the guidance in ASC 842–Leases ("ASC 842") is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted.

Companies need to ensure they are assessing the potential tax implications during the transition from ASC 840 – Leases to ASC 842.

For additional details, please see A Roadmap to Applying the New Leases Standard.

Learn More

A Roadmap to Accounting for Income Taxes

On December 6, 2018, Deloitte published the 2018 edition of A Roadmap to Accounting for Income Taxes. This Roadmap provides Deloitte’s insights into and interpretations of the income tax accounting guidance in ASC 740 and IFRS Standards. Throughout the 2018 edition of the Roadmap, new guidance has been added, including a new appendix, “Frequently Asked Questions About Tax Reform,” and minor edits have been made to existing guidance to improve its clarity.

A Roadmap to Accounting for Income Taxes is available for immediate download on IAS Plus.

We hope that you find our Roadmap useful and informative.
Tax Accounting Conference
Deloitte's Tax Accounting Conference features interactive courses taught by experienced professionals who will explain applicable guidance as well as share real-world experiences and leading practices. Take advantage of registration discounts. Register today.

Additional resources you may find helpful

- Accounting for Income Taxes—Quarterly Hot Topics Archive
- Tax Reform Insights
- Deloitte Tax Accounting & Provision Services Home Page
- Deloitte Tax Accounting & Provisions Dbriefs Webcasts Series
- Deloitte Heads Up Newsletter Archive
- Global Tax Developments Quarterly—Accounting for Income Taxes

As always, we are interested in your comments on our publications. Please take a moment to tell us what you think by sending us an e-mail.

Talk to us
If you have any questions or comments about the ASC 740 implications described above or other content of Accounting for Income Taxes Quarterly Hot Topics, contact the Deloitte Washington National Tax Accounting for Income Taxes Group at: USNationalWNTActIncomeTaxesGrp@deloitte.com

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte Tax LLP and Deloitte & Touche LLP, which are separate subsidiaries of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.