No. 2023-11
Updated 9 October 2025

Technical Line

FASB — final guidance

FASB requires entities to provide additional income tax disclosures

In this issue:

What you need to know

- The final guidance issued by the FASB requires entities to provide additional information in the rate reconciliation and additional disclosures about income taxes paid.
- Public business entities are required to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and provide more details about the reconciling items in some categories if the items meet a quantitative threshold.
- All entities are required to disclose annually income taxes paid (net of refunds received) disaggregated by federal (national), state and foreign taxes and disaggregate the information by jurisdiction based on a quantitative threshold.
- For public business entities, the guidance is effective for annual periods beginning after 15 December 2024. For other entities, it is effective for annual periods beginning a year later. All entities should apply the guidance prospectively but have the option to apply it retrospectively. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) **amended** Accounting Standards Codification (ASC) 740, *Income Taxes*, to enhance the transparency and decision-usefulness of income tax disclosures, particularly in the rate reconciliation table and disclosures about income taxes paid.

The amendments are intended to address investors' requests for income tax disclosures that provide more information to help them better understand an entity's exposure to potential changes in tax laws and the ensuing risks and opportunities and to assess income tax information that affects cash flow forecasts and capital allocation decisions.

The guidance also eliminates certain existing requirements related to uncertain tax positions and unrecognized deferred tax liabilities and replaces the term "public entity" with "public business entity" (PBE) in ASC 740. Because the Master Glossary definition of PBE is more expansive than that of public entity, more entities may be subject to certain disclosure requirements under ASU 2023-09 than under legacy guidance.

This publication has been updated to provide enhanced guidance related to the disclosure of rate reconciliation and illustration of the rate reconciliation disclosure that is included in the Appendix.

How we see it

Because the guidance requires entities to provide additional disclosures for the rate reconciliation and income taxes paid, they should evaluate whether they need to modify their processes and controls or create new ones to collect the information needed to provide the new disclosures.

Key considerations

Rate reconciliation for PBEs

Excerpt from Accounting Standards Codification

Income Taxes — Overall

Disclosure

Pending Content:

Transition Date: *(P) December 16, 2024; (N) December 16, 2025 |*
Transition Guidance: *740-10-65-9*

740-10-50-12

A public business entity shall disclose a reconciliation for each annual reporting period, in accordance with paragraphs 740-10-50-12A through 50-12C, between the amount of reported income tax expense (or benefit) from continuing operations and the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile. In circumstances in which a public business entity, as the parent entity, is not domiciled in the United States, the federal (national) income tax rate in that entity's jurisdiction (country) of domicile shall normally be used in the reconciliation, and different rates shall not be used for subsidiaries or segments of the public business entity. When the rate used by a public business entity is other than the United States federal corporate income tax rate, the public business entity shall disclose the rate used and the basis for using that rate. The statutory tax rates shall be the regular tax rates if there are alternative tax systems.

The guidance requires PBEs to begin the rate reconciliation with a computed income tax expense calculated by multiplying income (loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile of the reporting entity. For PBEs domiciled in the US, this means that the rate reconciliation should begin with income (loss) from continuing operations before income taxes multiplied by the US federal (national) income tax rate of 21%. This amount would then be reconciled to the amount of reported income tax expense (benefit) from continuing operations in the statement of operations.

The guidance states that in circumstances in which a PBE, as the parent entity, is not domiciled in the US, the federal (national) income tax rate in that entity's jurisdiction (country) of domicile should normally be used in the reconciliation. Therefore, similar to companies domiciled in the US, PBEs that are not domiciled in the US have to begin the rate reconciliation with the federal (national) income tax rate. Under the guidance, it would not be appropriate to begin the rate reconciliation with a blended federal (national) and state (local) income tax rate.

The guidance does not further clarify when it would be appropriate for a non-US domiciled PBE to use a federal (national) rate other than the rate of the PBE's jurisdiction of domicile. We believe that it is generally acceptable to use a rate other than the jurisdiction of domicile when a PBE is domiciled in a zero-rate jurisdiction. In other situations (e.g., an entity is domiciled in a jurisdiction with an income tax rate significantly lower than the US statutory income tax rate), we believe significant judgment is necessary in determining whether it is appropriate to use a rate other than the rate in the jurisdiction of domicile, consistent with the FASB's acknowledgment in paragraph BC 38 of the Background Information and Basis for Conclusions in the Accounting Standards Update (ASU).

How we see it

PBEs that are not domiciled in the US are required to begin the rate reconciliation with the federal (national) income tax rate and present the effects of territories in the jurisdiction of domicile (similar to the effects of state and local taxes in the US) as a separate reconciling item. Therefore, it would not be appropriate for these PBEs to begin the rate reconciliation with a blended federal (national) and state (local) income tax rate.

For example, a company domiciled in Canada should begin the rate reconciliation with the Canadian federal (national) income tax rate, rather than a blended rate that combines the Canadian federal (national) and provincial/territorial income tax rates. Similarly, a company domiciled in Switzerland should begin the rate reconciliation with the Swiss federal (national) income tax rate, rather than a blended rate that combines the Swiss federal (national) and cantonal income tax rates.

The effect of provincial/territorial and cantonal income taxes for the companies domiciled in Canada and Switzerland, respectively, should be reported in the state and local income taxes category. This may represent a change for non-US domiciled companies that have historically started the rate reconciliation with a blended income tax rate.

Excerpt from Accounting Standards Codification

Income Taxes — Overall

Disclosure

Pending Content:

Transition Date: *(P) December 16, 2024; (N) December 16, 2025 |*
Transition Guidance: *740-10-65-9*

740-10-50-12A

For each annual reporting period, a public business entity shall disclose a tabular reconciliation, using both percentages and reporting currency amounts, according to the following requirements:

a. The following specific categories shall be disclosed:

   1. State and local income tax, net of federal (national) income tax effect

2. Foreign tax effects

3. Effect of changes in tax laws or rates enacted in the current period

4. Effect of cross-border tax laws

5. Tax credits

6. Changes in valuation allowances

7. Nontaxable or nondeductible items

8. Changes in unrecognized tax benefits.

b. Separate disclosure shall be required for any reconciling item listed below in which the effect of the reconciling item is equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile. When disaggregating the following reconciling items by nature, an entity should consider the reconciling item's fundamental or essential characteristics, such as the event that caused the reconciling item and the activity with which the reconciling item is associated. Reconciling items shall be presented on a gross basis unless specific guidance in (c) permits net presentation with a related reconciling item.

1. If the reconciling item is within the effect of cross-border tax laws, tax credits, or nontaxable or nondeductible items categories, it shall be disaggregated by nature.

2. If the reconciling item is within the foreign tax effects category, it shall be disaggregated by jurisdiction (country) and by nature, except for reconciling items related to changes in unrecognized tax benefits discussed in (c). If a foreign jurisdiction meets the 5 percent threshold, it shall be separately disclosed as a reconciling item. Within any foreign jurisdiction (regardless of whether it meets the 5 percent threshold), the reconciling item shall be separately disclosed by nature if its gross amount (positive or negative) meets the 5 percent threshold.

3. If the reconciling item is not within any of the categories listed in (a), it shall be disaggregated by nature.

c. For the purpose of categorizing and presenting reconciling items:

1. Except for reconciling items related to changes in unrecognized tax benefits discussed in (c)(2), the state and local income tax category reflects income taxes imposed at the state or local level within the jurisdiction (country) of domicile, the foreign tax effects category reflects income taxes imposed by foreign jurisdictions, and the remaining categories listed in (a) reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile.

2. For reconciling items related to changes in unrecognized tax benefits:

i. Reconciling items resulting from changes in judgment related to tax positions taken in prior annual reporting periods (such as subsequent recognition, derecognition, and change in measurement of unrecognized tax benefits) are reflected in the changes in unrecognized tax benefits category.

> ii. When an unrecognized tax benefit is recorded in the current annual reporting period for a tax position taken or expected to be taken in the same reporting period, the unrecognized tax benefit and its related tax position may be presented on a net basis in the category where the tax position is presented.
>
> iii. Reconciling items presented in the changes in unrecognized tax benefits category may be disclosed on an aggregated basis for all jurisdictions.
>
> *3.* The effect of cross-border tax laws category reflects the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions. When the jurisdiction (country) of domicile taxes cross-border income but also provides a tax credit on the same income during the same reporting period, the tax effect of both the cross-border tax and its related tax credit may be presented on a net basis in the effect of cross-border tax laws category. For example, the tax effect related to the global intangible low-taxed income and its related foreign tax credits may be presented on a net basis as one reconciling item in the effect of cross-border tax laws category.
>
> *4.* The effect of changes in tax laws or rates enacted in the current period category reflects the cumulative tax effects of a change in enacted tax laws or rates on current or deferred tax assets and liabilities at the date of enactment.
>
> See paragraph 740-10-55-231 for an illustration of a tabular rate reconciliation disclosure.

The guidance requires PBEs to disclose in their rate reconciliation, on an annual basis, both percentages and amounts in their reporting currency for certain categories in a tabular format, with accompanying qualitative disclosures. ASC 740-10-50-12A(a) requires disclosure of the following categories:

- State and local income tax, net of federal (national) income tax effect
- Foreign tax effects
- Effect of changes in tax laws or rates enacted in the current period
- Effect of cross-border tax laws
- Tax credits
- Changes in valuation allowances
- Nontaxable or nondeductible items
- Changes in unrecognized tax benefits

The Board decided to provide these categories to help investors better assess risks and opportunities related to effective tax rates over time and across entities. However, the categories are not intended to cover all possible reconciling items based on existing or future tax laws.

Disaggregation of categories **(updated October 2025)**

The guidance requires further disaggregation of certain categories when the individual reconciling items equal or exceed 5% of the amount computed by multiplying the income (or loss) from continuing operations before income tax by the applicable statutory federal (national) income tax rate. The disaggregation should be assessed by reconciling items of the same nature. That is, if reconciling items of the same nature equal or exceed the 5% threshold in total, a disaggregated reconciling item is required to be disclosed.

When providing further disaggregation of reconciling items by nature for certain categories, an entity should consider the item's fundamental or essential characteristics, such as the event that caused the reconciling item and the activity with which the reconciling item is associated.

Entities may have individual reconciling items that meet the threshold requiring disclosure in one (or multiple) periods but not all periods. For example, an entity may have significant federal research and development tax credits that meet the threshold to be disclosed within the tax credit category in 20X5 and 20X4, but the impact in 20X3 is below the disclosure threshold.

While the entity would be required to disclose the amount and percentage impact for 20X5 and 20X4, the guidance does not address whether the amount (and percentage) of individual reconciling items should be presented in comparative periods that do not meet the disclosure threshold (e.g., 20X3 in the example). We generally believe an entity should present the disaggregated amounts (and percentages) for an individual reconciling item in comparative periods that do not meet the disclosure threshold (20X3 in the example).

However, an entity may use an asterisk or a dash to indicate that the impact of the individual reconciling item in comparative periods is below the threshold provided that the amounts (and percentages) in those periods are not material to the users of the financial statements considering the nature and relative significance of the reconciling item.

Categorizing reconciling items

The state and local income tax category should reflect income taxes imposed at the state or local level within the jurisdiction (country) of domicile, the foreign tax effects category should reflect income taxes imposed by foreign jurisdictions, and the other categories in ASC 740-10-50-12A(a) should reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile, except for reconciling items related to changes in prior year unrecognized tax benefits, as discussed in the changes in unrecognized tax benefit section below.

Reconciling items are required to be presented on a gross basis with two exceptions under which PBEs may present on a net basis (1) current year unrecognized tax benefits and the related tax positions and (2) tax effects of certain cross-border tax laws and the related tax credits. The gross basis amount in this context refers to the tax-impacted amount of a reconciling item before offsets from related reconciling items.

Any reconciling item that meets the 5% threshold but does not fit into any of the categories listed in ASC 740-10-50-12A(a) is required to be separately disclosed by nature as an other adjustment in the rate reconciliation. Other reconciling items that do not individually meet the 5% threshold and do not fit into any of the categories listed in ASC 740-10-50-12A(a) may also be aggregated and presented as a separate "other adjustments" line item.

Similarly, in the categories that require further disaggregation of reconciling items, other reconciling items within the category that are below the 5% threshold may be aggregated and presented as an "other" reconciling item within the category. See the Appendix for an illustration of the rate reconciliation, which includes presentation of other reconciling items.

Materiality considerations on the rate reconciliation disclosure

ASC 740 does not provide a quantitative threshold for disclosure of the required categories in ASC 740-10-50-12A(a). The 5% quantitative threshold under the guidance is only applicable when assessing whether certain categories require further disaggregation.

The FASB noted in paragraph BC 22 that the guidance in ASC 105-10-05-6, which states, "The provisions of the Codification need not be applied to immaterial items," continues to apply to the guidance in this ASU. Therefore, entities need to disclose all required categories unless the impact is determined to be immaterial.

The Board did not provide guidance on how to apply the 5% threshold when an entity operates at, or around, break even, which could lead to a significant number of reconciling items that meet the 5% threshold. However, it did acknowledge in paragraph BC 38 that an entity will need to apply judgment in assessing materiality of reconciling items in this situation.

How we see it

Requiring all PBEs to disclose specific categories in the rate reconciliation and additional reconciling items in certain categories will promote disclosure consistency and comparability.

Rate reconciliation categories (updated October 2025)

State and local income tax, net of federal (national) income tax effect

Excerpt from Accounting Standards Codification

Income Taxes — Overall

Disclosure

Pending Content:

Transition Date: *(P) December 16, 2024; (N) December 16, 2025 |*
Transition Guidance: *740-10-65-9*

740-10-50-12B

A public business entity shall provide a qualitative description of the states and local jurisdictions that make up the majority (greater than 50 percent) of the effect of the state and local income tax category. For the purpose of identifying the states and local jurisdictions that make up the majority of the effect, a public business entity shall begin with the state or local jurisdiction that has the largest effect and in descending order add states or local jurisdictions with the next largest effect until the aggregated effect is greater than 50 percent.

The guidance requires PBEs to provide a qualitative description of the state and local jurisdictions that make up the majority (greater than 50%) of the state and local income tax category, beginning with the state and local jurisdiction that has the largest effect and, in descending order, add states or local jurisdictions with the next largest effect until the aggregated effect is greater than 50%. This disclosure should be made for each year. If the state and local jurisdictions comprising the majority change from year to year, an entity should separately disclose the qualitative description of the state and local jurisdictions that make up the majority of the state and local income tax category for each year. This category should reflect all income taxes imposed at the state and local level within the jurisdiction (country) of domicile (e.g., changes in domestic state and local valuation allowances should be included in the state and local income tax category).

Reconciling items related to changes in prior year unrecognized tax benefits should be aggregated across jurisdictions and included in the changes in unrecognized tax benefits category. See ASC 740-10-50-12(c)2 and the section below for further discussion of changes in unrecognized tax benefits.

Foreign tax effects

The guidance requires further disaggregation by jurisdiction (country) and by nature when reconciling items in the foreign tax effects category (including federal statutory rate differentials) equal or exceed the 5% threshold. Reconciling items related to changes in prior year unrecognized tax benefits should be aggregated across jurisdictions and included in the changes in unrecognized tax benefits category.

If a foreign jurisdiction meets the 5% threshold, it should be separately disclosed as a reconciling item in the foreign effects category. An entity should then evaluate whether any reconciling items by nature in that jurisdiction should be separately disclosed based on the 5% threshold.

In addition, a jurisdiction may not meet the 5% threshold, but there could be reconciling items by nature within that jurisdiction that meet the 5% threshold, which would require disclosure under the guidance. Reconciling items in a foreign jurisdiction should be separately disclosed by nature if the gross amount (i.e., the sum of all the tax effected items by nature, positive or negative) meets the 5% threshold, regardless of whether the jurisdiction's taxes in total meet the 5% threshold. For example, if the federal statutory tax rate difference between a foreign jurisdiction (country) and the jurisdiction (country) of domicile meets the 5% threshold, it should be separately disclosed as a reconciling item within the foreign jurisdiction under the foreign tax effects category in the rate reconciliation.

The guidance requires all entities to provide more disaggregated income tax disclosures.

When an entity disaggregates reconciling items within the foreign tax effects category by nature, the guidance in ASC 740-10-50-12A(b) says it "should consider the reconciling item's fundamental or essential characteristics." In disclosing the foreign tax effects by nature, we believe that entities could use the same categories in ASC 740-10-50-12A, including further disaggregation of certain categories. That is, a US company should evaluate the foreign jurisdictions in which it operates and then could consider the categories and further reconciling items by jurisdiction based on the guidance in ASC 740-10-50-12A when evaluating further disaggregation of reconciling items by nature. For example, if the effect of cross-border tax laws imposed by a foreign jurisdiction meets the 5% threshold, it would be broken out by nature in the foreign tax effect category under the jurisdiction imposing the tax.

As noted above, the foreign tax effects category should include a reconciling item related to the federal (national) statutory rate differential, if it exceeds the 5% threshold. This reconciling item should only include the rate differential related to the federal (national) income tax rate in the foreign jurisdiction being reported. If the state and local (or similar foreign territories) tax effects of a foreign jurisdiction exceeds the 5% threshold, they should be disaggregated as a reconciling item within the related foreign jurisdiction, because the FASB said in paragraph BC 28 that state and local taxes within a foreign jurisdiction are required to be included in the foreign tax effects category.

For example, a US company that has foreign operations in Switzerland would disclose the federal (national) statutory rate differential between the Swiss federal (national) rate and the US federal income tax rate within the foreign tax effects category if the 5% threshold is met. The aggregated effect of the cantonal taxes in Switzerland would be separately disclosed as a state and local tax effect within the Swiss jurisdictional foreign tax effect if the 5% threshold is met.

The following example illustrates how an entity may present reconciling items in the foreign tax effects category.

Illustration – Foreign tax effects

A PBE domiciled in the US has reconciling items within the foreign tax effects category of the rate reconciliation that meet the 5% threshold. Assume the applicable federal statutory income tax rate is 21%, and pretax income from continuing operations is $10,000, resulting in a disaggregation threshold of $105 ($10,000 x 21% x 5% = $105). The required disaggregation of reconciling items by jurisdiction and nature would be as follows:

	Amount	Percent
US Federal Statutory Tax Rate	$ 2,100	21.0 %
Foreign Tax Effects[1]		
Foreign jurisdiction (country) A[2]		
Federal statutory tax rate difference between foreign jurisdiction A and United States	170	1.7
State and local income taxes	125	1.3
Share-based payment awards	(110)	-1.1
Research and development tax credits	(130)	-1.3
Other	75	0.8
Foreign jurisdiction (country) B[3]		
Federal statutory tax rate difference between foreign jurisdiction B and United States	110	1.1
Changes in valuation allowances	(125)	-1.3
Enacted changes in tax laws or rates	150	1.5
Other	(75)	-0.8
Foreign jurisdiction (country) C[4]		
Research and development tax credits	(200)	-2.0
Enacted changes in tax laws or rates	120	1.2
Other	(50)	-0.5
Foreign jurisdiction (country) D[5]	125	1.3
Foreign jurisdiction (country) E[5]	(110)	-1.1
Other foreign jurisdictions[6]	150	1.5

Note that the table above only includes the foreign tax effects category for purposes of illustrating the disaggregation of reconciling items based on the 5% threshold. See the Appendix for a comprehensive rate reconciliation illustration.

1 This category includes jurisdictions meeting the 5% threshold in total and jurisdictions with individual reconciling items by nature that meet the 5% threshold, and therefore disaggregated disclosures are required.

2 The total tax effect of the jurisdiction is $130. The 5% threshold is met both at the jurisdiction level in total and for certain individual reconciling items of the same nature within the jurisdiction, including the federal statutory rate differential.

3 The total tax effect of the jurisdiction is $60. The 5% threshold is not met at the jurisdiction level in total, however certain individual reconciling items of the same nature within the jurisdiction meet the 5% threshold, including the federal statutory rate differential.

4 The total tax effect of the jurisdiction is $(130). The 5% threshold is met both at the jurisdiction level in total and for certain individual reconciling items of the same nature within the jurisdiction. The federal statutory rate differential is not one of the individual reconciling items meeting the 5% threshold.

5 The 5% threshold is met at the jurisdiction level in total, but not for any individual reconciling items of the same nature within each jurisdiction.

6 All other foreign jurisdictions do not exceed the 5% threshold at the jurisdiction level in total or for individual reconciling items of the same nature within each jurisdiction

Effect of changes in tax laws or rates enacted in the current period

ASC 740-10-50-12A(c)(4) states, "The effect of changes in tax laws or rates enacted in the current period category reflects the cumulative tax effects of a change in enacted tax laws or rates on current or deferred tax assets and liabilities at the date of enactment." This category applies to the effect of changes in tax laws or rates enacted in the current reporting period by the federal (national) jurisdiction of domicile. Effects of changes in tax laws or rates enacted in the current period by foreign jurisdictions and by states and local jurisdictions within the jurisdiction (country) of domicile should be included in the foreign tax effects category and state and local income tax category, respectively.

Effect of cross-border tax laws

The guidance requires further disaggregation by nature when reconciling items within the effect of cross-border tax laws category equal or meet the 5% threshold.

ASC 740-10-50-12A(c)(3) states, "The effect of cross-border tax laws category reflects the effect of incremental income taxes imposed by the jurisdiction (country) of domicile on income earned in foreign jurisdictions. When the jurisdiction (country) of domicile taxes cross-border income but also provides a tax credit on the same income during the same reporting period, the tax effect of both the cross-border tax and its related tax credit may be presented on a net basis in the effect of cross-border tax laws category. For example, the tax effect related to the global intangible low-taxed income and its related foreign tax credits may be presented on a net basis as one reconciling item in the effect of cross-border tax laws category."

The FASB said in BC 33 that stakeholder feedback "noted that disclosing the cross-border income taxes imposed by the jurisdiction (country) of domicile gross, rather than net of the benefits provided by the same jurisdiction for foreign taxes paid (or deemed paid) on the same income, would not reflect the true incremental tax cost of income earned abroad." In response to this, the Board decided to include guidance that if there is a credit in the same jurisdiction, which is an inherent part of the calculation of a cross-border tax law, the credit could be netted with the cross-border tax effect.

The rate reconciliation table in the illustration in ASC 740-10-55-231, includes the tax effects related to global intangible low-taxed income (GILTI), base erosion and anti-abuse tax (BEAT), and foreign-derived intangible income (FDII) in the cross-border tax laws category. The FASB said in BC 30 that the reference to FDII is included in the illustration under the effect of cross-border tax laws category to provide a more consistent disclosure of that information. However, the FASB acknowledged that entities may need to exercise judgment when identifying the reconciling items to be included in this category, including the categorization of special deductions such as FDII, for both US-domiciled entities and entities domiciled in a foreign jurisdiction.

Tax credits

The guidance requires further disaggregation by nature when reconciling items in the tax credits category equal or exceed the 5% threshold. This category applies to tax credits imposed by the federal (national) jurisdiction of domicile. Tax credits imposed by foreign jurisdictions and by state and local jurisdictions in the jurisdiction (country) of domicile should be included in the foreign tax effects category and state and local income tax category, respectively.

As discussed above, when the jurisdiction (country) of domicile taxes cross-border income but also provides a tax credit on the same income during the same reporting period, the tax effect of both the cross-border tax and its related tax credit may be presented on a net basis as one reconciling item in the effect of cross-border tax laws category, rather than included in the tax credits category.

Changes in valuation allowances

For the purpose of categorizing reconciling items, the Board clarified in BC 25 that the category related to changes in valuation allowances reflects both the valuation allowances initially recognized and subsequently adjusted in the reporting period. This category applies to changes in valuation allowances in the federal (national) jurisdiction of domicile.

Changes in valuation allowances related to foreign jurisdictions and state and local jurisdictions in the jurisdiction (country) of domicile should be included in the foreign tax effects category and state and local income tax category, respectively. The Board said in BC 27 that it decided not to allow entities to disclose valuation allowances on an aggregated basis for all jurisdictions.

Nontaxable or nondeductible items

The guidance requires further disaggregation by nature when reconciling items in the nontaxable or nondeductible items category equal or exceed the 5% threshold. This category applies to nontaxable or nondeductible items (e.g., certain share-based payment awards, goodwill impairment) in the federal (national) jurisdiction of domicile. Nontaxable or nondeductible items in foreign jurisdictions and in state and local jurisdictions within the jurisdiction (country) of domicile should be included in the foreign tax effects category and state and local income tax category, respectively.

Changes in unrecognized tax benefits **(updated October 2025)**

ASC 740-10-50-12A(c)(2) states:

"For reconciling items related to changes in unrecognized tax benefits:

i. Reconciling items resulting from changes in judgment related to tax positions taken in prior annual reporting periods (such as subsequent recognition, derecognition, and change in measurement of unrecognized tax benefits) are reflected in the changes in unrecognized tax benefits category.

ii. When an unrecognized tax benefit is recorded in the current annual reporting period for a tax position taken or expected to be taken in the same reporting period, the unrecognized tax benefit and its related tax position may be presented on a net basis in the category where the tax position is presented.

iii. Reconciling items presented in the changes in unrecognized tax benefits category may be disclosed on an aggregated basis for all jurisdictions."

The changes in unrecognized tax benefits category should include the tax effects of changes in judgments related to tax positions taken in prior annual reporting periods for all jurisdictions (i.e., domestic federal, domestic state and local, and foreign jurisdictions). For example, if a foreign jurisdiction has a tax effect from a change in judgment related to a tax position taken in a prior annual reporting period, it should be included in the unrecognized tax benefits category instead of the foreign tax effects category.

When an unrecognized tax benefit is recorded in the current annual reporting period for a tax position taken or expected to be taken in the same reporting period, the unrecognized tax benefit and its related tax position may be presented on a net basis in the category where the tax position is presented. If an entity chooses not to present the unrecognized tax benefit net against the current tax position taken, it could be included in the changes in unrecognized tax benefits category, an other adjustment, or another logical category in the rate reconciliation.

Note the tax effects of unrecognized tax benefits may only be aggregated across jurisdictions if they are included in the changes in unrecognized tax benefits category. If an entity presents the effects outside this category, aggregation across jurisdictions is not permitted.

ASC 740-10-45-25 requires an entity to make an accounting policy election to classify interest and penalties due to the taxing authority on unrecognized tax positions as either income taxes or pre-tax expense (e.g., interest expense and other expense) and consistently apply that election. However, the guidance does not address how an entity electing to classify such amounts as income taxes should present interest and penalties related to unrecognized tax benefits in the rate reconciliation.

We believe interest and penalties related to unrecognize tax benefits recorded in prior-years could be included in the unrecognized tax benefits category in the rate reconciliation table. Alternatively, they can be included in the other adjustments category, disaggregated by nature if such amounts meet the 5% quantitative threshold.

We believe these approaches would also be acceptable for interest and penalties, if any, incurred related to unrecognized tax benefits recorded in the current year or such amounts could be netted with the current year unrecognized tax benefit in the category that includes the tax position.

Considerations when determining rate reconciliation categories for reconciling items

The FASB said in paragraph BC 29 that judgment may be needed when determining how to categorize certain income tax effects that do not clearly fall into one of the required categories, including certain income tax effects that have characteristics of multiple categories or when assessing the nature of reconciling items for further disaggregation.

Reconciling items presented in the changes in unrecognized tax benefits category may be disclosed on an aggregated basis for all jurisdictions.

The Board discussed several examples of tax items for which it decided not to provide guidance on their categorization, including the effects of share-based payment awards, which an entity may decide to include in the nontaxable or nondeductible items category even though the windfall on its own might not be considered to be part of this category. Another example of an area of judgment is the categorization of FDII, as discussed in the effect of cross-border tax laws section above.

When judgment is required to determine the appropriate category for certain tax effects, the categorization should be applied consistently.

The following are considerations for certain items where questions may arise regarding appropriate presentation within the rate reconciliation under the new standard:

Alternative minimum taxes, including Pillar Two GloBE taxes

The Board did not provide guidance on how to categorize the effects of alternative minimum tax (AMT) systems, such as the corporate alternative minimum tax (CAMT) in the US or laws enacted to implement the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion (GloBE) model rules.

We believe it would be appropriate to categorize AMTs imposed by the reporting entity's jurisdiction of domicile as a domestic tax effect as follows:

- If the domestic AMT is based on income within the jurisdiction of domicile (e.g., CAMT, GloBE Pillar Two Qualified Domestic Minimum Top-upTax (QDMTT)), it would be appropriate to present the tax effect as an other adjustment in the rate reconciliation that does not fit into any of the categories listed in ASC 740-10-50-12A(a).
- If the domestic AMT is based on income other than the jurisdiction imposing the tax (e.g., GloBE Income Inclusion Rule (IIR), GloBE Undertaxed Payment Rule (UTPR)), it would be appropriate to present the tax effect in the cross-border tax laws category.

For AMTs imposed on constituent entities by a foreign jurisdiction, we believe it would be appropriate to include the tax effects in the foreign tax effects category in the jurisdiction imposing the AMT. The tax effects would be subject to disclosure based on the requirements in ASC 740-10-50-12A(b)2 to disaggregate foreign tax effects by jurisdiction and nature if the 5% threshold is met, separate from the federal statutory rate differential.

The categorization of AMTs with similar characteristics should be categorized consistently.

Withholding taxes

A consolidated entity may have income-generating activity between members in separate jurisdictions, for which payments are made between the members (e.g., dividends, interest, royalties). Certain governments may require taxes to be withheld at the source of payment. We believe a withholding tax determined to be in the scope of ASC 740 should be associated with the jurisdiction imposing the tax for purposes of categorization in the rate reconciliation.

If the jurisdiction imposing the withholding tax is the jurisdiction of domicile, we believe the tax could be categorized either in the effects of cross-border tax laws category or as an other reconciling item that does not fit into any of the listed categories in ASC 740-10-50-12A(a), subject to further disaggregation if the 5% threshold is met.

For example, if Parent Company A in the jurisdiction of domicile makes a payment for an income-generating activity to Subsidiary Company B in a foreign country, and the jurisdiction of domicile imposes a withholding tax on the payment that is in the scope of ASC 740, we believe the withholding tax could be categorized in the effects of cross-border tax laws category or as an other reconciling item.

If the jurisdiction imposing the withholding tax is a foreign jurisdiction, we believe the tax should be associated with the jurisdiction imposing the tax in the foreign tax effects category, subject to further disaggregation if the 5% threshold is met. For example, if Subsidiary Company B in a foreign jurisdiction makes a payment for an income-generating activity to Subsidiary Company C, which is located in a different jurisdiction, and Subsidiary B's foreign jurisdiction imposes a withholding tax on the payment that is in the scope of ASC 740, we believe that the tax would be associated with the foreign jurisdiction imposing the tax in the foreign tax effects category.

Return-to-provision adjustments

We believe that return-to-provision adjustments that are appropriately accounted for as a change in estimate should generally be included in the category to which the adjustment relates. See section 3.1 of our FRD, *Income taxes*, for further guidance on return-to-provision adjustments.

Proportional amortization method

ASC 323-740 allows investors to use the proportional amortization method to account for investments in limited liability entities that meet certain conditions. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with the amortization of the investment and the income tax credits and other income tax benefits received being presented net in the income statement as a component of income tax expense (benefit). Refer to Section 4.2.7.5 of our FRD, *Income Taxes*, for further guidance on the proportional amortization method.

We believe it is acceptable to include all the tax effects of an investment accounted for using the proportional amortization method (i.e., income tax credits, other tax benefits and amortization of the investment) as a single reconciling item, subject to disaggregation if the 5% threshold is met. However, there may be other acceptable approaches. The approach selected should be applied consistently.

The Board decided not to provide specific guidance on where the tax effects of the proportional amortization method should be categorized in the rate reconciliation and stated that judgment should be used. An entity that chooses to include the tax effects of an investment accounted for using the proportional amortization method as a single reconciling item could include the tax effects in the tax credits category, an other adjustment or another logical category.

Additional rate reconciliation disclosure requirements

Excerpt from Accounting Standards Codification

Income Taxes — Overall

Disclosure

Pending Content:

Transition Date: *(P) December 16, 2024; (N) December 16, 2025 |*
Transition Guidance: *740-10-65-9*

740-10-50-12C

A public business entity shall provide an explanation, if not otherwise evident, of individual reconciling items required by paragraph 740-10-50-12A, such as the nature, effect, and underlying causes of the reconciling items and the judgment used in categorizing the reconciling items.

The guidance requires PBEs to disclose an explanation, if not otherwise evident, of individual reconciling items required, such as the nature, effect and underlying causes of the reconciling items and the judgment used in categorizing the reconciling items. For reconciling items where judgment is used to determine categorization, or if there are multiple acceptable categories where the item can be presented, entities should consider whether supplemental disclosure is necessary in accordance with ASC 740-10-50-12C.

Rate reconciliation for entities other than PBEs

Excerpt from Accounting Standards Codification

Income Taxes — Overall

Disclosure

Pending Content:

Transition Date: *(P) December 16, 2024; (N) December 16, 2025 |*
Transition Guidance: *740-10-65-9*

Entities Other Than Public Business Entities

740-10-50-13

An entity other than a public business entity shall qualitatively disclose the nature and effect of specific categories of reconciling items listed in paragraph 740-10-50-12A(a) and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate, but a numerical reconciliation is not required. See paragraphs 740-10-55-232 through 55-233 for an illustration of a qualitative disclosure of rate reconciling items.

Entities that are not PBEs are required to provide qualitative disclosures about "specific categories of reconciling items listed in ASC 740-10-50-12A(a) and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate" under ASC 740-10-50-13. The Board stated in BC 53 that entities other than PBEs may provide a tabular rate reconciliation if they determine it provides better information, but they are not required to make such a quantitative disclosure.

Income taxes paid

Excerpt from Accounting Standards Codification

Income Taxes — Overall

Disclosure

Pending Content:

Transition Date: *(P) December 16, 2024; (N) December 16, 2025 |*
Transition Guidance: *740-10-65-9*

740-10-50-22

For each annual reporting period, all entities shall disclose the amount of income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign.

740-10-50-23

For each annual reporting period, all entities shall disclose the amount of income taxes paid (net of refunds received) to each individual jurisdiction in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received).

All entities are required to disclose annually the amount of income taxes paid (net of refunds received) to individual jurisdictions that meet a quantitative threshold.

The guidance requires all entities to disclose, on an annual basis, income taxes paid (net of refunds received) disaggregated by federal (national) taxes in the country of domicile, state taxes and foreign taxes. The state and local taxes category reflects those paid in the country of domicile, while foreign taxes include all state and local taxes paid in the foreign jurisdictions.

The guidance also requires all entities to disclose annually the amount of income taxes paid (net of refunds received) to each individual jurisdiction in which income taxes paid (net of refunds received) is equal to or exceeds a quantitative threshold of 5% of total income taxes paid (net of refunds received). The FASB clarified in paragraph BC 70 that an entity should apply the 5% quantitative threshold by comparing the absolute value of the net payment or net refund in each jurisdiction with the absolute value of the total income taxes paid (net of refunds received) when determining jurisdictions for separate disclosure. Furthermore, the FASB said in paragraph BC 64 that an entity may identify a country, state or local territory as an individual jurisdiction.

The FASB said in paragraph BC 74 that disclosure of comparative information by jurisdiction for all years presented is not required. That is, the amount of income taxes paid to a jurisdiction only needs to be disclosed in the periods where the 5% threshold is met.

Materiality considerations on income taxes paid disclosure

The FASB said in paragraph BC 65 that the guidance in ASC 105-10-05-6 about immaterial items also applies to the amendments related to this disclosure. That is, an entity does not need to separately disclose the income taxes paid for any jurisdiction (whether that is federal, state or foreign groupings or individual jurisdictions) if the amount is immaterial.

Disaggregated domestic and foreign income statement disclosures

Excerpt from Accounting Standards Codification

Income Taxes — Overall

Disclosure

Pending Content:

Transition Date: *(P) December 16, 2024; (N) December 16, 2025 |*
Transition Guidance: *740-10-65-9*

740-10-50-10A

Income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign shall be disclosed for each annual reporting period.

740-10-50-10B

Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign shall be disclosed for each annual reporting period. Income taxes on foreign earnings that are imposed by the jurisdiction of domicile shall be included in the amount for that jurisdiction of domicile (that is, the jurisdiction imposing the tax).

The guidance requires all entities to disclose, on an annual basis, the following income statement information in addition to what is already required:

- Income (or loss) from continuing operations before income tax expense (or benefit), disaggregated between domestic and foreign
- Income tax expense (or benefit) from continuing operations, disaggregated between federal (national), state and foreign

The Board did not address whether pretax income (or loss) from continuing operations should be presented before or after intercompany eliminations. We believe the decision to present this information before or after intercompany eliminations is an accounting policy election that should be applied consistently.

The FASB said in BC 104 that when disaggregating by state in the disclosure of income tax expense (or benefit) from continuing operations by federal (national), state and foreign for non-US jurisdictions that do not have an equivalent jurisdictional level, an entity that is not domiciled in the US should disclose the state income tax expense (or benefit) by state, local, or similar territories within the country of domicile.

The guidance requires income tax expense invoked on foreign earnings by the jurisdiction of domicile be included in the amount for the jurisdiction of domicile, not the jurisdiction generating the foreign earnings subject to the tax. For example, income taxes on GILTI of a US reporting entity would be classified as federal because the income tax is imposed by the US government despite the related income from continuing operations being classified as foreign.

The guidance to disclose disaggregated domestic and foreign income statement information is similar to that in Rule 4-08(h)(1)[1] of Regulation S-X.

Undistributed earnings of subsidiaries and corporate joint ventures

The guidance eliminates the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition in ASC 740-30 related to subsidiaries and corporate joint ventures.

For example, an entity is no longer required to disclose the cumulative amount of undistributed earnings when it asserts that it is indefinitely reinvesting foreign earnings. However, it is still required to make all other disclosures regarding unrecognized deferred tax liabilities under ASC 740-30-50-2.

Unrecognized tax benefits

The guidance eliminates for all entities the requirement to (1) disclose certain information when it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date or (2) make a statement that an estimate of the range cannot be made.

Applicability to PBEs

The amendments also replace the terms "public entity" and "nonpublic entity" in ASC 740 with the terms "public business entity" as defined in the ASC Master Glossary and "an entity other than a public business entity," respectively. Therefore, the disclosures in ASC 740 that are required by "public entities" under the legacy guidance will now be required by "public business entities" under the guidance. Because the Master Glossary definition of PBE is more expansive than that of public entity, more entities may be subject to certain disclosure requirements under ASU 2023-09 than under legacy guidance.

Effective date and transition

The guidance should be applied prospectively, but entities have the option to apply it retrospectively for each period presented. The guidance is effective for PBEs for annual periods beginning after 15 December 2024 and for other entities for annual periods beginning after 15 December 2025.

Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance.

Endnotes:

[1] S-X Rule 4-08(h)(1) states, *"Disclosure shall be made in the statement of comprehensive income or a note thereto, of the components of income (loss) before income tax expense (benefit) as either domestic or foreign.*

(i) the components of income (loss) before income tax expense (benefit) as either domestic or foreign;

(ii) the components of income tax expense, including

(A) taxes currently payable and

(B) the net tax effects, as applicable, of timing differences (indicate separately the amount of the estimated tax effect of each of the various types of timing differences, such as depreciation, warranty costs, etc., where the amount of each such tax effect exceeds five percent of the amount computed by multiplying the income before tax by the applicable statutory Federal income tax rate; other differences may be combined.)

Note 1 to paragraph (h)(1):

Amounts applicable to United States Federal income taxes, to foreign income taxes and the other income taxes shall be stated separately for each major component. Amounts applicable to foreign income (loss) and amounts applicable to foreign or other income taxes which are less than five percent of the total of income before taxes or the component of tax expense, respectively, need not be separately disclosed. For purposes of this rule, foreign income (loss) is defined as income (loss) generated from a registrant's foreign operations, i.e., operations that are located outside of the registrant's home country"

SCORE No. 21976-231US
(Updated 9 October 2025)

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Appendix: Illustration of rate reconciliation disclosure (updated October 2025)

The following illustrates an approach by Company XYZ to prepare a rate reconciliation that complies with the requirements in ASC 740-10-50-12A through 50-12B. Assume that Company XYZ is a PBE domiciled in the US and presents comparative financial statements. Assume the US federal statutory income tax rate is 21% for all years presented. The 5% disaggregation threshold for each year is calculated as follows:

	Year Ended December 31, 20X2	Year Ended December 31, 20X1	Year Ended December 31, 20X0
Pretax income (loss) from continuing operations	$ 20,000	$21,500	$24,000
Federal statutory income tax rate	21%	21%	21%
Expected income tax expense (benefit)	$4,200	$4,515	$5,040
5% disaggregation threshold	5%	5%	5%
Reconciling item threshold	$210	$226	$252

In preparing the rate reconciliation, Company XYZ performs the following steps:

- Categorizes reconciling items based on the defined categories in ASC 740-10-50-12A(a)
- Identifies and qualitatively discloses the state and local jurisdictions that make up the majority (greater than 50%) of the state and local income tax category (ASC 740-10-50-12B)
- Disaggregates reconciling items by nature that meet the 5% threshold in the following domestic categories (ASC 740-10-50-12A(b)(1)):
  - Effect of cross-border tax laws
  - Tax credits
  - Nontaxable or nondeductible items
- In the foreign tax effects category, disaggregates both (1) foreign jurisdictions that meet the 5% threshold in total and (2) reconciling items by nature within a jurisdiction that meet the 5% threshold (regardless of whether the jurisdiction's taxes in total meet the 5% threshold) (ASC 740-10-50-12A(b)(2))
- Discloses reconciling items by nature that are not in any of the categories in ASC 740-10-50-12A(a) that meet the 5% threshold (ASC 740-10-50-12A(b)(3)) (Company XYZ did not identify any reconciling items that met this criteria)

Company XYZ discloses a tabular rate reconciliation to meet the disclosure requirements in ASC 740-10-50-12A and ASC 740-10-50-12B as follows (assume Company XYZ appropriately categorized all reconciling items, and appropriately disaggregated foreign jurisdictions and reconciling item by nature that meet the 5% threshold):

	Year Ended December 31, 20X2			Year Ended December 31, 20X1			Year Ended December 31, 20X0		
	Amount	Percent		Amount	Percent		Amount	Percent	
US Federal Statutory Tax Rate	$ 4,200	21.0	%	$ 4,515	21.0	%	$ 5,040	21.0	%
State and Local Income Taxes, Net of Federal Income Tax Effect*	250	1.3		281	1.3		254	1.1	
Foreign Tax Effects									
United Kingdom									
Statutory tax rate difference between United Kingdom and United States	(213)	(1.1)		(233)	(1.1)		(267)	(1.1)	
Share-based payment awards	296	1.5		(227)	(1.1)		323	1.3	
Research and development tax credits	(261)	(1.3)		(265)	(1.2)		(290)	(1.2)	
Other	(23)	(0.1)		17	(0.1)		(15)	(0.1)	
Ireland									
Statutory tax rate difference between Ireland and United States	(610)	(3.1)		(715)	(3.3)		(720)	(3.0)	
Changes in valuation allowances	(320)	(1.6)		(274)	(1.3)		255	1.1	
Enacted changes in tax laws or rates	-	-		275	1.3		-	-	
Other	47	0.2		(70)	(0.3)		(23)	(0.1)	
Switzerland	(243)	(1.2)		(311)	(1.4)		(290)	(1.2)	
Mexico	217	1.1		293	1.4		299	1.2	
Other foreign jurisdictions	(53)	(0.3)		(63)	(0.3)		57	0.2	
Effect of Changes in Tax Laws or Rates Enacted in the Current Period	-	-		-	-		(395)	(1.6)	
Effect of Cross-Border Tax Laws									
Global intangible low-taxed income	230	1.2		233	1.1		254	1.1	
Foreign-derived intangible income	(273)	(1.4)		(274)	(1.3)		(281)	(1.2)	
Base erosion and anti-abuse tax	233	1.2		247	1.1		261	1.1	
Other	17	0.1		-	-		-	-	
Tax Credits									
Research and development tax credits	-	-		(290)	(1.3)		(279)	(1.2)	
Energy-related tax credits	(323)	(1.6)		-	-		-	-	
Other	-	-		(71)	(0.3)		-	-	
Changes in Valuation Allowances	155	0.8		(199)	(0.9)		(240)	(1.0)	
Nontaxable or Nondeductible Items									
Share-based payment awards	(231)	(1.2)		238	1.1		310	1.3	
Goodwill impairment	288	1.4		260	1.2		-	-	
Other	73	0.4		(11)	(0.1)		13	0.1	
Changes in Unrecognized Tax Benefits	(95)	(0.5)		150	0.7		(225)	(0.9)	
Other Adjustments	150	0.8		(180)	(0.8)		(170)	(0.7)	
Effective Tax Rate	$ 3,511	17.6	%	$3,326	15.5	%	$3,871	16.1	%

* State taxes in California and New York for 20X0 and 20X1 and California, New York and New Jersey for 20X2 made up the majority (greater than 50%) of the tax effect in this category.