

BDO KNOWS: ASC 740

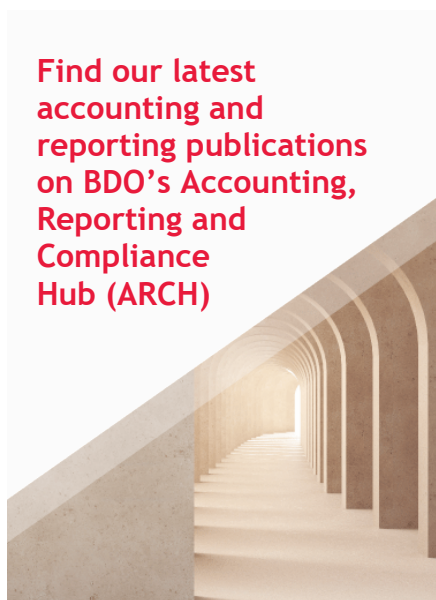
# New Income Tax Disclosures

June 2025

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## 1. INTRODUCTION

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2023-09, *Income Taxes (Topic 740) – Improvements to Income Tax Disclosures*, introduces new requirements clarifying and expanding specific income tax disclosures to increase their transparency and usefulness. ASU 2023-09 also replaces the term “public entity” used in Accounting Standards Codification (ASC) 740 with the term “public business entity” (PBE) for consistency with more recent standard setting. ASU 2023-09 provides a disclosure objective and significantly expands the rate reconciliation disclosure requirements for PBEs. It also introduces requirements for all entities to disclose income taxes paid to individual jurisdictions exceeding a specified threshold and updates disclosures about unrecognized tax benefits (UTBs) and undistributed earnings of subsidiaries.

## 2. KEY PROVISIONS OF ASU 2023-09

### 2.1 Income Taxes Paid



#### FASB REFERENCES

ASC 105-10-05-6 and ASC 740-10-50-22 through 50-23

The ASU requires that all entities annually disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign jurisdictions. All entities must also annually disclose the amount of income taxes paid (net of refunds received) to each individual jurisdiction where that amount is equal to or greater than 5% of total income taxes paid (net of refunds received). In quantifying the 5% threshold for income taxes paid, the numerator of the fraction is the absolute value of any net income taxes paid or income taxes received for each jurisdiction and the denominator is the absolute value of total income taxes paid (net of refunds received) for all jurisdictions in the aggregate. The calculation is based on cash taxes paid or received during the period.

Unlike for the rate reconciliation, the ASU does not require disclosure of comparative information for income taxes paid by jurisdiction for all years presented.

#### BDO INSIGHTS — MATERIALITY AND INCOME TAXES PAID DISCLOSURE

While ASU 2023-09 introduces a bright-line threshold for disclosing income taxes paid, the FASB states in its general principles<sup>1</sup> that the provisions of U.S. generally accepted accounting principles (GAAP) need not be applied to immaterial items. The Board observed in Basis of Conclusions (BC)67 of ASU 2023-09:

*The materiality guidance in paragraph 105-10-05-6 is applicable to the amendments in [ASU 2023-09], as it is to all Codification guidance. Therefore, the amendments on the disclosure of income taxes paid do not apply to immaterial items. That is, an entity does not need to separately disclose income taxes paid for any jurisdiction (whether that is federal, state, or foreign groupings or individual jurisdictions based on a quantitative threshold of 5 percent) if the amount is immaterial.*

Reaching a conclusion about what is material and immaterial to an entity’s financial statements requires the application of professional judgment based on the facts and circumstances.

<sup>1</sup> ASC 105-10-05-6.

**EXAMPLE 2-1: DISCLOSURE OF INCOME TAXES PAID**

Company G made tax payments and received refunds during the year ended December 31, 20X5, as follows:

JURISDICTION	PAYMENT (REFUND) AMOUNT (IN THOUSANDS)	PERCENTAGE OF NET INCOME TAXES PAID	PERCENTAGE AS AN ABSOLUTE VALUE
United States	\$ 250	93%	93%
Massachusetts	45	17%	17%
Rhode Island	(10)	(4%)	4%
Mexico	5	2%	2%
Canada	(21)	(8%)	8%
Net Payment (Refund)	\$ 269	100%	N/A

Company G must separately disclose payments made to and refunds received from the U.S., Massachusetts, and Canada for the year ended December 31, 20X5. The remaining amount of income taxes paid, and refunds received do not meet the 5% disaggregation threshold and would be included in the “Other” Category. For example, Company G could present Mexico and Rhode Island taxes paid together in a single “Other” line item or could present Mexico taxes paid in “Other — Foreign” and Rhode Island taxes paid in “Other — State.”

**BDO INSIGHTS — INCOME TAXES PAID DISCLOSURE**

The ASU does not require a specific format for the income taxes paid disclosure (that is, tabular or narrative). It also does not specify whether to include the disclosure in the statement of cash flows or the tax footnote disclosure. Based on our review of financial statements of several entities that early adopted the ASU, we expect that most entities will elect to present a table of income taxes paid within the tax footnote. An entity should select and consistently apply a reasonable disclosure approach. Examples 2-2 and 2-3 illustrate the concepts.

**EXAMPLE 2-2: TABULAR DISCLOSURE WITH RETROSPECTIVE APPLICATION**

An entity early adopted ASU 2023-09 and applied it retrospectively beginning in 2024. It elects to present income taxes paid in tabular format. The entity includes the following in its income tax footnote:

(\$ IN MILLIONS)	2024	2023	2022
U.S. Federal	\$ 185	\$ 275	\$ 95
State:			
State Jurisdiction #1	55	30	15
State Jurisdiction #2	(a)	(a)	10
Other	20	25	10
State Subtotal	75	55	35
Foreign:			
Foreign Jurisdiction #1	(a)	(a)	15
Other	5	3	—
Foreign Subtotal	5	3	15
Total cash paid for income taxes (net of refunds)	\$ 265	\$ 333	\$145

(a) The amount of income taxes paid during the year does not meet the 5% disaggregation threshold and is included in "Other."

**EXAMPLE 2-3: TABULAR DISCLOSURE WITH PROSPECTIVE APPLICATION**

Assume the same facts as in Example 2-2, except the entity applied ASU 2023-09 prospectively. The entity includes the following in its income tax footnote:

(\$ IN MILLIONS)	2024	2023	2022
U.S. Federal	\$ 185		
State:			
State Jurisdiction #1	55		
Other	20		
State Subtotal	75		
Foreign:			
Other	5		
Foreign Subtotal	5		
Total cash paid for income taxes (net of refunds)	\$ 265		
Total cash paid for income taxes (prior to ASU 2023-09)		\$ 333	\$ 145

## 2.2 Rate Reconciliation for Public Business Entities



### FASB REFERENCES

ASC 740-10-50-1A, ASC 740-10-50-2, ASC 740-10-50-11 through 50-12C, and ASC 740-10-50-14

ASU 2023-09 provides an overall disclosure objective and significantly expands the rate reconciliation disclosure requirements for PBEs. Upon adoption, PBEs must disclose specified categories within the rate reconciliation for federal, state, and foreign income taxes. The ASU also requires greater detail about individual reconciling items to the extent the impact of those items equals or exceeds a specified threshold (5% of the entity's pretax income [loss] from continuing operations multiplied by the applicable federal statutory income tax rate of the jurisdiction of domicile). The ASU prescribes a tabular format, to be disclosed annually, that includes both percentages and dollar amounts for each reconciling item. If any reconciling item meets or exceeds the 5% quantitative threshold in any of the years disclosed, all comparative amounts and percentages must be disclosed for all years presented. Further disaggregation may be required based on the nature of the item and location of the jurisdiction. The specific categories required in the annual rate reconciliation disclosures include:

- ▶ State and local income tax, net of federal (national) income tax effect
- ▶ Foreign tax effects
- ▶ Effects 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 UTBs

Except for the tax effects related to changes in UTBs, all income taxes imposed by states and local jurisdictions are captured in the "State and Local Income Tax" category. Similarly, all income taxes imposed by foreign jurisdictions are captured in the "Foreign Tax Effects" category. For example, the tax effects of a new tax law enacted by a foreign country, a tax credit granted by a foreign country, or state or local taxes in a foreign country must be included in the "Foreign Tax Effects" category. Accordingly, the remaining categories, other than the "Changes in UTB" category, reflect the effect of taxes in an entity's country of domicile.

An entity generally is required to present all reconciling items on a gross basis, with two exceptions:

- ▶ Specific UTBs
- ▶ The related tax effects of some cross-border tax laws net of associated tax credits

#### EXAMPLE 2-4: CALCULATING THE THRESHOLD PERCENTAGE AND AMOUNT

An entity is domiciled in the U.S. and has pretax income from continuing operations of \$3.32 million for the year ended December 31, 20X5.

Disaggregation is required by nature and category for any reconciling item that is at least 5% of the amount computed by multiplying the entity's pretax income (loss) by the applicable statutory income tax rate.

The entity calculates the reconciling item percentage by multiplying the U.S. statutory tax rate of 21% by the disclosure threshold of 5% to arrive at 1.05%. The entity calculates the reconciling item amount by multiplying its pretax income of \$3.32 million by 1.05% to arrive at \$34,860. Therefore, the entity must separately disclose reconciling items exceeding 1.05%, or \$34,860, of pretax income in its 20X5 rate reconciliation table.





CALCULATING THE QUANTITATIVE THRESHOLD

The quantitative threshold must be applied to both expenses and benefits that affect the effective tax rate. In other words, both positive and negative impacts must be disclosed. For example, if the entity in Example 2-4 has a significant U.S. federal research and development (R&D) credit with a negative impact of 1.7% to the effective tax rate, it must be separately disclosed.

Also, the quantitative threshold is required to be determined for each reporting period based on the statutory tax rate and the pretax income in that period.

2.2.1 State and Local Income Tax, Net of Federal (National) Income Tax Effect

This category includes income taxes imposed at the state or local level (net of federal benefit) in the jurisdiction of domicile and include all implication of state taxes (other than UTBs, as explained in Section 2.2.8), including tax credits, valuation allowances, etc. Also:

- ▶ No further disaggregation is required; and
- ▶ PBEs must qualitatively disclose the state and local jurisdictions that contribute to the majority of the effect of the “State and Local Income Tax” category.

BDO INSIGHTS – HIGHLIGHTS FROM COMPANIES THAT EARLY ADOPTED

The following is an example of the requirement to qualitatively disclose the state and local jurisdictions that contribute to the majority (greater than 50%) of the effect of state and local income taxes.

During the year ended December 31, 2024, state taxes in California, Florida, and Illinois made up the majority of the tax effect in this category. During the year ended December 31, 2023, state taxes in California and Florida made up the majority of the tax effect in this category.

EXAMPLE 2-5: QUALITATIVE DISCLOSURE OF THE STATE AND LOCAL JURISDICTIONS THAT CONTRIBUTE TO THE MAJORITY OF THE EFFECT OF THE STATE AND LOCAL INCOME TAX CATEGORY

An entity is domiciled in the U.S. and has tax expense in the state and local jurisdictions listed in the table below.

STATE	STATE TAX EXPENSE	PERCENTAGE
Michigan	\$ 19	19%
New York	14	14%
California	18	18%
Alabama	7	7%
Missouri	9	9%
Illinois	12	12%
South Carolina	8	8%
Virginia	7	7%
Wisconsin	6	6%
Total	\$ 100	100%

The entity must qualitatively disclose that state taxes in Michigan, New York, and California made up the majority (greater than 50 percent) of the tax effect in the “State and Local Income Tax” category.

### 2.2.2 Foreign Tax Effects

This category includes income taxes imposed by foreign jurisdictions. Also:

- ▶ Reconciling items in this category are to be disaggregated by jurisdiction and nature. If a foreign jurisdiction meets the 5% threshold, it must be disclosed as a reconciling item. Irrespective of whether any foreign jurisdiction satisfies the 5% threshold, any individual reconciling item in a foreign jurisdiction meeting the threshold must be disaggregated and disclosed by nature.
- ▶ Any nonfederal taxes within a foreign jurisdiction are required to be disaggregated and separately presented if they meet the quantitative threshold. For instance, Canada has provincial taxes and Switzerland has cantonal taxes.

#### **BDO INSIGHTS — HIGHLIGHTS FROM COMPANIES THAT EARLY ADOPTED**

In reviewing the financial statements of early adopters, we noted a range of disclosures. Some companies disaggregated items by jurisdiction into the categories required for the rate reconciliation, which are discussed in Section 2.2.

### 2.2.3 Effect of Changes in Tax Laws or Rates Enacted in the Current Period

This category includes the cumulative tax effects of changes in enacted tax laws or rates in a jurisdiction of domicile. No further disaggregation is required.

### 2.2.4 Effect of Cross-Border Tax Laws

This category includes federal (national) income taxes imposed by jurisdiction (country) of domicile on foreign-earned income.

- ▶ Disaggregation is required for reconciling items in this category if the reconciling item meets the 5% threshold.
- ▶ When the jurisdiction of domicile taxes cross-border has 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.

#### **BDO INSIGHTS — INCOME OR LOSS FROM A FOREIGN DISREGARDED ENTITY OF THE COUNTRY OF DOMICILE**

Although the ASU provides no specific guidance, we believe the income or loss from a foreign disregarded entity of the country of domicile should be disaggregated if the rate reconciling item meets the 5% quantitative threshold. Any reconciling item related to local taxes should be presented under “Foreign Tax Effects,” and any tax implications to the country of domicile should be presented in “Cross-Border” taxes.

#### **BDO INSIGHTS — HIGHLIGHTS FROM COMPANIES THAT EARLY ADOPTED**

In reviewing the financial statements of early adopters, we found that two entities included the “Effects of Cross-Border Tax Laws” category with additional disaggregation (global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII), and the base erosion and anti-abuse tax (BEAT)) while three included this category without any further disaggregation. This category was excluded or not applicable to the others in the sample.



2.2.5 Tax Credits

This category includes federal (national) income tax credits received by the jurisdiction (country) of domicile. Disaggregation is required for reconciling items in this category if the reconciling item meets the 5% threshold.

**BDO INSIGHTS – HIGHLIGHTS FROM COMPANIES THAT EARLY ADOPTED**


In reviewing the financial statements of early adopters, we found that four entities disclosed tax credits. Two entities disaggregated the reconciling items in this category for reconciling items that meet or exceed the threshold (for example, R&D tax credits and foreign tax credits) and included other tax credits below the threshold in an “Other” line item. Because the other two entities did not have tax credits meeting the threshold, they did not further disaggregate reconciling items in this category.

2.2.6 Changes in Valuation Allowances

This category includes the initial recognition of federal (national) income tax effects of valuation allowances, as well as changes to valuation allowances in the jurisdiction (country) of domicile during the reporting period.

**BDO INSIGHTS – HIGHLIGHTS FROM COMPANIES THAT EARLY ADOPTED**

In reviewing the financial statements of early adopters, we found that all entities included the “Changes in Valuation Allowances” category (if applicable). Several entities also included a separate tabular disclosure for change in valuation allowance.



**CHANGE IN VALUATION ALLOWANCE DISCLOSURE IS STILL REQUIRED**

Although ASU 2023-09 expanded the requirements for valuation allowances in the rate reconciliation, it did not change the requirement to disclose the net change during the year in the total valuation allowance. Entities must still include this disclosure despite the new rate reconciliation format. Example 2-6 demonstrates an example of tabular disclosure that would satisfy this requirement.

**EXAMPLE 2-6: CHANGES IN VALUATION ALLOWANCES TABULAR DISCLOSURE**

The table below presents the changes in the Company’s valuation allowance.

	2025	2024	2023
Valuation allowance – beginning of period	\$ 13,500	\$ 15,000	\$ 40,000
Additions charged to income tax benefit	500	—	—
Allowances taken or written off	—	(1,000)	(20,000)
Other adjustments	(100)	(500)	(5,000)
Valuation allowance – end of period	\$ 13,900	\$ 13,500	\$ 15,000

### 2.2.7 Nontaxable or Nondeductible Items

This category includes federal (national) items that are nontaxable or nondeductible. Disaggregation is required for reconciling items in this category if the reconciling item meets the 5% threshold.

#### **BDO INSIGHTS — NONTAXABLE OR NONDEDUCTIBLE ITEMS**

ASC 740 does not define the terms “nontaxable” or “nondeductible,” which may lead to diversity in presentation, especially when some tax effects have multiple characteristics; for example, share-based compensation. The FASB acknowledged that in BC29 of ASU 2023-09:

*The Board also acknowledges that judgment may be necessary when determining how to categorize certain income tax effects that have characteristics of multiple categories or when assessing the nature of reconciling items for further disaggregation in paragraph 740-10-50-12A(b). In situations in which judgment has been applied, the Board noted that an entity should assess whether the disclosure objective in paragraph 740-10-50-11A is met. An entity also should consider whether an accompanying explanation is needed in accordance with paragraph 740-10-50-12C. For example, an entity may decide to include the tax effects of share-based payment awards (such as nondeductible expenses, shortfalls, and windfalls) in the nontaxable or nondeductible items category, although the windfall on a standalone basis might not be viewed as exclusively relating to this category. In that situation, the entity should consider providing an accompanying explanation to describe the types of tax effects of share-based payment awards (including windfalls) that are included in the nontaxable or nondeductible items category.*

An entity should apply judgment and apply its approach consistently.

#### **BDO INSIGHTS — HIGHLIGHTS FROM COMPANIES THAT EARLY ADOPTED**

In reviewing the financial statements of early adopters, we found that most entities included reconciling items such as imputed interest and goodwill impairment in the “Nontaxable or Nondeductible items” category.

### 2.2.8 Changes in Unrecognized Tax Benefits

The changes in judgment related to UTBs taken in prior annual reporting periods are disclosed on an aggregated basis for all jurisdictions under changes in the UTB category. No disaggregation is required.

#### **BDO INSIGHTS — CHANGES IN UNRECOGNIZED TAX BENEFITS**

Unlike the other categories, the “Changes in UTB” category allows the presentation of changes for *all* jurisdictions in aggregate. While this category includes impacts from positions taken in prior periods, the guidance allows an entity to present UTBs related to current-year positions on a net basis with the related reconciling item. Thus, we expect diversity in practice and presentation.

For example, assume an entity claims \$500 of U.S. federal R&D tax credits, of which \$100 of benefit might not be recognized. The entity may present the \$500 benefit in the “Tax Credits” category and the related \$100 of UTBs in the “Changes in UTBs” category; or the entity may present the net \$400 benefit in the “Tax Credits” category.

### 2.2.9 Other Adjustments

If a federal reconciling item of the country of domicile does not fall in a specific category but does meet the 5% threshold, it must be disaggregated by its nature and presented as a separate line item as “Other Adjustments.”

#### BDO INSIGHTS — HIGHLIGHTS FROM COMPANIES THAT EARLY ADOPTED

In reviewing the financial statements of early adopters, we found that most entities included reconciling items such as provision to return and other true-ups, excess tax benefits on share-based payments, and deferred taxes for investments in subsidiaries in the “Other Adjustments” category.

Also, we anticipate diversity in presentation related to the category in which provision to return and other true-up adjustments are disclosed. We believe judgment must be applied in determining the category in which to disclose such adjustments. Further, depending on the nature of any adjustments and the specific facts and circumstances, those adjustments may be more useful when presented in the categories to which they relate.

#### BDO INSIGHTS — MATERIALITY AND THE RATE RECONCILIATION

While ASU 2023-09 introduces a quantitative threshold for separately disclosing reconciling items, the FASB states in its general principles<sup>2</sup> that the provisions of GAAP need not be applied to immaterial items. In its basis for conclusions, the FASB said:

*The Board observed that the guidance in paragraph 105-10-05-6, which states that the provisions of the Codification need not be applied to immaterial items, is applicable to the amendments in this Update, as it is to all Codification guidance. Therefore, the amendments on the disclosure of reconciling items by specific categories with further disaggregation of reconciling items based on the application of a quantitative threshold do not apply to immaterial items. That is, an entity does not need to separately disclose the required specific categories or reconciling items if they are immaterial, even if the quantitative threshold is met.<sup>3</sup>*

An entity must apply judgment to determine what is material **and** immaterial to its financial statements based on all the facts and circumstances.

## 2.3 Rate Reconciliation for Entities Other Than Public Business Entities



#### FASB REFERENCES

ASC 740-10-50-13 through 50-14

ASU 2023-09 expands the rate reconciliation disclosure requirements for entities other than PBEs (private companies). Upon adoption, private companies must qualitatively disclose the nature and effect of specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory and effective tax rates. However, private companies do not need to provide a tabular format or quantitative information.

<sup>2</sup> *Id.*

<sup>3</sup> BC22 of ASU 2023-09.

**EXAMPLE 2-7 (ADAPTED FROM ASC 740-10-55-230 AND 740-10-55-232 THROUGH 55-233): SIGNIFICANT RECONCILING ITEMS DISCLOSED BY A NONPUBLIC ENTITY**

The difference between Entity W's effective and statutory tax rates is primarily attributed to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of Entity W's operations in Ireland and the U.K. had a decreasing effect on the entity's effective tax rate. Entity W received federal R&D and energy tax credits, which decreased its effective tax rate. GILTI increased the rate (net of U.S. foreign tax credits or deductions), while the FDII deduction decreased the rate.

**2.4 Unrecognized Tax Benefits****FASB REFERENCES**

ASC 740-10-50-15 through 50-15A

ASU 2023-09 retained the requirement for PBEs to annually disclose a tabular rollforward of UTBs from the beginning of the period to the end of the period.

The ASU removed the disclosure requirement in ASC 740-50-15(d) related to positions expected to significantly increase or decrease within 12 months of the reporting date and updated the example disclosure in the implementation guidance accordingly. The ASU did not materially change other disclosure requirements for UTBs (see Section 2.2.8).

Example 2-8 illustrates a disclosure related to uncertainty in income taxes as updated by the ASU.

**EXAMPLE 2-8 (ADAPTED FROM ASC 740-10-55-217): DISCLOSURES RELATED TO UNCERTAINTY IN INCOME TAXES**

The Company or one of its subsidiaries files U.S. state and federal, as well as foreign, income tax returns. With few exceptions, the Company is no longer subject to U.S. federal, state, and local or non-U.S. income tax examinations by tax authorities for years before 20X1. In the first quarter of 20X7, the IRS commenced an examination of the Company's U.S. income tax returns for 20X2 through 20X4 that is anticipated to be completed by the end of 20X8. A reconciliation of the beginning and ending amounts of UTBs is shown in the table below (in thousands).

	20X7		20X6		20X5
Balance at January 1	\$	370,000	\$	380,000	\$ 415,000
Additions based on tax positions related to the current year		10,000		5,000	10,000
Additions for tax positions of prior years		30,000		10,000	5,000
Reductions for tax positions of prior years		(60,000)		(20,000)	(30,000)
Settlements		(40,000)		(5,000)	(20,000)
Balance at December 31	\$	310,000	\$	370,000	\$ 380,000

On December 31, 20X7, 20X6, and 20X5, there are \$60 million, \$55 million, and \$40 million of UTBs that, if recognized, would affect the annual effective tax rate.

The Company recognizes interest and penalties accrued related to UTBs in operating expenses. During the years ended December 31, 20X7, 20X6, and 20X5, the Company recognized approximately \$10 million, \$11 million, and \$12 million in interest and penalties. The Company had approximately \$60 million and \$50 million for the payment of interest and penalties accrued as of December 31, 20X7, and 20X6, respectively.

The table below compares UTB disclosures before and after adoption of ASU 2023-09.

BEFORE ASU 2023-09	AFTER ADOPTION OF ASU 2023-09
<p>A public entity must disclose:</p> <ul style="list-style-type: none"> <li>▶ A tabular rollforward of UTBs for annual periods, including specified information.</li> <li>▶ The total of interest and penalties recognized in the statement of operations and the statement of financial position.</li> <li>▶ For positions for which it is reasonably possible that the amount of UTBs will significantly change within 12 months of the reporting date, <b>all</b> of the following: <ul style="list-style-type: none"> <li>• The nature of the uncertainty; The nature of the event that could occur in the next 12 months that would cause the change; and</li> <li>• An estimate of the range of the reasonably possible change or a statement that such estimate cannot be determined.</li> <li>• A description of tax years that remain subject to examination by major tax jurisdictions.</li> </ul> </li> </ul>	<p>A PBE must disclose:</p> <ul style="list-style-type: none"> <li>▶ A tabular rollforward of UTBs for annual periods, including specified information:</li> <li>▶ The total of interest and penalties recognized in the statement of operations and the statement of financial position.</li> <li>▶ A description of tax years that remain subject to examination by major tax jurisdictions.</li> </ul>

## 2.5 Other Income Statement Disclosures



### FASB REFERENCES

ASC 740-10-50-9 through 50-10B

ASU 2023-09 updated the required income statement disclosures relating to income taxes, stipulating that income (loss) from continuing operations before income tax expense (benefit) be disclosed and disaggregated between domestic and foreign sources. The ASU also requires the disclosure of income tax expense (benefit) from continuing operations to be disaggregated by federal, state, and foreign jurisdictions. Income tax expense and taxes paid relating to foreign earnings that are imposed by the entity's country of domicile would be included in tax expense and taxes paid for the country of domicile. The amendments to ASC 740-10-50-10A and 50-10B are consistent with previous SEC reporting requirements.

## 2.5 Interim Reporting

The ASU did not amend interim disclosure requirements. ASC 740 does not require specific interim disclosures, so entities must refer to the principles in ASC 270, *Interim Reporting*, to determine appropriate disclosures for quarterly or other interim periods.

## 2.6 Eliminated Disclosures



### FASB REFERENCES

ASC 740-10-50-2

ASU 2023-09 eliminated 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 of deferred taxes related to subsidiaries and corporate joint ventures. An entity is still required to disclose the types of temporary differences for which deferred tax liabilities have not been recognized under ASC 740-30-50-2(a), (c), and (d).

Also, as noted in Section 2.4, the ASU removed the requirement to disclose information concerning UTBs having a reasonable possibility of significantly increasing or decreasing in the 12 months following the reporting date.

#### EXAMPLE 2-9: DISCLOSURE OF DEFERRED TAX LIABILITY NOT RECOGNIZED AFTER ADOPTING ASU 2023-09

The crossed-out section is no longer a required disclosure.

As of December 31, 2025, the Company did not record income taxes on ~~approximately \$XXX million of~~ undistributed earnings on some foreign subsidiaries because those earnings were indefinitely reinvested in the operation of those subsidiaries. Determining the unrecognized deferred tax liability on those unremitted earnings is not practicable because of the complexity of the hypothetical calculation and the inherent uncertainty regarding the timing and manner of any potential future repatriation. If such earnings were to be distributed, the Company could be subject to additional U.S. federal and state income taxes, foreign withholding taxes, and other tax consequences.

## 3. TRANSITION AND EFFECTIVE DATES



### FASB REFERENCES

ASC 740-10-65-9

For PBEs and entities other than PBEs, the requirements are effective for annual periods beginning after December 15, 2024, and December 15, 2025, respectively. Entities may apply the ASU prospectively or retrospectively. An entity is required to disclose the selected transition method upon initial adoption.

#### BDO INSIGHTS — TRANSITION APPROACH

Although not required, an entity may elect retrospective adoption to enhance comparability with current-year presentation and understanding of changes in the effective tax rate.

However, an entity should consider the extensive data required to restate the prior periods presented. An entity electing to adopt retrospectively would need to implement all other aspects of the ASU, such as disclosures of income taxes paid in prior periods, on a fully retrospective basis. The decision whether to apply the new guidance prospectively or retrospectively requires the application of judgment based on all facts and circumstances.

For entities adopting prospectively, no disaggregation is required for prior years. However, an entity may add qualitative disclosure for comparative purposes.

In reviewing the financial statements of several companies that early adopted the ASU, we found that approximately 85% applied the guidance on a retrospective basis for comparability.



**EXAMPLE 3-1: TRANSITION DISCLOSURE**

A PBE adopts ASU 2023-09 for the year ended December 31, 2025, and elects retrospective transition.

The entity includes the following disclosure in its new accounting pronouncements footnote in the annual report:

*ASU 2023-09: Income Taxes (Topic 740) - Improvements to Income Tax Disclosures*

*The ASU standardizes categories for the effective tax rate reconciliation, requires disaggregation of income taxes paid and additional income tax-related disclosures, and is effective for the Company for annual fiscal periods beginning after December 15, 2024. The Company has adopted ASU 2023-09 for the 2025 calendar year retrospectively. Because the ASU affects disclosures only, the adoption did not affect the Company's Consolidated Statements of Operations or Consolidated Balance Sheets.*

**EXAMPLE 3-2: ILLUSTRATION OF DISCLOSURE REQUIREMENTS UPON ADOPTION**

(Quoted from ASC 740-10-55-231 through 55-233)

Case A: Public Business Entity  
ASC 740-10-55-231

*The following illustrates the specific categories and the reconciling items disclosed by a public business entity in its tabular rate reconciliation in accordance with paragraphs 740-10-50-12A through 50-12B. The entity is domiciled in the United States and presents comparative financial statements. For the disclosure of foreign tax effects in accordance with paragraph 740-10-50-12A(b)(2), it is assumed that the 5 percent threshold, computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate of the United States, is met:*

- a. For Ireland, both at the jurisdiction level and for certain individual reconciling items of the same nature within Ireland*
- b. For the United Kingdom, for certain individual reconciling items of the same nature within the United Kingdom, but not at the jurisdiction level*
- c. For Switzerland and Mexico, at the jurisdiction level, but not for any individual reconciling items of the same nature within each jurisdiction.*

	YEAR ENDED DECEMBER 31, 20X2		YEAR ENDED DECEMBER 31, 20X1		YEAR ENDED DECEMBER 31, 20X0	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
U.S. Federal statutory tax rate	\$AA	aa%	\$BB	bb%	\$CC	cc%
State and local income taxes, net of federal income tax effect (a)	AA	aa	BB	bb	CC	cc
Foreign tax effects						
United Kingdom						
Statutory tax rate difference between United Kingdom and United States	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Share-based payment awards	AA	aa	BB	bb	CC	cc
Research and development tax credits	(AA)	(aa)	(BB)	(bb)	CC	cc
Other	(AA)	(aa)	BB	bb	(CC)	(cc)
Ireland						
Statutory tax rate difference between United Kingdom and United States	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Changes in valuation allowances	(AA)	(aa)	(BB)	(bb)	CC	cc
Enacted changes in tax laws or rates	—	—	BB	bb	—	—
Other	(AA)	(aa)	BB	bb	(CC)	(cc)
Switzerland	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Mexico	AA	aa	BB	bb	CC	cc
Other foreign jurisdictions	(AA)	(aa)	(BB)	(bb)	CC	cc
Effect of changes in tax laws or rates enacted in the current period	—	—	—	—	(CC)	(cc)
Effect of cross-border tax laws						
Global intangible low-taxed income	AA	aa	BB	bb	CC	cc
Foreign-derived intangible income	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Base erosion and anti-abuse tax	AA	aa	BB	bb	CC	cc
Other	AA	Aa	—	—	—	—
Tax credits						
Research and development tax credits	—	—	(BB)	(bb)	(CC)	(cc)
Energy-related tax credits	(AA)	(aa)	—	—	—	—
Other	—	—	(BB)	(bb)	—	—
Changes in valuation allowances	AA	aa	(BB)	(bb)	(CC)	(cc)
Nontaxable or nondeductible Items						
Share-based payment awards	AA	aa	BB	bb	CC	cc
Goodwill impairment	AA	aa	BB	Bb	—	—
Other	AA	aa	(BB)	(bb)	CC	cc
Changes in unrecognized tax benefits	(AA)	(aa)	BB	bb	(CC)	(cc)
Other adjustments	AA	aa	(BB)	(bb)	(CC)	(cc)
Effective tax rate	\$AA	aa%	\$BB	bb%	\$CC	cc%

(a) State taxes in California and New York made up the majority (greater than 50 percent) of the tax effect in this category.

#### Case B: Entity Other Than Public Business Entity

##### ASC 740-10-55-232

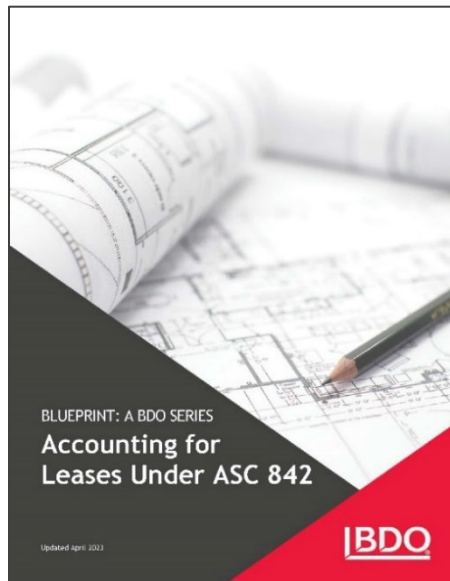
*The following illustrates significant reconciling items disclosed by an entity other than a public business entity in accordance with paragraph 740-10-50-13.*

##### ASC 740-10-55-233

*The difference between Entity W's effective tax rate and its statutory tax rate is primarily attributed to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of Entity W's operations in Ireland had a decreasing effect on its effective tax rate, while the foreign tax effects of Entity W's operations in France had an increasing effect on its effective tax rate. Entity W received federal research and development tax credits, which decreased its effective tax rate, while state taxes in California increased its effective tax rate.*

# Appendix A – Other BDO Blueprints

Other publications in BDO's Blueprint series are available [here](#).



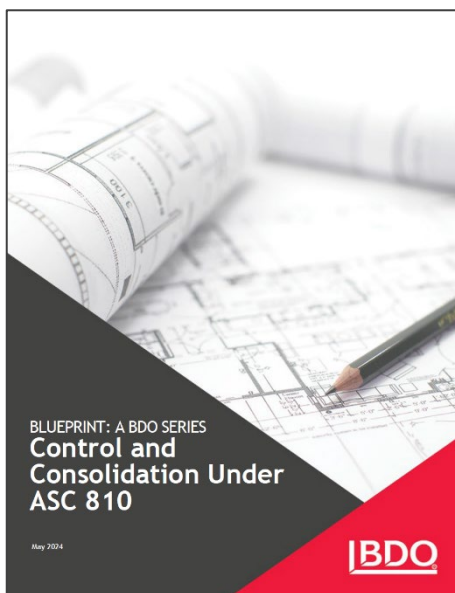
[Accounting for Leases Under ASC 842](#)



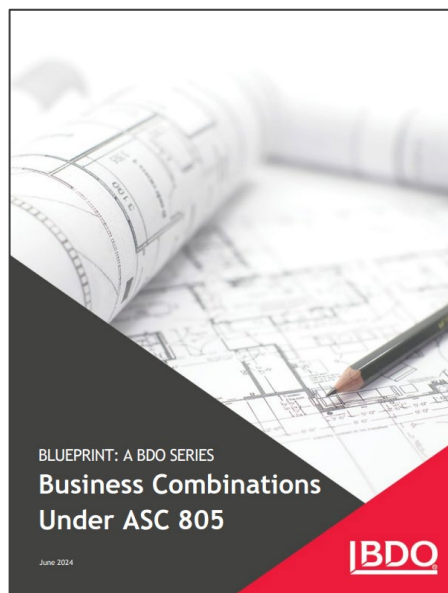
[Revenue Recognition Under ASC 606](#)



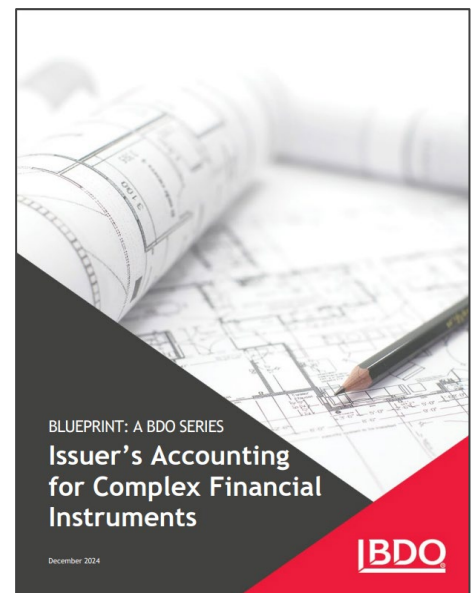
[Share-based Payments Under ASC 718](#)



[Control and Consolidation Under ASC 810](#)



[Business Combinations Under ASC 805](#)



[Issuer's Accounting for Complex Financial Instruments](#)

# Contacts

DANIEL NEWTON  
National Tax Office — ASC 740 Technical Practice Leader  
617-239-7026 / [dnewton@bdo.com](mailto:dnewton@bdo.com)

STEVE MANIACI  
National Managing Principal — Tax Accounting & Audit  
616-802-3508 / [smaniaci@bdo.com](mailto:smaniaci@bdo.com)

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# Tax Process Accelerator for Expanded Income Tax Disclosure Requirements

## Data-Driven Process Accelerator to Adhere to ASU 2023-09 Reporting Requirements

Accounting Standards Update 2023-09 introduced new income tax disclosure guidance that established requirements for public business entities to increase the transparency and usefulness of income tax disclosures.

Adhering to the increased reporting rules requires an in-depth understanding of the technical requirements as well as the ability to manage, analyze, and report on the large amounts of data necessary to comply. Tax departments today are expected to adopt these changes quickly and accurately within tight deadlines and be flexible enough to allow for last-minute adjustments.

BDO's Tax Automation & Innovation practice is uniquely equipped to help companies manage these requirements. Our data-centric approach creates readily accessible reports that tax departments can use to complete the required reporting.

**Our tax process accelerator leverages automation and a repeatable and scalable process to:**



Consume effective tax rate (ETR) report data from tax provision software.



Perform testing on the data to help determine required disclosures.



Organize data in the format needed to adhere to ETR disaggregation requirements.

### Companies benefit from:

- ▶ **Enhanced Efficiency:** Streamlined data gathering process at a granular level, reducing the time and resources required to prepare enhanced income tax disclosures.
- ▶ **Improved Transparency:** Our approach supports accurate and comprehensive disclosures, helping reduce errors and audit risks. It also provides insights on rate drivers and "why" an item should or shouldn't be disaggregated.
- ▶ **Effective Communication:** Detailed and useful information for review helps facilitate communication with management and auditors.

BDO's Tax Automation & Innovation practice works with businesses to transform tax processes, establish a master data foundation, automate tax calculations, and streamline tax reporting. We provide a practical approach tailored to your business.





# ASC 740 Disclosure Changes: Navigating ASU 2023-09

Available On Demand

Join BDO Income Tax Accounting professionals to gain an understanding of the new ASC 740 income tax disclosure guidance introduced in Accounting Standards Update 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.”

Have questions or want to learn more? **Watch the Webinar now!**

The presenters will first discuss amendments made to the disclosures, focusing on the rate reconciliation and income taxes paid. This will be followed by a discussion of what companies can do now to prepare as they implement the new disclosure rules, which for PBEs are effective for fiscal years beginning after December 15, 2024, and for interim periods for fiscal years beginning after December 15, 2025.

The guidance will be effective for entities other than PBEs for fiscal years beginning after December 15, 2025, and for interim periods beginning with fiscal years beginning after December 15, 2026.

**THIS A NON-CPE ON DEMAND RECORDING.**

**Register Now!**