

Accounting for income taxes – ASC 740 considerations

The financial year-end close can present unique and challenging issues for tax departments. Further complicating matters is pending U.S. tax legislation that, if enacted by the end of the calendar year, will need to be accounted for in 2021. To avoid surprises, tax professionals can begin now to prepare for the year-end close:

- Evaluate the effectiveness of year-end tax accounting close processes and consider modifications to processes that are not ideal. Update work programs and train personnel, making sure all team members understand roles, responsibilities, deliverables and expected timing. Communication is especially critical in a virtual close.
- Know where there is pending tax legislation and be prepared to account for the tax effects of legislation that is “enacted” before year end. Whether legislation is considered enacted for purposes of ASC 740 depends on the legislative process in the particular jurisdiction.
- Document whether and to what extent a valuation allowance should be recorded against deferred tax assets in accordance with ASC 740. Depending on the company’s situation, this process can be complex and time consuming and may require scheduling deferred tax assets and liabilities, preparing estimates of future taxable income and evaluating available tax planning strategies.
- Determine and document the tax accounting effects of business combinations, dispositions and other unique transactions.
- Review the intra-period tax allocation rules to ensure that income tax expense/(benefit) is correctly recorded in the financial statements. Depending on a company’s activities, income tax expense/(benefit) could be recorded in continuing operations as well as other areas of the financial statements.
- Evaluate existing and new uncertain tax positions and update supporting documentation.
- Make sure tax account reconciliations are current and provide sufficient detail to prove the year-over-year change in tax account balances.
- Understand required tax footnote disclosures and build the preparation of relevant documentation and schedules into the year-end close process.