

Accounting for income taxes – ASC 740 considerations

The financial year-end close can present unique and challenging issues for tax departments. To avoid surprises, tax professionals can begin now to:

- ☐ Evaluate the effectiveness of year-end tax accounting close processes and consider modifications to processes that are not effective. 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.
- ☐ Consider the tax accounting impacts of enacted legislation in 2022. The accounting for tax credits enacted as part of the CHIPS Act and the IRA can be challenging.
- ☐ Stay abreast of pending tax legislation and be prepared to account for the tax effects of legislation that is enacted into law 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 non-recurring 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 transactions, income tax expense/(benefit) could be recorded in continuing operations, discontinued operations or equity.
- ☐ Evaluate existing and new uncertain tax positions and update supporting documentation.
- ☐ Ensure tax account reconciliations are performed and provide sufficient detail to validate the year-over-year change in tax account balances.
- ☐ Understand required tax footnote disclosures and build the preparation of supporting documentation into the year-end close process.