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KPMG report: Tax reform, accounting for income taxes

KPMG LLP has prepared a report providing preliminary guidance of the financial reporting implications under U.S. GAAP of H.R. 1, originally known as the “Tax Cuts and Jobs Act.” The tax reform was enacted on December 22, 2017, and is expected to significantly affect companies’ accounting for and reporting of income taxes, and the related processes and controls.

Accounting for the effects of tax reform

- Because ASC 740 requires companies to recognize the effect of tax law changes in the period of enactment, the effects must be recognized in companies’ December 2017 financial statements—even though the effective date for most provisions is January 1, 2018.
- The SEC staff issued [SAB 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act](#), which allows registrants to record provisional amounts during a “measurement period.” This is similar to the measurement period used when accounting for business combinations (ASC 805). SAB 118 allows a company to recognize provisional amounts when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law.
- The SEC’s Division of Corporation Finance also issued [Compliance and Disclosure Interpretation 110.02](#) that clarifies that the SEC staff does not believe that remeasuring a deferred tax asset to reflect the impact of a tax law change is an impairment that would trigger an obligation to file under Item 2.06 of Form 8-K. In addition, if a company concludes that a valuation allowance due to the change in tax law is necessary during the measurement period, it can rely on the Instruction to Item 2.06 and disclose the impairment, or a provisional amount for possible impairment, in its next periodic report.

- These Q&As supersede KPMG's Defining Issues newsletter published on December 23, 2017. This supplement includes a table of concordance that references these latest Q&As to those in the original Defining Issues.

The [KPMG report](#) [PDF 487 KB] (updated January 5, 2018) is being issued as preliminary guidance and will be updated as developments warrant.

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