

# Snapshot

## Tax and financial reporting implications under OBBBA

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President Donald Trump and Congressional Republicans claimed a major legislative victory by passing into law a bill commonly known as the One Big Beautiful Bill Act (OBBBA). The tax-centric law delivered on a wide variety of GOP promises around taxes, from extending and expanding upon expiring portions of the 2017 Tax Cuts and Jobs Act (TCJA), to issuing new tax breaks on tips, overtime pay, and auto loan payments, all while reviving three significant taxpayer-friendly business provisions that were either sunsetted or phased out by the TCJA. For an in-depth look at the tax changes, please see our [Tax Legislative Update](#).

Entities are required by U.S. GAAP to record the tax effects of the OBBBA in the interim and annual reporting periods that include the new law's enactment date, which is July 4, 2025. The existing guidance related to accounting for income taxes under ASC 740, *Income Taxes*, does not change under the OBBBA.

This publication provides a summary of the requirements under ASC 740 for enacted changes in tax rates and tax laws and also discusses the accounting impact should the IRS issue additional guidance to clarify the provisions of the OBBBA at a later date.

For some entities, particularly multinationals, recognizing, measuring, presenting, and disclosing the effects of the changes to tax rates and laws in the OBBBA according to U.S. GAAP may be complex. An entity should consult with a tax specialist to ensure that it has a full understanding of how the provisions of the OBBBA will impact the amount and timing of its income tax obligations, as well as its tax positions. Only after obtaining that understanding can an entity assess the accounting and financial reporting impact of the OBBBA provisions on its financial statements.

## A. Summary of key provisions

Under ASC 740, an entity is required to remeasure its deferred tax positions at the *enactment date* of a tax law or rate change (not the *effective date*) and to recognize the change in the amount of deferred tax positions resulting from the change as a component of income tax expense (or benefit) in income from continuing operations in the reporting period that includes the enactment date. Because the OBBBA was enacted on July 4, 2025, entities should initially recognize the effects of OBBBA in their financial statements that include the enactment date—the third calendar quarter of 2025—and not before. The provisions of OBBBA are not retroactive to any years prior to 2025 except for certain aspects of previously capitalized research and development expenditures. The tax effect of a retroactive change in enacted tax rates or tax laws on current and deferred tax assets and liabilities is measured at the enactment date using temporary differences and currently taxable income as of the enactment date.

Entities with reporting periods ending prior to the enactment date that have not issued their financial statements for those periods may be required to make certain disclosures under ASC 855, *Subsequent Events*, related to the tax effects of OBBBA, but should not remeasure their deferred tax positions as of the end of any reporting period that precedes the enactment date.

## B. Recognition of changes in tax laws and rates

An entity records the effects of an enacted change in tax laws or rates in the period that includes the date a tax bill becomes law (the “enactment date”) in accordance with ASC 740-10-25-47, and not before. Federal tax law and rate changes, for example, are enacted when the legislation is signed by the President.

The enactment date of tax law or tax rate changes is usually different from the effective date. Many tax law changes do not apply immediately, but become effective at some future date; therefore, as discussed below, deferred tax liabilities and assets are adjusted at the enactment date under ASC 740-10-35-4.

The guidance in ASC 740-10-45-15 requires that the effect of adjusting deferred tax assets and liabilities related to an enacted tax law or rate change should be included as a component of tax expense (or benefit) in income from continuing operations for the period that includes the enactment date. The tax effect related to changes in tax laws is always reflected in continuing operations, regardless of where the related tax provision or benefit was previously recorded. Even temporary differences arising from prior-year transactions related to discontinued operations, or from items that were not originally included in income from continuing operations (such as adjustments for a change in accounting principle, a business combination, gains or losses on available-for-sale securities included in other comprehensive income, and differences for share-based compensation that were recorded directly to equity) are remeasured, with the change being reflected in current-period income tax expense (or benefit).

As a result, an entity is prohibited from “backward tracing” the income tax effects of tax provisions or benefits originally recorded in other comprehensive income (OCI). “Backward tracing” means recognizing the effects of changes in deferred tax amounts in the same line item where the deferred tax amounts

were originally recognized in prior years. The tax effects of items that remain within accumulated OCI (AOCI) due to this prohibition are referred to as “stranded tax effects.”

Entities will also need to closely monitor tax regulations issued after the enactment date because subsequent tax regulations might result in an interpretation of a provision under OBBBA that is different from an interpretation made on the enactment date. Additional guidance may be provided in a variety of forms, ranging from new legislation to interpretive regulations. New legislation is accounted for in the period that includes the enactment date, while interpretive regulations are reflected as a change in estimate in the reporting period in which the guidance is published.

## C. Accounting and financial reporting implications of key OBBBA provisions

### Cost recovery provision

Under the TCJA, certain eligible property was subject to 100% bonus depreciation (that is, immediate expensing for tax purposes). However, beginning in 2023, the amount of bonus depreciation was reduced by 20% per year, reaching bonus depreciation of 40% in 2025. However, the OBBBA permanently restores the 100% bonus depreciation for eligible property acquired after January 19, 2025. In addition, a new special depreciation provision has been added, which allows 100% expensing of qualified production property (QPP). QPP is defined in the OBBBA as nonresidential real property that is used in the manufacture, production, or refinement of certain qualified products in the United States for construction that begins after January 19, 2025 but before January 1, 2029 and is placed in service before January 1, 2031 for which the original use generally commences with the taxpayer. It excludes portions of facilities that are dedicated to office space, parking, administration, and other nonqualified activities.

#### ***Accounting implications***

When an entity claims an income tax deduction for depreciation that is higher than the depreciation expense recognized for financial reporting purposes, this temporary difference results in a deferred tax liability that is settled over the depreciable life of the related asset (for financial reporting purposes). The 100% bonus depreciation allowance will result in a higher current tax benefit in 2025 due to the acceleration of tax deductions, but this temporary difference will reverse in later years. Accelerating depreciation deductions may give rise to a net operating loss (NOL). Any additional deferred tax asset for an NOL carryforward created by depreciation deductions for property acquired after January 19, 2025 will need to be assessed for realizability. Deferred tax assets whose realizability is in question are subject to a valuation allowance to reduce the deferred tax asset to the amount that is more likely than not to be recognized.

### Interest deduction limitation

OBBBA bases the limitation on the deduction for net interest expense on earnings before interest, taxes, depreciation, and amortization (EBITDA) instead of on earnings before interest and taxes (EBIT) for taxable years beginning after December 31, 2024. Any disallowed interest expense can be carried forward indefinitely. The bill also includes a rule that applies the net interest expense limitation to certain amounts of capitalized interest for taxable years beginning after December 31, 2025.

#### ***Accounting implications***

Entities need to consider both of the following revisions to the net interest deduction limitation when they prepare tax provision calculations for quarterly or annual periods beginning on or after January 1, 2025:

- First, disallowed interest expense may be carried forward indefinitely under OBBBA. Entities should record a deferred tax asset related to this carryforward and should assess both the realizability and the need for a valuation allowance on the deferred tax asset.
- Second, changing the basis for limiting the deduction of net interest expense from EBIT to EBITDA will result in an increase to the amount of interest that can be deducted, which may impact the scheduling of deferred taxes when analyzing whether an entity's deferred tax assets require a valuation allowance.

## Research and experimentation expenditures

The OBBBA partially restores pre-TCJA law. Since 2022, entities have been required to capitalize and amortize research and experimentation (R&E) expenditures over 5 years for domestic research and over 15 years for foreign research. The OBBBA restores immediate expensing, but only for domestic R&E activities. For domestic R&E, taxpayers may elect to (1) immediately deduct R&E expenses, (2) capitalize and recover such expenditures over a period of at least 60 months, starting with the month in which the taxpayer first realizes benefits from such expenditures, or (3) capitalize and recover domestic R&E over 10 years. Additionally, in another deviation from Section 174 of the U.S. tax code pre-TCJA, software development continues to be deemed R&E under the OBBBA. These provisions are effective for tax years beginning after December 31, 2024.

Transition rules under the OBBBA generally allow taxpayers to deduct the unamortized domestic R&E expenditures made in taxable years beginning after December 31, 2021 but before January 1, 2025 over a one- or two-year period.

In addition, foreign R&E spending continues to be capitalized and amortized over 15 years.

### ***Accounting implications***

An entity should evaluate the realizability of deferred tax assets arising from R&E expenditures based on the tax method it intends to use when filing its tax return. The evaluation considers the available methods and any impact that existing methods or method changes may have on the deferred tax asset for capitalized, unamortized R&E expenditures as well as the method to be used for expenditures incurred on or after January 1, 2025. Entities should record a deferred tax asset related to any capitalized, unamortized R&E expenditures, and should assess the need for a valuation allowance on the deferred tax asset based on the tax methods they plan to use, which may require significant modeling in some cases.

## International tax provisions

On June 26, U.S. Treasury Secretary Scott Bessent announced that the United States had reached an agreement with G7 peers to exclude U.S. multinational enterprises from Pillar 2 taxes, including the undertaxed profits rule (UTPR), under the OECD global minimum tax framework. The agreement aims to allow the U.S. system to coexist with Pillar 2. As a result, substantial changes were made to core international tax provisions, particularly global intangible low-taxed income (GILTI), the foreign-derived intangible income deduction (FDII), the foreign tax credit regime, and the base-erosion avoidance tax (BEAT). The changes appear to be aimed at making the U.S. system more closely aligned with the OECD's 15% global minimum tax standard, without the U.S. formally adopting Pillar Two.

### ***GILTI reforms***

Section 250 of the U.S. tax code allows a tax deduction for domestic corporations on two types of income: FDII and GILTI. The bill increases the effective corporate tax rate on GILTI from 10.5% to approximately 12.6% for tax years beginning after December 31, 2025, by reducing the Section 250 deduction from 50% to 40% and the foreign tax credit haircut from 20% to 10%. After factoring in the disallowance of a portion of the foreign tax credit, the combined effective rate to eliminate U.S. residual tax rises to 14% (compared with 13.125% under current law). GILTI now captures all returns, including those from tangible assets, and is renamed “net controlled foreign corporation (CFC) tested income” to reflect the broader base. Finally, the bill expands the disallowance of foreign tax credits for taxes paid, accrued, or deemed paid with respect to distributions of previously taxed net CFC tested income excluded from gross, effective for amounts included after June 28, 2025, resulting in a disallowance of 10% of otherwise allowable foreign tax credits.

In connection with this change, the rules for determining the net CFC tested income foreign tax credit limitation were also revised. Under the updated approach, the Section 250 deduction and certain taxes are allocated to foreign source net CFC tested income, while no interest or R&E expenses are allocable to foreign sourced income. Other deductions are allocable only if they are “directly allocable” to such income.

### ***FDII reforms***

The bill makes similar changes to the FDII regime to align it with the GILTI reforms. The effective tax rate increases to approximately 14% for tax years beginning after December 31, 2025, by reducing the Section 250 deduction from 37.5% to 33.34%. As with GILTI, the OBBBA eliminates the 10% return on qualified business asset investment. With this change, FDII now includes returns from tangible assets and is renamed “foreign-derived deduction eligible income,” reflecting both the broader base and the shift away from intangible returns.

### ***BEAT reforms***

The final bill moderates the Senate’s proposed broader changes to BEAT by raising the rate from 10% to 10.5%, permanently excluding the research credit as well as excluding a portion of applicable general credits from reducing regular tax liability for purposes of computing a BEAT liability.

### ***Accounting implications***

The international changes are generally applicable for periods beginning after December 31, 2025. As a result, entities with international operations will likely see an increase to global tax expense impacting the annual and interim effective tax rates for periods beginning on or after January 1, 2026. For entities that have historically provided for deferred taxes on GILTI basis differences, the deferred tax assets and liabilities related to those differences should be remeasured using the provisions of OBBBA in the reporting period that includes the enactment date of July 4, 2025.

## **D. Valuation allowance**

In accordance with ASC 740-10-30-5(e), an entity is required to establish a valuation allowance if it determines that it is more likely than not that all or part of its deferred tax assets will not be realizable. Deferred tax assets include temporary differences and carryforwards for NOLs, tax credits, and other attributes. Whether deferred tax assets are realizable depends on whether sufficient future taxable income (of the appropriate character) exists within the statutory carryback or carryforward period, such as future reversals of existing taxable temporary differences, future taxable income exclusive of reversing

temporary differences and carryforwards, taxable income in prior carryback years if permitted under the tax law, and tax-planning strategies that would be implemented. As a result, any changes to factors that an entity considers in determining whether deferred tax assets are realizable might also impact whether a valuation allowance is required or the amount of this allowance. As a carryback is no longer allowed for NOLs arising after December 31, 2017, entities should ensure that they are using the correct periods in their evaluation of deferred tax assets.

After an entity adjusts its deferred tax balances for the effects of the OBBBA as discussed in Section B, reevaluation of a valuation allowance may be required under ASC 740-10-35-4, and the valuation allowance may need to be recalculated. Entities should take into account the following considerations when performing this analysis:

- Future taxable income
- Carryback for an NOL or other tax attributes, to the extent allowed by the taxing jurisdiction
- The impact of changes under the OBBBA that may cause changes in how the entity determines the future realizability of the tax benefit

An entity should record changes to the valuation allowance resulting from the OBBBA in the period when it determines that there has been a change in judgment regarding the realizability of deferred tax assets. Changes in judgment related to the realizability of the beginning balance of deferred taxes impacts continuing operations (and the effective tax rate) in the period of enactment. Changes in the valuation allowance related to current fiscal year activity, such as the deduction of additional interest expense, impact the estimated annual effective tax rate in an interim period.

## E. Impact of tax reform: evaluating the realizability of certain deferred tax assets

Sources of taxable income of the appropriate character (for example, ordinary income or capital gains) in either the carryback or carryforward period may be available under the tax law in a particular jurisdiction to realize a tax benefit for deferred tax assets that are either

- Related to deductible temporary differences, such as expenses recognized in the current year for financial reporting purposes that will not be deductible under the tax law until future periods.
- Related to carryforwards, such as NOL deductions. The future reversal of deferred tax liabilities related to taxable temporary differences, such as expenses that are deductible under a tax law in the current period that will not be recognized for financial reporting purposes until future periods, is one of the more objective sources of future taxable income that should be considered available under the tax law to realize a tax benefit for deferred tax assets.

Many entities have recognized deferred tax liabilities related to land with a taxable temporary basis difference or those related to indefinite-lived assets (such as goodwill and nonamortizable intangible assets) that are not being amortized for financial reporting purposes but are deductible under a tax law. However, the reversal of deferred tax liabilities for taxable temporary differences related to indefinite-lived assets held for use should not be considered a source of future taxable income supporting the realizability of definite lived deferred tax assets. These temporary differences (referred to as “naked credits”) would only reverse when the related assets are impaired or disposed of, and ASC 740 does not allow an entity to anticipate events such as impairments or disposals when predicting the reversal of the related deferred tax liabilities.

Because an entity cannot assert that a deferred tax liability related to an indefinite-lived asset will be realized prior to the expiration of the existing deferred tax asset, the naked credit generally cannot be considered a source of taxable income when evaluating the realizability of a definite-lived deferred tax asset.

Enacted in 2017, the TCJA made two major changes to the treatment of NOLs in U.S. tax law: (1) NOL carryforwards arising in tax years beginning after December 31, 2017 may only offset up to 80% of future taxable income, and (2) NOL carryforwards arising in tax years ending after December 31, 2017 will have an indefinite carryforward period.

As a result of the indefinite lives of NOLs following the enactment of the TCJA, entities now need to determine, in the reporting period that includes the enactment date of OBBBA, whether the reversal of a naked credit may be a source of future taxable income when evaluating whether a valuation allowance is needed for deferred tax assets related to any deductible temporary differences (other than NOLs) that will reverse in future periods and become NOL carryforwards with an indefinite carryforward period. Entities should not assume that all NOLs arising in tax years ending after December 31, 2017, or all deductible temporary differences that will reverse and become NOLs in those tax years, are realizable and do not require a valuation allowance. Because the analysis is specific to an entity's facts and circumstances, scheduling the pattern of reversal for these deferred tax assets and liabilities is generally necessary in determining the realizable portion of the deferred tax asset.

Further, it generally remains inappropriate for an entity to consider deferred tax liabilities related to naked credits as a source of taxable income when evaluating the realizability of deferred tax assets related to NOL deductions arising in tax years before January 1, 2018, because these NOLs remain subject to a 20-year carryforward period.

When an entity determines the amount of future taxable income available under the tax law in order to realize a benefit for deferred tax assets, it needs to consider that NOLs arising in tax years beginning after December 31, 2017 may be used to offset only 80% of the taxable income from the future reversal of all deferred tax liabilities, including any amounts related to naked credits.

## F. Financial statement presentation and disclosures

Under ASC 740-10-50-9, an entity is required to disclose in the notes to the financial statements the significant components of income tax expense (or benefit) attributable to continuing operations for each year presented. These *significant components* may include income tax expense (or benefit) related to adjustments of either a deferred tax liability or asset for enacted changes in tax laws or rates. Under ASC 740-10-50-9(g), this component should be reported as a separate component of income tax expense (or benefit) attributable to continuing operations.

## G. Financial reporting considerations for non-calendar-year entities

### Subsequent event reporting

Entities issuing interim or annual financial statements with financial reporting periods ending before the enactment date of the OBBBA that have not issued the financial statements as of the enactment date should follow the guidance on reporting subsequent events in ASC 855, *Subsequent Events*. As discussed in Section B, these entities should not reflect the effects of OBBBA in their annual financial statements because the enactment date falls after the end of their fiscal year, but they should consider disclosing the anticipated effects of OBBBA in the notes to financial statements. The requirements in ASC 855-10-50-2 state that an entity should provide information about the nature of the nonrecognized

subsequent event and an estimate of its financial effect, or a statement indicating that the effect cannot be estimated when the subsequent event requires disclosure to keep the financial statements from being misleading. These entities need to exercise judgment when determining whether the effects of OBBBA should be disclosed.

## Interim disclosure requirements

ASC 740-270-50-1 notes that the interim period requirements for reporting income taxes may result in a large variation from expectations in the relationship between income tax expense and pretax accounting income. These variances can result from discrete items, such as adjusting deferred taxes during the period that includes the enactment date, and from other adjustments that are necessary to appropriately reflect the impact of the new tax legislation on the current period. The guidance requires entities to disclose the reasons behind such variances in their interim period financial statements if such differences are not readily apparent from the financial statements themselves or from the nature of the business of the entity.

## H. Other financial reporting implications

The OBBBA is likely to affect entities in areas other than accounting for current and deferred federal income tax expense. Presented below are additional accounting and other implications that entities should consider.

### Impairment of assets and other fair value determinations

The OBBBA provisions could affect measurements of asset impairments and other fair value determinations, such as when an entity measures compensation cost related to a shared-based payment arrangement. Many entities use assumptions in impairment tests and other fair value determinations that include projected financial results that are net of any tax effect. These assumptions should be updated and evaluated to determine whether the new bill affects these measurements.

Entities might also need to consider the OBBBA provisions in connection with their required annual or interim impairment tests of long-lived assets and when accounting for business combinations (including any related measurement-period adjustments).

### Impairment testing

When an entity tests certain long-lived assets for impairment, it might need to consider the effects of income taxes when estimating the fair value of the assets that are being evaluated. For example, when testing a long-lived asset for impairment, an entity might

- Prepare a discounted cash flow analysis on an after-tax basis
- Present the weighted-average cost of capital on an after-tax basis
- Consider deferred income taxes when determining the carrying amount of a reporting unit
- Include the effects of an income tax amortization benefit in the fair value of an intangible asset, such as a license or trademark

An entity should consider the date of the impairment test when determining whether the tax effects of OBBBA should be considered when estimating these fair values. The tax effects of OBBBA should not be considered when the date of the impairment testing precedes the new tax law's enactment date, but the tax effects should be considered when the impairment testing date is on or after the enactment date.



However, when the impairment testing date is before the enactment date, an entity should also evaluate as of the enactment date whether the tax effects of OBBBA might have an adverse effect on the fair value of the long-lived asset. The entity should then determine whether the tax effects of OBBBA might constitute indicators of impairment, requiring an additional impairment test in the period of enactment.

## Business combinations

Entities that enter into transactions accounted for as business combinations under ASC 805, *Business Combinations*, should consider the effect of income taxes when determining the fair value of certain identifiable assets (such as licenses and trademarks), and might therefore recognize deferred tax liabilities and assets when applying the acquisition method of accounting. When the accounting for the business combination is not complete as of the reporting date, an entity may record adjustments to the provisional amounts, including the balance of deferred tax liabilities and assets, in subsequent accounting periods.

When accounting for a business combination under ASC 805, the *acquisition date* is the primary factor in determining whether an entity should consider the tax effects of the OBBBA when estimating the fair values of identifiable assets and recognizing deferred tax liabilities and assets. The same general principle discussed above for impairment testing applies: The effects are not considered when the acquisition date precedes the enactment date, but these effects are considered when the acquisition date is on or after the acquisition date.

When an entity has recognized deferred tax liabilities and assets for a business combination that occurs before the enactment date, it is required to remeasure these deferred tax assets and liabilities on the tax law's enactment date. Due to the prohibition on "backward tracing" discussed in Section B, the entity is required to recognize any adjustments to these deferred tax balances as a component of tax expense (or benefit) in income from continuing operations in the period of enactment, even if these deferred tax balances were originally recognized in the business combination accounting. This guidance applies even when the acquisition date and the enactment date are in the same annual or interim reporting period.

If the accounting for a business combination is incomplete when the financial statements are issued or have been made available for issuance, entities should report estimates of the fair values of certain assets and liabilities, including any related deferred tax assets and liabilities, as provisional amounts as of the reporting date. Entities should adjust these provisional amounts during the period after the reporting date (referred to as the "measurement period") when the accounting for the business combination is complete. Under the existing guidance, measurement-period adjustments are recognized in the period when the entity determines these amounts.

Entities should initially recognize the income tax effects of measurement-period adjustments based on the income tax rates that were in effect on the original acquisition date. If the acquisition date precedes the enactment date, deferred tax liabilities and assets should be adjusted based on the rates in effect prior to the enactment date. Entities should then remeasure these deferred tax liabilities and assets to reflect the effects of OBBBA and then recognize any adjustments as a component of tax expense (or benefit) in income from continuing operations in the same period the related measurement period adjustments were recognized.

## Financial covenants

Entities should review their lending agreements to determine the impact, if any, of financial statement adjustments related to OBBBA on their existing financial covenants.

## Uncertain tax positions

Entities should review each tax position in light of the OBBBA provisions to determine if it continues to meet the more-likely-than-not threshold that is outlined in ASC 740-10-25-6. An entity may record the financial statement effects of a tax position only if it meets the more-likely-than-not threshold, defined as a greater than 50 percent likelihood of being sustained upon examination. Tax positions that meet this criterion are measured at the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with a taxing authority that has full knowledge of all relevant information. Any impact of uncertainty of an entity's positions should be recorded and disclosed in the period of the enacted change in tax law.

Entities that have taken a tax position related to the capitalization of interest expense should consider the OBBBA limitation on the deductibility of certain capitalized interest in the evaluation of its potential uncertain tax positions.

## State income tax implications

Entities need to consider the impact of OBBBA on state tax provisions. States might maintain conformity with the Internal Revenue Code either on a static or a rolling basis. States with static conformity would maintain alignment with the Internal Revenue Code as it existed prior to federal tax reform. In these states, entities should monitor legislative activities of the state to advance the conformity date to align with the provisions in OBBBA. For states with rolling conformity, the provisions of OBBBA will automatically be adopted and applied, although this could be more complex based on whether states have decoupled their regulations from any specific regulations within the Internal Revenue Code. States may then react in various ways to the OBBBA provisions. Entities should closely monitor the legislative process for all states where they file returns and calculate state income tax provisions to ensure that the requirements are properly reflected in the appropriate period.

## Internal control considerations

The new bill will likely require entities to reperform the risk assessment around income taxes to identify the relevant tax laws and rates, the timing implications of those laws and rates, and the appropriate data necessary to account for any new or different tax laws and rates. The OBBBA may impact internal controls over financial reporting since new data, estimates, and information may be needed to prepare tax provisions and related disclosures. Whenever new or different data is necessary, the entity must ensure the completeness and accuracy of that data and its suitability for the intended purpose. Entities then need to determine whether their existing internal controls related to income taxes are designed properly to accommodate the new or different laws and rates. In addition to controls over income tax accounting, entities also need to assess the need for new or modified internal controls related to new income tax disclosures, including any disclosures related to applying the new tax requirements during the measurement period when the accounting for the income tax effect of the new law is incomplete.

## I. International Financial Reporting Standards

Entities reporting under International Financial Reporting Standards (IFRS) that are also subject to taxation in the United States should primarily apply the guidance in International Accounting Standards (IAS) 12, *Income Taxes*, when determining how to account for the tax effects of OBBBA.

Under IAS 12, entities are required to recognize the effects of changes in tax rates and tax laws on current and deferred income taxes in the period in which the changes are "substantially enacted." As a result, the enactment date is the same under both U.S. GAAP and IFRS. However, an important

difference in accounting for the effects of OBBBA under IFRS relates to the “backward tracing” of adjustments to deferred tax liabilities and assets resulting from changes in tax rates and tax laws (see Section B for a discussion of “backward tracing” under U.S. GAAP). Under IFRS, the “backward tracing” of adjustments to deferred tax liabilities and assets is required. As a result, an entity reporting under IFRS should recognize the effects of changes in deferred tax amounts in the current year in the same line item where the deferred tax amounts were originally recognized. For example, if the deferred tax provisions (or benefits) were originally recognized in either AOCI or equity, the effects of OBBBA should also be recognized in AOCI or equity, as applicable. Entities therefore need to determine where these deferred tax amounts were originally recognized.

IAS 12 provides guidance for entities that encounter difficulties when determining the amount of income taxes or benefits that were originally recognized in either AOCI or equity. Under this guidance, entities are permitted to use an alternative method, other than specific identification, for determining these amounts in certain circumstances.

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