ACCOUNTING FOR INCOME TAXES - INTERIM PERIOD TAX REPORTING

February 2026

OVERVIEW

This publication explains when and how income tax expenses or benefits are recorded during interim periods. It distinguishes between items recognized by applying an estimated annual effective tax rate to year-to-date operating results—known as ordinary income or loss—and specific events that are recognized separately when they happen.

Because this publication does not address every aspect of accounting for income taxes under U.S. GAAP it should be read in conjunction with FASB Accounting Standards Codification (ASC) 740, *Income Taxes*.

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1. Introduction

ASC 740-270-25-1

This guidance addresses the issue of how and when income tax expense (or benefit) is recognized in interim periods and distinguishes between elements that are recognized through the use of an estimated annual effective tax rate applied to measures of year-to-date operating results, referred to as ordinary income (or loss), and specific events that are discretely recognized as they occur.

ASC 740-270-25-2

The tax (or benefit) related to ordinary income (or loss) shall be computed at an estimated annual effective tax rate and the tax (or benefit) related to all other items shall be individually computed and recognized when the items occur

ASC 740-270-30-3

Income tax expense (or benefit) for an interim period is based on income taxes computed for ordinary income or loss and income taxes computed for items or events that are not part of ordinary income or loss.

ASC 740-270-30-4

Paragraph 740-270-25-2 requires that the tax (or benefit) related to ordinary income (or loss) be computed at an estimated annual effective tax rate and the tax (or benefit) related to all other items be individually computed and recognized when the items occur (for example, the tax effects resulting from an employee share-based payment award within the scope of Topic 718 when the deduction for the award for tax purposes does not equal the cumulative compensation costs of the award recognized for financial reporting purposes.

ASC 740-270 establishes the accounting and disclosure requirements for income taxes during interim periods, which differ from those applicable for annual reporting.

At the end of each interim reporting period, entities with activities that are subject to income taxes are required to estimate their estimated annual effective tax rate (AETR). This AETR is applied to year-to-date ordinary income or loss to determine the corresponding income tax provision. To estimate their AETR, entities must first estimate both their full-year ordinary income and the full-year income tax expense (benefit). Entities operating in more than one jurisdiction must prepare a worldwide or consolidated AETR, which is applied to consolidated year-to-date ordinary income or loss, except in certain situations outlined in Section 2.4.

ASC 740-270-25-1 through 25-2 codifies the key concepts related to interim period tax provisions, which are:

- Using an AETR as the basis for recognizing income tax expense or benefit on ordinary income
- Reflecting the tax effects of specific, non-recurring events (discrete items) in the interim period that they occur

ASC 740-270-05-3 defines an interim period as a component period of the annual reporting period, rather than merely a period of less than a full year. Therefore, the guidance in ASC 740-270 does not apply to “short years" because they are not a component part of a larger annual period.

ASC 740-270 requires that an entity’s estimated annual income tax expense or benefit be allocated among the interim periods within the year. To accomplish this, at the end of each interim period, an entity should estimate its AETR for the full year and apply that rate to its year-to-date results of operations as of the end of that interim period. For subsequent interim periods within the fiscal year, the entity subtracts the previously recognized interim period ordinary income tax expense (or benefit) from the year-to-date estimated income tax expense (or benefit) provision to calculate the current period income tax expense (or benefit). Inputs to the entity's AETR include forecasted full-year ordinary income and forecasted full-year current and deferred tax expense.

The following example from ASC 740 illustrates the guidance in ASC 740-270-30-22 through 30-27 and ASC 740-270-35-6 when accounting for income taxes using an AETR if ordinary income is anticipated for the entire fiscal year.

Example 1-1: Accounting for Income Taxes Applicable to Ordinary Income at an Interim Date if Ordinary Income Is Anticipated for the Fiscal Year (ASC 740-270-55-2 through 55-10)

The following Cases illustrate the guidance in Sections 740-270-30 and 740-270-35 for accounting for income taxes applicable to ordinary income (or loss) at an interim date if ordinary income is anticipated for the fiscal year:

a. Ordinary income in all interim periods (Case A)

b. Ordinary income and losses in interim periods (Case B).

c. Changes in estimates (Case C).

Cases A and B share all of the following assumptions:

a. For the full fiscal year, an entity anticipates ordinary income of $100,000. All income is taxable in one jurisdiction at a 50 percent rate. Anticipated tax credits for the fiscal year total $10,000. No events that do not have tax consequences are anticipated. No changes in estimated ordinary income, tax rates, or tax credits occur during the year.

b. Computation of the estimated annual effective tax rate applicable to ordinary income is as follows.

Tax at statutory rate ($100,000 at 50%)	$50,000
Less anticipated tax credits	(10,000)
Net tax to be provided	$40,000
Estimated annual effective tax rate ($40,000 ÷ $100,000)	40%

c. Tax credits are generally subject to limitations, usually based on the amount of tax payable before the credits. In computing the estimated annual effective tax rate, anticipated tax credits are limited to the amounts that are expected to be realized or are expected to be recognizable at the end of the current year in accordance with the provisions of Subtopic 740-10. If an entity is unable to estimate the amount of its tax credits for the year, see paragraphs 740-270-30-17 through 30-18.

Case A: Ordinary Income in All Interim Periods

The entity has ordinary income in all interim periods. Quarterly tax computations are as follows:

	Ordinary Income			Tax		
Reporting Period	Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$20,000	$20,000	40%	$8,000	$-	$8,000
Second quarter	20,000	40,000	40%	16,000	8,000	8,000
Third quarter	20,000	60,000	40%	24,000	16,000	8,000
Fourth quarter	40,000	100,000	40%	40,000	24,000	16,000
Fiscal year	$100,000					$40,000

Case B: Ordinary Income and Losses in Interim Periods

The following Cases illustrate ordinary income and losses in interim periods:

a. Year-to-date ordinary income (Case B1)

b. Year-to-date ordinary losses, realization more likely than not (Case B2)

c. Year-to-date ordinary losses, realization not more likely than not (Case B3).

Case B1: Year-to-Date Ordinary Income

The entity has ordinary income and losses in interim periods; there is not an ordinary loss for the fiscal year to date at the end of any interim period. Quarterly tax computations are as follows.

	Ordinary Income (Loss)			Tax (or Benefit)		
Reporting Period	Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$40,000	$40,000	40%	$16,000	$-	$16,000
Second quarter	40,000	80,000	40%	32,000	16,000	16,000
Third quarter	(20,000)	60,000	40%	24,000	32,000	(8,000)
Fourth quarter	40,000	100,000	40%	40,000	24,000	16,000
Fiscal year	$100,000					$40,000

Case B2: Year-to-Date Ordinary Losses, Realization More Likely Than Not

The entity has ordinary income and losses in interim periods, and there is an ordinary loss for the year to date at the end of an interim period. Established seasonal patterns provide evidence that realization in the current year of the tax benefit of the year-to-date loss and of anticipated tax credits is more likely than not. Quarterly tax computations are as follows.

	Ordinary Income (Loss)			Tax (or Benefit)		
Reporting Period	Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$(20,000)	$(20,000)	40%	$(8,000)	$-	$(8,000)
Second quarter	10,000	(10,000)	40%	(4,000)	(8,000)	4,000
Third quarter	15,000	5,000	40%	2,000	(4,000)	6,000
Fourth quarter	95,000	100,000	40%	40,000	2,000	38,000
Fiscal year	$100,000					$40,000

Case B3: Year-to-Date Ordinary Losses, Realization Not More Likely Than Not

The entity has ordinary income and losses in interim periods, and there is a year-to-date ordinary loss during the year. There is no established seasonal pattern and it is more likely than not that the tax benefit of the year-to-date loss and the anticipated tax credits will not be realized in the current or future years. Quarterly tax computations are as follows.

	Ordinary Income (Loss)			Tax (or Benefit)		
Reporting Period	Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$(20,000)	$(20,000)	-(a)	$-	$-	$-
Second quarter	10,000	(10,000)	-(a)	-	-	-
Third quarter	15,000	5,000	40%	2,000	-	2,000
Fourth quarter	95,000	100,000	40%	40,000	2,000	38,000
Fiscal year	$100,000					$40,000

(a) No benefit is recognized because the tax benefit of the year-to-date loss is not expected to be realized during the current year or recognizable as a deferred tax asset at the end of the current year in accordance with the provisions of Subtopic 740-10.

Case C: Changes in Estimates

During the fiscal year, all of an entity's operations are taxable in one jurisdiction at a 50 percent rate. No events that do not have tax consequences are anticipated. Estimates of ordinary income for the year and of anticipated credits at the end of each interim period are as shown below. Changes in the estimated annual effective tax rate result from changes in the ratio of anticipated tax credits to tax computed at the statutory rate. Changes consist of an unanticipated strike that reduced income in the second quarter, an increase in the capital budget resulting in an increase in anticipated investment tax credit in the third quarter, and better than anticipated sales and income in the fourth quarter. The entity has ordinary income in all interim periods. Computations of the estimated annual effective tax rate based on the estimate made at the end of each quarter are as follows.

	Estimated, end of			
	First Quarter	Second Quarter	Third Quarter	Actual Fiscal Year
Estimated ordinary income for the fiscal year	$100,000	$80,000	$80,000	$100,000
Tax at 50% statutory rate	$50,000	$40,000	$40,000	$50,000
Less anticipated credits	(5,000)	(5,000)	(10,000)	(10,000)
Net tax to be provided	$45,000	$35,000	$30,000	$40,000
Estimated annual effective tax rate	45%	43.75%	37.5%	40%

Quarterly tax computations are as follows.

	Ordinary Income			Tax		
Reporting Period	Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$25,000	$25,000	45%	$11,250	$-	$11,250
Second quarter	5,000	30,000	43.75%	13,125	11,250	1,875
Third quarter	25,000	55,000	37.5%	20,625	13,125	7,500
Fourth quarter	45,000	100,000	40%	40,000	20,625	19,375
Fiscal year	$100,000					$40,000

2. Determining the AETR and applying it to ordinary income

2.1 Components of the AETR

ASC 740-270-30-6 through 30-8 describe the process to estimate the AETR at the end of each interim period. The AETR is a consolidated effective tax rate that includes federal, state and foreign income taxes, as applicable (Section 2.4). The AETR should be updated at each interim period to reflect the entity's best estimate of its annual effective tax rate. Sometimes, the AETR is simply the entity's statutory tax rate, adjusted as necessary for specific circumstances. In other cases, the AETR reflects the entity's projected income tax expense (or benefit) for the entire year as a percentage of its projected ordinary income or loss. In all instances, the AETR should reflect any anticipated changes to the valuation allowance on year-end deferred tax assets that result from deductible temporary differences and carryforwards that originated during the annual period. The AETR should also reflect, as applicable, anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates and other available tax planning alternatives. However, ASC 740-270-30-8 specifically prohibits entities from including within the AETR the income tax effects of:

- Employee share-based payment awards under ASC 718 when the tax deduction is not equal to the cumulative compensation cost recognized for financial reporting purposes
- Significant unusual or infrequently occurring items (discrete items)
- Items reported net of their related tax effect in financial statements (e.g., discontinued operations).

ASC 740-270-30-5 states that the AETR is then applied to the year-to-date results as of that interim period to measure the year-to-date income tax expense (or benefit) applicable to ordinary income.

The impact on the AETR when losses are incurred in interim periods is discussed in Section 2.3 and items treated outside the AETR are covered in Section 3. See Section 2.5 for further discussion on estimating the AETR.

2.2 Annual ordinary income (loss)

The first step in calculating the AETR is estimating the ordinary income (or loss) for the year, which is defined in the Master Glossary of the Codification as:

> Income (or loss) from continuing operations before income taxes (or benefits) excluding significant unusual or infrequently occurring items. Discontinued operations and cumulative effects of changes in accounting principles are also excluded from this term. The term is not used in the income tax context of ordinary income versus capital gain. The meaning of unusual or infrequently occurring items is consistent with their use in the definitions of the terms unusual nature and infrequency of occurrence.

Assessing whether an event or transaction qualifies as a significant unusual or infrequently occurring item requires judgment and is dependent upon the facts and circumstances and the entity's prior experience. For example, if an entity invests in real estate and is constantly buying and selling properties, the disposal of a building is likely not considered to be a significant unusual or infrequently occurring event. On the other hand, for a manufacturer that disposes of its primary manufacturing plant, the gain or loss resulting from the transaction is likely considered significant and unusual or infrequently occurring. Significant unusual or infrequently occurring items are excluded from the AETR calculation.

2.3 Losses incurred in interim periods of a fiscal year

ASC 740-270-25-9

The tax effects of losses that arise in the early portion of a fiscal year shall be recognized only when the tax benefits are expected to be either:

a. Realized during the year:

b. Recognizable as a deferred tax asset at the end of the year in accordance with the provisions of Subtopic 740-10.

ASC 740-270-25-10

An established seasonal pattern of loss in early interim periods offset by income in later interim periods shall constitute evidence that realization is more likely than not, unless other evidence indicates the established seasonal pattern will not prevail.

ASC 740-270-25-11

The tax effects of losses incurred in early interim periods may be recognized in a later interim period of a fiscal year if their realization, although initially uncertain, later becomes more likely than not. When the tax effects of losses that arise in the early portions of a fiscal year are not recognized in that interim period, no tax provision shall be made for income that arises in later interim periods until the tax effects of the previous interim losses are utilized.

Entities often do not generate income ratably during the fiscal year. For example, a retailer may generate a substantial portion of its income in the fourth quarter, or an amusement park in a colder climate may generate revenue only during the spring and summer. In such cases, the relationship between the actual year-to-date ordinary income or loss and the estimated annual ordinary income or loss may vary throughout the year. Entities should consider the specific circumstances to appropriately recognize the interim income tax expense or benefit. ASC 740-270-25-9 through 25-11 provides guidance on when to recognize benefits of losses incurred during earlier periods of the fiscal year.

If an entity incurred year-to-date losses in an interim period, or projects an estimated annual ordinary loss, the entity should apply the guidance in ASC 740-270-25-9 through 25-11 to determine whether the estimated tax benefit of such losses should be included in the AETR. When losses are expected in interim periods, the income tax benefit recognized in those interim periods should not exceed either the aggregate income tax benefit expected to be realized over the course of the fiscal year or the amount recognized as a deferred tax asset at year-end, net of any required valuation allowance. As a result, entities must determine whether their year-end forecasted deferred tax assets are more likely than not to be realized using the sources of taxable income discussed in ASC 740-10-30-18. The tax effects of losses sustained in early interim periods may be recognized in subsequent interim periods within the same fiscal year if their realization, although initially uncertain, later becomes more likely than not. If the tax effects of such early interim period losses are not recognized when they occur, no tax provision should be recorded for income earned in later interim periods until the tax benefits from the prior interim losses have been utilized.

The following table summarizes application of the guidance in ASC 740-270-30-28 through 30-33 for interim periods as further illustrated through the examples included in ASC 740-270-55-11 through 55-23.

Scenario	Considerations Related to Loss Recognition
Realization of tax benefits of losses is more likely than not	The expected tax benefit for losses in the interim reporting periods are recognized in those periods because the entity expects that realization of the related tax benefits is more likely than not. See Example 2-1, Case A.
Realization of tax benefits is not more likely than not	The expected tax benefit for losses in the interim reporting periods are not recognized in those periods because the entity does not expect the tax benefit to be realized either during the year or as a deferred tax asset at the end of the year (i.e., realization is not more likely than not). See Example 2-1, Case B.
Partial realization of tax benefits is more likely than not	The AETR includes the portion of the ordinary losses that meet the more likely than not criteria for realization. See Example 2-1, Case C.
Realization of deferred tax assets is expected through future reversing temporary differences	The AETR includes the portion of the ordinary loss for the year that will be realized through the reversal of the temporary differences (i.e., that meets the more-likely-than-not criteria for realization). See Example 2-1, Case D.

The following examples derived from ASC 740-270 highlight different scenarios for recognition of tax benefits when an ordinary loss is anticipated for the fiscal year. Conclusions on realization of tax benefits require judgment and are dependent on the specific facts and circumstances.

Example 2-1: Accounting for Income Taxes Applicable to Ordinary Income (or Loss) at an Interim Date if an Ordinary Loss Is Anticipated for the Fiscal Year (ASC 740-270-55-11 through 55-23)

The following Cases illustrate the guidance in Section 740-270-30 for accounting for income taxes applicable to ordinary income (or loss) at an interim date if an ordinary loss is anticipated for the fiscal year:

- Realization of the tax benefit of the loss is more likely than not (Case A)
- Realization of the tax benefit of the loss is not more likely than not (Case B)
- Partial realization of the tax benefit of the loss is more likely than not (Case C)
- Reversal of net deferred tax credits (Case D)

Cases A, B, and C share the following assumptions.

a. For the full fiscal year, an entity anticipates an ordinary loss of $100,000. The entity operates entirely in one jurisdiction where the tax rate is 50 percent. Anticipated tax credits for the fiscal year total $10,000. No events that do not have tax consequences are anticipated.

b. If there is a recognizable tax benefit for the loss and the tax credits pursuant to the requirements of Subtopic 740-10, computation of the estimated annual effective tax rate applicable to the ordinary loss would be as follows.

Tax benefit at statutory rate ($100,000 at 50%)	$ (50,000)
Tax credits	(10,000)
Net tax benefit	$ (60,000)
Estimate annual effective tax rate ($60,000 ÷ $100,000)	60%

Cases A, B, and C state varying assumptions with respect to assurance of realization of the components of the net tax benefit. When the realization of a component of the benefit is not expected to be realized during the current year or recognizable as a deferred tax asset at the end of the current year in accordance with the provisions of Subtopic 740-10, that component is not included in the computation of the estimated annual effective tax rate.

Case A: Realization of the Tax Benefit of the Loss Is More Likely Than Not

The following Cases illustrate when realization of the tax benefit of the loss is more likely than not:

a. Ordinary losses in all interim periods (Case A1)

b. Ordinary income and losses in interim periods (Case A2).

Case A1: Ordinary Losses in All Interim Periods

The entity has ordinary losses in all interim periods. The full tax benefit of the anticipated ordinary loss and the anticipated tax credits will be realized by carryback. Quarterly tax computations are as follows.

	Ordinary Loss			Tax Benefit		
Reporting Period	Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$(20,000)	$(20,000)	60%	$(12,000)	$-	$(12,000)
Second quarter	(20,000)	(40,000)	60%	(24,000)	(12,000)	(12,000)
Third quarter	(20,000)	(60,000)	60%	(36,000)	(24,000)	(12,000)
Fourth quarter	(40,000)	(100,000)	60%	(60,000)	(36,000)	(24,000)
Fiscal year	$(100,000)					$(60,000)

Case A2: Ordinary Income and Losses in Interim Periods

The entity has ordinary income and losses in interim periods and for the year to date. The full tax benefit of the anticipated ordinary loss and the anticipated tax credits will be realized by carryback. The full tax benefit of the maximum year-to-date ordinary loss can also be realized by carryback. Quarterly tax computations are as follows.

	Ordinary Income (Loss)			Tax (or Benefit)		
Reporting Period	**Reporting Period**	**Year-to-Date**	**Estimated Annual Effective Tax Rate**	**Year-to-Date**	**Less Previously Provided**	**Reporting Period**
First quarter	$20,000	$20,000	60%	$12,000	$-	$12,000
Second quarter	(80,000)	(60,000)	60%	(36,000)	12,000	(48,000)
Third quarter	(80,000)	(140,000)	60%	(84,000)	(36,000)	(48,000)
Fourth quarter	40,000	(100,000)	60%	(60,000)	(84,000)	24,000
Fiscal year	$(100,000)					$(60,000)

RSM Commentary:

In Cases A1 and A2, the entity relied on its ability to carry back its anticipated losses to prior periods. However, as of this publication date, U.S. federal tax law does not permit this practice anymore; it may still be allowed in other tax jurisdictions.

Case B: Realization of the Tax Benefit of the Loss Is Not More Likely Than Not

In Cases A1 and A2, if neither the tax benefit of the anticipated loss for the fiscal year nor anticipated tax credits were recognizable pursuant to Subtopic 740-10, the estimated annual effective tax rate for the year would be zero and no tax (or benefit) would be recognized in any quarter. That conclusion is not affected by changes in the mix of income and loss in interim periods during a fiscal year. However, see paragraph 740-270-30-18.

Case C: Partial Realization of the Tax Benefit of the Loss Is More Likely Than Not

The following Cases illustrate when partial realization of the tax benefit of the loss is more likely than not:

a. Ordinary losses in all interim periods (Case C1)

b. Ordinary income and losses in interim periods (Case C2).

Case C1: Ordinary Losses in All Interim Periods

The entity has an ordinary loss in all interim periods. It is more likely than not that the tax benefit of the loss in excess of $40,000 of prior income available to be offset by carryback ($20,000 of tax at the 50 percent statutory rate) will not be realized. Therefore the estimated annual effective tax rate is 20 percent ($20,000 benefit more likely than not to be realized divided by $100,000 estimated fiscal year ordinary loss). Quarterly tax computations are as follows.

	Ordinary Loss			Tax Benefit		
Reporting Period	Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$(20,000)	$(20,000)	20%	$(4,000)	$-	$(4,000)
Second quarter	(20,000)	(40,000)	20%	(8,000)	(4,000)	(4,000)
Third quarter	(20,000)	(60,000)	20%	(12,000)	(8,000)	(4,000)
Fourth quarter	(40,000)	(100,000)	20%	(20,000)	(12,000)	(8,000)
Fiscal year	$(100,000)					$(20,000)

Case C2: Ordinary income and losses in interim periods

The entity has ordinary income and losses in interim periods and for the year to date. It is more likely than not that the tax benefit of the anticipated ordinary loss in excess of $40,000 of prior income available to be offset by carryback ($20,000 of tax at the 50 percent statutory rate) will not be realized. Therefore the estimated annual effective tax rate is 20 percent ($20,000 benefit more likely than not to be realized divided by $100,000 estimated fiscal year ordinary loss), and the benefit that can be recognized for the year to date is limited to $20,000 (the benefit that is more likely than not to be realized). Quarterly tax computations are as follows.

	Ordinary Income (Loss)			Tax (or benefit)			
				Year-to-Date			
Reporting Period	Ordinary Income (Loss)	Year-to-Date	Estimated Annual Effective Tax Rate	Computed	Limited to	Less Previously Provided	Reporting Period
First quarter	$20,000	$20,000	20%	$4,000		$-	$4,000
Second quarter	(80,000)	(60,000)	20%	(12,000)		4,000	(16,000)
Third quarter	(80,000)	(140,000)	20%	(28,000)	$(20,000)	(12,000)	(8,000)
Fourth quarter	40,000	(100,000)	20%	(20,000)		(20,000)	-
Fiscal year	$(100,000)						$(20,000)

Case D: Reversal of Net Deferred Tax Credits

The entity anticipates a fiscal year ordinary loss. The loss cannot be carried back, and future profits exclusive of reversing temporary differences are unlikely. Net deferred tax liabilities arising from existing net taxable temporary differences are present. A portion of the existing net taxable temporary differences relating to those liabilities will reverse within the loss carryforward period. Computation of the estimated annual effective tax rate to be used (see paragraphs 740-270-30-32 through 30-33) is as follows.

Estimated fiscal year ordinary loss		$(100,000)
The tax benefit to be recognized is the lesser of:		
Tax effect of the loss carryforward ($100,000 at 50% statutory rate)	$50,000	
Amount of the net deferred tax liabilities that would otherwise have been settled during the carry-forward period	$24,000	
Estimated annual effective tax rate ($24,000 ÷ $100,000)		24%

Quarterly tax computations are as follows:

Ordinary Loss				Tax Benefit		
Reporting Period	Reporting Period	Year-to-Date	Estimated Annual Effective Tax Rate	Year-to-Date	Less Previously Provided	Reporting Period
First quarter	$(20,000)	$(20,000)	24%	$(4,800)	$-	$(4,800)
Second quarter	(20,000)	(40,000)	24%	(9,600)	(4,800)	(4,800)
Third quarter	(20,000)	(60,000)	24%	(14,400)	(9,600)	(4,800)
Fourth quarter	(40,000)	(100,000)	24%	(24,000)	(14,400)	(9,600)
Fiscal year	$(100,000)					$(24,000)

2.4 Effect of multiple jurisdictions

ASC 740-270-30-36

If an entity that is subject to tax in multiple jurisdictions pays taxes based on identified income in one or more individual jurisdictions, interim period tax (or benefit) related to consolidated ordinary income (or loss) for the year to date shall be computed in accordance with the requirements of this Subtopic using one overall estimated annual effective tax rate with the following exceptions:

a. If in a separate jurisdiction an entity anticipates an ordinary loss for the fiscal year or has an ordinary loss for the year to date for which, in accordance with paragraphs 740-270-30-30 through 30-33, no tax benefit can be recognized, the entity shall exclude ordinary income (or loss) in that jurisdiction and the related tax (or benefit) from the overall computations of the estimated annual effective tax rate and interim period tax (or benefit). A separate estimated annual effective tax rate shall be computed for that jurisdiction and applied to ordinary income (or loss) in that jurisdiction in accordance with the methodology otherwise required by this Subtopic.

b. If an entity is unable to estimate an annual effective tax rate in a foreign jurisdiction in dollars or is otherwise unable to make a reliable estimate of its ordinary income (or loss) or of the related tax (or benefit) for the fiscal year in a jurisdiction, the entity shall exclude ordinary income (or loss) in that jurisdiction and the related tax (or benefit) from the overall computations of the estimated annual effective tax rate and interim period tax (or benefit). The tax (or benefit) related to ordinary income (or loss) in that jurisdiction shall be recognized in the interim period in which the ordinary income (or loss) is reported. The tax (or benefit) related to ordinary income (or loss) in a jurisdiction may not be limited to tax (or benefit) in that jurisdiction. It might also include tax (or benefit) in another jurisdiction that results from providing taxes on unremitted earnings, foreign tax credits, and so forth.

See Example 5, Cases A; B; and C (paragraphs 740-270-55-39 through 55-43) for illustrations of accounting for income taxes applicable to ordinary income if an entity is subject to tax in multiple jurisdictions.

When an entity is taxed in several jurisdictions and pays taxes based on specific income identified in any of those jurisdictions, the interim period tax (or benefit) related to the consolidated ordinary income (or loss) for the year to date should be calculated using a single overall AETR, except when:

- An entity incurs losses in one or more jurisdictions, which are neither expected to be realized within the year nor recognized as a deferred tax asset at year end. In these circumstances, the income or loss attributed to such jurisdictions should be excluded from the calculation of the overall AETR. Instead, a separate AETR should be calculated for the jurisdictions and applied to the ordinary income or loss from such jurisdiction(s).
- An entity is unable to estimate an AETR in a particular foreign jurisdiction in its functional currency (e.g., U.S. dollar). This may occur when an entity's consolidated subsidiary operates in a highly inflationary economy and the exchange rate between the entity's functional currency and the local currency is subject to significant fluctuations and unpredictability.
- An entity is unable to reliably estimate either the ordinary income (or loss) or the related income tax (or benefit) for a particular jurisdiction. For example, this may occur when an entity's subsidiary has little pre-tax income but large permanent differences. This combination may result in significant fluctuations in tax expense and AETR, which may result in an unreliable estimate of the AETR.

An entity should consider all relevant facts and circumstances and apply significant judgment before concluding that it is unable to estimate a single overall AETR. When it cannot, the entity should exclude the expected ordinary income (or loss) and related tax expense (or benefit) for the jurisdictions from the single overall AETR when estimating interim period income tax (or benefit). Instead, the related income tax (or benefit) is recognized as a discrete item once the ordinary income or loss from the excluded jurisdiction is reported in the interim period. See Example 2-4 Case C for an example where an entity is unable to estimate the AETR for a particular jurisdiction. See Section 2.5.1 for situations when the entire AETR cannot be estimated.

The following examples derived from ASC 740-270 illustrate how to develop an effective tax rate when an entity operates in multiple jurisdictions.

Example 2-4: Accounting for Income Taxes Applicable to Ordinary Income if an Entity is Subject to Tax in Multiple Jurisdictions (ASC 740-270-55-37 through 55-55)

The following Cases illustrate the guidance in paragraph 740-270-30-36 for accounting for income taxes applicable to ordinary income if an entity is subject to tax in multiple jurisdictions:

a. Ordinary income in all jurisdictions (Case A)

b. Ordinary loss in a jurisdiction; realization of the tax benefit not more likely than not (Case B)

c. Ordinary income or tax cannot be estimated in one jurisdiction (Case C).

Cases A, B, and C assume that an entity operates through separate corporate entities in two countries. Applicable tax rates are 50 percent in the United States and 20 percent in Country A. The entity has no unusual or infrequently occurring items during the fiscal year and anticipates no tax credits or events that do not have tax consequences. (The effect of foreign tax credits and the necessity of providing tax on undistributed earnings are ignored because of the wide range of tax planning alternatives available.) For the full fiscal year, the entity anticipates ordinary income of $60,000 in the United States and $40,000 in Country A. The entity is able to make a reliable estimate of its Country A ordinary income and tax for the fiscal year in dollars. Computation of the overall estimated annual effective tax rate in Cases B and C is based on additional assumptions stated in those Cases.

Case A: Ordinary Income in All Jurisdictions

Computation of the overall estimated annual effective tax rate is as follows:

Anticipated ordinary income for the fiscal year:	
In the United States	$60,000
In Country A	40,000
Total	$100,000
Anticipated tax for the fiscal year:	
In the United States ($60,000 at 50% statutory rate)	$30,000
In Country A ($40,000 at 20% statutory rate)	8,000
Total	$38,000
Overall estimated annual effective tax rate ($38,000÷ $100,000)	38%

Quarterly tax computations are as follows:

	Ordinary Income				Tax			
Reporting Period	United States	Country A	Total	Year-to-Date	Overall Estimated Annual Effective Tax rate	Year-to-Date	Less Previously Reported	Reporting Period
First quarter	$5,000	$15,000	$20,000	$20,000	38%	$7,600	$-	$7,600
Second quarter	10,000	10,000	20,000	40,000	38%	15,200	7,600	7,600
Third quarter	10,000	10,000	20,000	60,000	38%	22,800	15,200	7,600
Fourth quarter	35,000	5,000	40,000	100,000	38%	38,000	22,800	15,200
Fiscal year	$60,000	$40,000	$100,000					$38,000

Case B: Ordinary Loss in a Jurisdiction, Realization of the Tax Benefit Not More Likely than Not

In this Case, the entity operates through a separate corporate entity in Country B. Applicable tax rates in Country B are 40 percent. Operations in Country B have resulted in losses in recent years and an ordinary loss is anticipated for the current fiscal year in Country B. It is expected that the tax benefit of those losses will not be recognizable as a deferred tax asset at the end of the current year pursuant to Subtopic 740-10; accordingly, no tax benefit is recognized for losses in Country B, and interim period tax (or benefit) is separately computed for the ordinary loss in Country B and for the overall ordinary income in the United States and Country A. The tax applicable to the overall ordinary income in the United States and Country A is computed as in Case A of this Example. Quarterly tax provisions are as follows.

Ordinary Income (or Loss)						Tax (or Benefit)		
Reporting Period	United States	Country A	Combined Excluding Country B	Country B	Total	Combined Excluding Country B	Country B	Total
First quarter	$5,000	$15,000	$20,000	$(5,000)	$15,000	$7,600	$-	$7,600
Second quarter	10,000	10,000	20,000	(25,000)	(5,000)	7,600	-	7,600
Third quarter	10,000	10,000	20,000	(5,000)	15,000	7,600	-	7,600
Fourth quarter	35,000	5,000	40,000	(5,000)	35,000	15,200	-	15,200
Fiscal year	$60,000	$40,000	$100,000	$(40,000)	$60,000	$38,000	$-	$38,000

Case C: Ordinary Income or Tax Cannot Be Estimated in One Jurisdiction

In this Case, the entity operates through a separate corporate entity in Country C. Applicable tax rates in Country C are 40 percent in foreign currency. Depreciation in that country is large and exchange rates have changed in prior years. The entity is unable to make a reasonable estimate of its ordinary income for the year in Country C and thus is unable to reasonably estimate its annual effective tax rate in Country C in dollars. Accordingly, tax (or benefit) in Country C is separately computed as ordinary income (or loss) occurs in Country C. The tax applicable to the overall ordinary income in the United States and Country A is computed as in Case A of this Example. Quarterly computations of tax applicable to Country C are as follows.

	Foreign Currency (FC) Amounts		Translated Amounts in Dollars	
Reporting Period	Ordinary Income in Reporting Period	Tax (at 40% rate)	Ordinary Income in Reporting Period	Tax
First quarter	FC 10,000	FC 4,000	$12,500	$3,000
Second quarter	5,000	2,000	8,750	1,500
Third quarter	30,000	12,000	27,500	9,000
Fourth quarter	15,000	6,000	16,250	4,500
Fiscal year	FC 60,000	FC 24,000	$65,000	$18,000

Quarterly tax provisions are as follows.

Ordinary Income						Tax		
Reporting Period	United States	Country A	Combined Excluding Country C	Country C	Total	Combined Excluding Country C	Country C	Total
First quarter	$5,000	$15,000	$20,000	$12,500	$32,500	$7,600	$3,000	$10,600
Second quarter	10,000	10,000	20,000	8,750	28,750	7,600	1,500	9,100
Third quarter	10,000	10,000	20,000	27,500	47,500	7,600	9,000	16,600
Fourth quarter	35,000	5,000	40,000	16,250	56,250	15,200	4,500	19,700
Fiscal year	$60,000	$40,000	$100,000	$65,000	$165,000	$38,000	$18,000	$56,000

2.5 Computing the AETR

ASC 740-270-25-3

If an entity is unable to estimate a part of its ordinary income (or loss) or the related tax (or benefit) but is otherwise able to make a reliable estimate, the tax (or benefit) applicable to the item that cannot be estimated shall be reported in the interim period in which the item is reported.

ASC 740-270-30-18

Estimates of the annual effective tax rate at the end of interim periods are, of necessity, based on evaluations of possible future events and transactions and may be subject to subsequent refinement or revision. If a reliable estimate cannot be made, the actual effective tax rate for the year to date may be the best estimate of the annual effective tax rate.

2.5.1 Inability to accurately estimate the AETR

If an entity is unable to accurately estimate its AETR, the actual effective tax rate for the year-to-date period will likely be the best available estimate. A frequent example of the inability to accurately estimate an AETR occurs when the entity anticipates break-even results. In these circumstances, even a minor change in estimated ordinary income could have a major impact on the AETR. Likewise, if an entity is unable to accurately estimate certain individual components of its ordinary income or loss, the pretax amount of ordinary income (loss) that cannot be reliably estimated and the related tax effects should be excluded from the entity's estimate of its AETR. The actual tax or benefit applicable to the portion of income that cannot be estimated should be reported as a discrete item in the interim period, outside of the AETR.

2.5.2 Changes in unrecognized tax benefits

ASC 740-270-35-6 states that a change in judgment affecting a tax position from a prior interim period within the same fiscal year is treated as a change in estimate and accounted for as part of the AETR. Changes in judgment related to prior annual periods, however, must be recognized as discrete items, including any interest and penalties, in the period the change in judgment occurs.

3. Items not included in ordinary income (discrete items)

ASC 740-270 includes guidance on common discrete items that are not included in ordinary income and AETR. In addition to the significant unusual and infrequently occurring items discussed in Section 2.2, other examples of discrete items include:

- Change in tax laws and rates (see Section 3.1)
- Change in tax status (see Section 3.2)
- Discontinued operations and changes in accounting principles (see Section 3.3)
- Change in beginning of year valuation allowance (see Section 3.4)
- Investment tax credits (see Section 3.5)
- Interest and penalties (see Section 3.6)
- Change in the recognition of a deferred tax asset related to outside basis differences (see Section 3.7)
- Significant unusual or infrequently occurring items (see Section 3.8)

3.1 Change in tax laws and rates

ASC 740-270-25-5

The effects of new tax legislation shall not be recognized prior to enactment. The tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be reflected in the computation of the annual effective tax rate beginning in the first interim period that includes the enactment date of the new legislation. The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate.

ASC 740-270-25-6

The tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year. See Example 6 (paragraph 740-270-55-44) for illustrations of accounting for changes caused by new tax legislation.

Spotlight on change:

The One Big Beautiful Bill Act (OBBBA), enacted on July 4, 2025, includes several changes that may affect U.S. federal income tax provisions. These provisions include changes to bonus depreciation, interest expense limitations, and domestic research and development expenses. Additionally, the OBBBA was enacted on July 4, 2025, but many provisions are not effective until tax years beginning after December 31, 2025. See *Accounting for the income tax impacts of the One Big Beautiful Bill Act* for further details on the OBBBA.

ASC 740-10-45-15 requires adjustments to deferred tax balances resulting from changes in tax laws or rates to be included in income from continuing operations in the period in which the new legislation is enacted.

As described in ASC 740-270-25-5 through 25-6, the impact of the change in tax law or rates on current year taxes payable (refundable) is reflected in the calculation of the AETR beginning in the first interim period which includes the enactment date. Conversely, the effect of changes in tax laws or rates on deferred tax assets and liabilities is a discrete item that is recognized in the interim period that includes the enactment date. Similarly, the effects of retroactive changes in tax laws or rates, and any impact of such changes on prior year balances, are both discrete items that are recognized in the interim period that includes the enactment date.

3.2 Change in tax status

A change in an entity's tax status occurs when a non-taxable entity (e.g., a partnership) becomes a taxable entity (e.g. a corporation) or vice versa. ASC 740-10-25-32 through 25-34 state that a voluntary change in an entity's tax status would be recognized on the approval date granted by the taxing authority or on the filing date if approval is not required. ASC 740-10-45-19 also requires that the deferred tax effects of a change in tax status be included in income from continuing operations. The effect of this change on existing deferred tax assets and liabilities is considered a discrete item and recognized in the interim period that includes the approval or filing date, as appropriate.

3.3 Discontinued operations and cumulative effects of changes in accounting principles

As discussed in Section 2.2, discontinued operations and cumulative effects of changes in accounting principles are excluded from the definition of ordinary income. ASC 740-270-30-12 explains that significant unusual or infrequently occurring items that will be reported separately or items that will be reported net of their related tax effect, such as cumulative effects of changes in accounting principles, should be excluded from the AETR calculation. Because these items are excluded from the AETR, ASC 740-270-25 requires that the related tax effect be recognized as discrete items in the interim period in which they occur.

3.4 Adjustments to the beginning of year valuation allowance

ASC 740-270-25-4

The tax benefit of an operating loss carryforward from prior years shall be included in the effective tax rate computation if the tax benefit is expected to be realized as a result of ordinary income in the current year. Otherwise, the tax benefit shall be recognized in the manner described in paragraph 740-270-45-4 in each interim period to the extent that income in the period and for the year to date is available to offset the operating loss carryforward or, in the case of a change in judgment about realizability of the related deferred tax asset in future years, the effect shall be recognized in the interim period in which the change occurs.

ASC 740-270-25-7

The effect of a change in the beginning-of-the-year balance of a valuation allowance as a result of a change in judgment about the realizability of the related deferred tax asset in future years shall not be apportioned among interim periods through an adjustment of the effective tax rate but shall be recognized in the interim period in which the change occurs.

ASC 740-270-45-4

Paragraph 740-20-45-3 requires that the manner of reporting the tax benefit of an operating loss carryforward recognized in a subsequent year generally is determined by the source of the income in that year and not by the source of the operating loss carryforward or the source of expected future income that will result in realization of a deferred tax asset for the operating loss carryforward. The tax benefit is allocated first to reduce tax expense from continuing operations to zero with any excess allocated to the other source(s) of income that provides the means of realization, for example, discontinued operations, other comprehensive income, and so forth. That requirement also pertains to reporting the tax benefit of an operating loss carryforward in interim periods.

Entities should reconsider the amount of valuation allowance required against existing deferred tax assets as of the end of each interim reporting period. An adjustment to the beginning of the year valuation allowance may either be reflected in the AETR or recognized discretely, depending on the nature of the change. Entities should reflect any adjustments to the beginning of the year valuation allowance in the AETR when these changes relate to deductible temporary differences and carryforwards anticipated to arise during the current year or income (loss) from continuing operations for the current year. However, changes in judgment about the realizability of the beginning of the year deferred tax asset which are based on expected income in future years should be excluded from the AETR and recognized as a separate discrete item in the interim period when the change in judgment occurs adjustment occurs.

3.5 Investment tax credits

ASC 740-270-30-14 through 30-15 discusses the treatment of changes in investment tax credits within interim tax provisions. The treatment of these tax credits in the AETR depends on the accounting method elected by the entity. If an entity elects the deferral method, the net benefit from the investment tax credits would be excluded from the AETR.

3.6 Interest and penalties

ASC 740-10-25-56 requires accrual of interest on uncertain tax positions commencing when interest would be required under the applicable tax law. Additionally, ASC 740-10-25-57 requires statutory penalties to be recorded when a tax position that triggers a penalty is taken or expected to be taken or when the assessment of penalty changes.

In accordance with ASC 740-270-25-2, interest and penalties are excluded from the AETR calculation and recorded as a discrete item as incurred. Such treatment is appropriate even if the entity elected to include interest and penalties as a part of income tax expense.

3.7 Change in the recognition of a deferred tax asset related to outside basis differences

Outside tax basis differences are differences in the book basis and tax basis of an investment in a subsidiary or a corporate joint venture. A deferred tax asset is recognized for the excess of the tax basis over the financial reporting basis for an investment that is essentially permanent in duration only if it is apparent that the temporary difference will reverse in the foreseeable future. If the earnings of the underlying subsidiary are recognized in continuing operations, the entity reflects the beginning of the year impact of the change in the deferred tax asset as a discrete item while including the impact of the change in the deferred tax asset on current year earnings within the AETR. Further consideration may be required if the underlying subsidiary is included in discontinued operations.

3.8 Significant unusual and infrequently occurring items

ASC 740-270-25-12

If an entity has a significant unusual or infrequently occurring loss or a loss from discontinued operations, the tax benefit of that loss shall be recognized in an interim period when the tax benefit of the loss is expected to be either:

a. Realized during the year

b. Recognizable as a deferred tax asset at the end of the year in accordance with the provisions of Subtopic 740-10.

Realization would appear to be more likely than not if future taxable income from (ordinary) income during the current year is expected based on an established seasonal pattern of loss in early interim periods offset by income in later interim periods. The guidance in this paragraph also applies to a tax benefit resulting from an employee share-based payment award within the scope of Topic 718 on stock compensation when the deduction for the award for tax purposes is greater than the cumulative cost of the award recognized for financial reporting purposes.

As discussed in Section 2.2, significant unusual and infrequently occurring items are generally included in income from continuing operations but excluded from the definition of ordinary income for the purpose of estimating the AETR.

Example 3-1: Example 3: Accounting for Income Taxes Applicable to Unusual or Infrequently Occurring Items (ASC 740-270-55-24 through 55-28)

The following Cases illustrate accounting for income taxes applicable to unusual or infrequently occurring items when ordinary income is expected for the fiscal year:

a. Realization of the tax benefit is more likely than not at date of occurrence (Case A)

b. Realization of the tax benefit not more likely than not at date of occurrence (Case B).

Cases A and B illustrate the computation of the tax (or benefit) applicable to unusual or infrequently occurring items when ordinary income is anticipated for the fiscal year. These Cases are based on the assumptions and computations presented in paragraph 740-270-55-3 and Example 1, Cases A and B (see paragraphs 740-270-55-4 through 55-8), plus additional information supplied in Cases A and B of this Example. The computation of the tax (or benefit) applicable to the ordinary income is not affected by the occurrence of an unusual or infrequently occurring item; therefore, each Case refers to one or more of the illustrations of that computation in Example 1, Cases A and B (see paragraphs 740-270-55-4 through 55-8), and does not reproduce the computation and the assumptions. The income statement display for tax (or benefit) applicable to unusual or infrequently occurring items is illustrated in Example 7 (see paragraph 740-270-55-52).

Case A: Realization of the Tax Benefit Is More Likely Than Not at Date of Occurrence

As explained in paragraph 740-270-55-25, this Case is based on the computations of tax applicable to ordinary income that are illustrated in Example 1, Case A (see paragraph 740-270-55-4). In addition, the entity experiences a tax-deductible unusual or infrequently occurring loss of $50,000 (tax benefit $25,000) in the second quarter. Because the loss can be carried back, it is more likely than not that the tax benefit will be realized at the time of occurrence. Quarterly tax provisions are as follows.

			Tax (or Benefit) Applicable to	
Reporting Period	Ordinary Income	Unusual or Infrequently Occurring	Ordinary Income	Unusual or Infrequently Occurring
First quarter	$20,000		$8,000	
Second quarter	20,000	$(50,000)	8,000	$(25,000)
Third quarter	20,000		8,000	
Fourth quarter	40,000		16,000	
Fiscal year	$100,000	$(50,000)	$40,000	$(25,000)

Note that changes in assumptions would not change the timing of the recognition of the tax benefit applicable to the unusual or infrequently occurring item as long as realization is more likely than not.

Case B: Realization of the Tax Benefit Not More Likely Than Not at Date of Occurrence

As explained in paragraph 740-270-55-25, this Case is based on the computations of tax applicable to ordinary income that are illustrated in Example 1, Cases A and B1 (see paragraphs 740-270-55-4 through 55-6). In addition, the entity experiences a tax-deductible unusual or infrequently occurring loss of $50,000 (potential benefit $25,000) in the second quarter. The loss cannot be carried back, and available evidence indicates that a valuation allowance is needed for all of the deferred tax asset. As a result, the tax benefit of the unusual or infrequently occurring loss is recognized only to the extent of offsetting ordinary income for the year to date. Quarterly tax provisions under two different assumptions for the occurrence of ordinary income are as follows.

			Tax (or Benefit) Applicable to				
			Ordinary Income (Loss)		Unusual or Infrequently Occurring Loss		
Assumptions and Reporting Period	Ordinary Income (loss)	Unusual or Infrequently Occurring Loss	Reporting Period	Year-to-Date	Year-to-Date	Less Previously Provided	Reporting Period
Income in all quarters:							
First quarter	$20,000		$8,000	$8,000			
Second quarter	20,000	$(50,000)	8,000	16,000	$(16,000)	$-	$(16,000)
Third quarter	20,000		8,000	24,000	(24,000)	(16,000)	(8,000)
Fourth quarter	40,000		16,000	40,000	(25,000)	(24,000)	(1,000)
Fiscal year	$100,000	$(50,000)	$40,000				$(25,000)
Income and loss quarters							
First quarter	$40,000		$16,000	$16,000			
Second quarter	40,000	$(50,000)	16,000	32,000	$(25,000)	$-	$(25,000)
Third quarter	(20,000)		(8,000)	24,000	(24,000)	(25,000)	1,000
Fourth quarter	40,000		16,000	40,000	(25,000)	(24,000)	(1,000)
Fiscal year	$100,000	$(50,000)	$40,000				$(25,000)

4. Balance sheet impact and required disclosures

ASC 740-270 outlines the guidance on calculating income taxes for interim periods. In other words, it prescribes an income statement approach, and it does not address the measurement and presentation of deferred tax assets and liabilities or other balance sheet tax accounts in interim periods. Absent of any specific guidance, an entity should adjust its income tax balance sheet accounts during interim periods in a methodical and rationale manner that aligns the income statement approach of ASC 740-270 or balance sheet approach of ASC 740-10, considering significant changes in deferred tax balances by jurisdiction.

ASC 740-270-50-1 requires entities to disclose the reasons for significant differences between income tax expense and pretax accounting income in interim financial statements, unless these reasons are already clear from the financial statements or the nature of the business.

Appendix A: Acronyms

Acronym	Definition
AETR	Annual Effective Tax Rate
ASC	FASB Accounting Standards Codification
FASB	Financial Accounting Standards Board
OBBBA	One Big Beautiful Bill Act

Appendix B: Definitions

Several terms with specific meaning are used throughout this publication. Those terms and the corresponding definitions based on the FASB's Master Glossary of the Codification are provided in the table that follows.

Term	Definition
Carrybacks	Deductions or credits that cannot be utilized on the tax return during a year that may be carried back to reduce taxable income or taxes payable in a prior year. An operating loss carryback is an excess of tax deductions over gross income in a year; a tax credit carryback is the amount by which tax credits available for utilization exceed statutory limitations. Different tax jurisdictions have different rules about whether excess deductions or credits may be carried back and the length of the carryback period.
Carryforwards	Deductions or credits that cannot be utilized on the tax return during a year that may be carried forward to reduce taxable income or taxes payable in a future year. An operating loss carryforward is an excess of tax deductions over gross income in a year; a tax credit carryforward is the amount by which tax credits available for utilization exceed statutory limitations. Different tax jurisdictions have different rules about whether excess deductions or credits may be carried forward and the length of the carryforward period. The terms carryforward, operating loss carryforward, and tax credit carryforward refer to the amounts of those items, if any, reported in the tax return for the current year.
Current Tax Expense (or Benefit)	The amount of income taxes paid or payable (or refundable) for a year as determined by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues for that year.
Deductible Temporary Difference	Temporary differences that result in deductible amounts in future years when the related asset or liability is recovered or settled, respectively. See Temporary Difference.
Deferred Tax Asset	The deferred tax consequences attributable to deductible temporary differences and carryforwards. A deferred tax asset is measured using the applicable enacted tax rate and provisions of the enacted tax law. A deferred tax asset is reduced by a valuation allowance if, based on the weight of evidence available,

Term	Definition
	it is more likely than not that some portion or all of a deferred tax asset will not be realized.
Deferred Tax Consequences	The future effects on income taxes as measured by the applicable enacted tax rate and provisions of the enacted tax law resulting from temporary differences and carryforwards at the end of the current year.
Deferred Tax Expense (or Benefit)	The change during the year in an entity's deferred tax liabilities and assets. For deferred tax liabilities and assets acquired in a purchase business combination during the year, it is the change since the combination date. Income tax expense (or benefit) for the year is allocated among continuing operations, discontinued operations, and items charged or credited directly to shareholders' equity.
Deferred Tax Liability	The deferred tax consequences attributable to taxable temporary differences. A deferred tax liability is measured using the applicable enacted tax rate and provisions of the enacted tax law.
Event	A happening of consequence to an entity. The term encompasses both transactions and other events affecting an entity.
Income Tax Expense (or Benefit)	The sum of current tax expense (or benefit) and deferred tax expense (or benefit).
Income Taxes	Domestic and foreign federal (national), state, and local (including franchise) taxes based on income.
Income Taxes Currently Payable (Refundable)	See Current Tax Expense (or Benefit).
Infrequency of Occurrence	The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates (see paragraph 220-20-60-1).
Ordinary Income (or Loss)	Ordinary income (or loss) refers to income (or loss) from continuing operations before income taxes (or benefits) excluding significant unusual or infrequently occurring items. Discontinued operations and cumulative effects of changes in accounting principles are also excluded from this term. The term is not used in the income tax context of ordinary income versus capital gain. The meaning of unusual or infrequently occurring items is consistent with their use in the definitions of the terms unusual nature and infrequency of occurrence.
Tax Consequences	The effects on income taxes—current or deferred—of an event.
Tax Position	A position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods. A tax position can result in a

Term	Definition
	permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to: a. A decision not to file a tax return b. An allocation or a shift of income between jurisdictions c. The characterization of income or a decision to exclude reporting taxable income in a tax return d. A decision to classify a transaction, entity, or other position in a tax return as tax exempt e. An entity's status, including its status as a pass-through entity or a tax-exempt not-for-profit entity.
Taxable Income	The excess of taxable revenues over tax deductible expenses and exemptions for the year as defined by the governmental taxing authority.
Taxable Temporary Difference	Temporary differences that result in taxable amounts in future years when the related asset is recovered or the related liability is settled. See Temporary Difference.
Temporary Difference	A difference between the tax basis of an asset or liability computed pursuant to the requirements in Subtopic 740-10 for tax positions, and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Paragraph 740-10-25-20 cites examples of temporary differences. Some temporary differences cannot be identified with a particular asset or liability for financial reporting (see paragraphs 740-10-05-10 and 740-10-25-24 through 740-10-25-25), but those temporary differences do meet both of the following conditions: a. Result from events that have been recognized in the financial statements b. Will result in taxable or deductible amounts in future years based on provisions of the tax law. Some events recognized in financial statements do not have tax consequences. Certain revenues are exempt from taxation and certain expenses are not deductible. Events that do not have tax consequences do not give rise to temporary differences.
Unusual Nature	The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates (see paragraph 220-20-60-1).
Unrecognized Tax Benefit	The difference between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to Subtopic 740-10.

Term	Definition
Valuation Allowance	The portion of a deferred tax asset for which it is more likely than not that a tax benefit will not be realized.

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