



Tax Insights
from Tax Accounting
Services

Tax accounting for divestitures: Held-for-sale considerations

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In brief

What happened?

The deals market remains active as companies reassess capital allocation and operational priorities in response to a rapidly evolving economic and trade environment. At the same time, the significant capital demands associated with AI-enabled transformations have heightened the focus on strategic portfolio reviews. As a result, many companies are actively pursuing divestitures of non-core assets to unlock capital, streamline operations, and prioritize investments.

Why is it relevant?

A divestiture is often a transformational event for a company, with broad implications across financial reporting, tax, and operations. Divestitures can also require the application of complex accounting guidance related to the held-for-sale classification and recognition of income taxes that may not be routinely encountered in a company's reporting cycle.

These considerations are often further complicated by transaction-specific factors—such as timing, deal structure, and the evolving regulatory and global legislative landscape. Such factors can affect the determination and reporting of the disposal group and related tax accounting impacts.

Actions to consider

Companies should proactively assess the tax accounting implications of a potential divestiture early in the transaction process. This assessment includes developing a thorough understanding of the

anticipated deal structure and the applicable tax laws in each relevant jurisdiction to identify the tax accounting consequences associated with the held-for-sale classification of the disposal group. This Tax Insight outlines the key considerations companies should evaluate in performing this assessment.

In detail

Accounting considerations for the disposal group

US GAAP differentiates the accounting and financial statement presentation considerations for assets held-for-sale from those held-for-use in operations. The classification of an asset or disposal group as held-for-sale can introduce complexity across a range of income tax accounting matters, including the assessment of which income tax-related assets and liabilities should be included in the disposal group.

Held-for-sale criteria

A disposal group is classified as held-for-sale if it meets all the criteria outlined in ASC 360-10-45-9. These criteria generally require a company to demonstrate the ability and commitment to sell the respective disposal group, including that the sale is probable (i.e., a likelihood of at least 75%) and generally expected to be completed within one year. Held-for-sale classification is only met when all of the criteria have been satisfied as of the balance sheet date. Developments that occur after the balance sheet date but before the issuance of the financial statements are considered non-recognized subsequent events and, as such, should generally be considered in the period the development occurs.

In many circumstances, a disposal group classified as held-for-sale may also meet the discontinued operations criteria under ASC 205-20 and, therefore, would be subject to additional financial reporting considerations. However, a disposal group can qualify as held-for-sale without meeting the discontinued operations criteria, as the classifications are based on separate and distinct criteria. This publication focuses exclusively on the financial reporting considerations related to the income tax accounting implications of meeting held-for-sale.

Determining the disposal group

When the held-for-sale criteria are met, ASC 360-10-45-14 requires the assets and liabilities of the disposal group to be presented separately as held-for-sale within their respective section of the balance sheet (i.e., the assets and liabilities should not be presented as a single, net amount). When identifying the assets and liabilities of the disposal group, a company should determine if any income tax-related balances should be included. This will depend on whether the income tax assets or liabilities will transfer to the buyer or be realized by the seller, based on the anticipated sale structure (i.e., either a stock or asset sale) and the applicable tax law in the relevant jurisdiction(s).

Deferred tax assets and liabilities

If the disposition is structured as an asset sale, the seller typically settles the related book-tax basis differences related to the disposal group when the sale occurs. Since the basis differences will not transfer to the buyer, the deferred tax amounts would be excluded from the disposal group. In a stock sale, the entity's deferred tax assets and liabilities will generally carry over to the buyer and, as such, would be included in the disposal group. However, depending on the facts and circumstances, certain deferred tax balances related to goodwill and tax attribute carryforwards may be excluded from the disposal group.

With respect to goodwill, while tax basis in goodwill is generally associated with a specific legal entity, book goodwill is associated with a reporting unit. A reporting unit may include multiple legal entities or only a portion of a legal entity. As such, an analysis of the book and tax basis needs to be performed to determine what amount of the deferred tax balance related to goodwill, if any, should be included in the disposal group. When the disposition includes one or more legal entities, any tax basis in the goodwill for the respective entities should be allocated to the disposal group, to the extent such tax basis transfers under the applicable tax law.

For the book basis, if the disposition includes only part of the reporting unit and the disposal group constitutes a business under the framework provided by ASC 805, ASC 350-20-40-3 generally requires that companies allocate the reporting unit's goodwill to the disposal group based on the relative fair values of that business and the reporting unit overall. When allocating the book basis, a company must carefully evaluate whether the reporting unit has both component-1 and component-2 goodwill, including whether any component-2 goodwill represents excess tax-over-book or book-over-tax goodwill. This distinction is important because only component-1 goodwill and component-2 tax-over-book goodwill allocated to the disposal group would have a corresponding deferred tax balance. Because there is no direct guidance on how to allocate the book goodwill between component-1 and component-2 for a disposal group, a company should determine a reasonable method and apply it consistently. Depending on the specific circumstances, this may result in all, some, or none of the goodwill-related deferred tax balance being included in the disposal group.

For tax attribute carryforwards, the relevant tax law must be carefully assessed when determining whether deferred tax assets will transfer to the buyer, particularly if the stock of the entity being disposed of is part of a consolidated tax filing group or benefits from group relief. If the tax attribute carryforwards will be retained by the seller, the respective balances should be excluded from the disposal group.

Observation: Section 338(h)(10) of the Internal Revenue Code allows a buyer and seller to jointly elect for a stock sale to be treated as an asset sale for US federal income tax purposes. In such cases, the entity's deferred taxes would generally be excluded from the disposal group, as those basis differences will be realized by the seller when the sale occurs.

Income tax payables, receivables, and uncertain tax positions

For income tax payables and receivables, as well as liabilities relating to uncertain tax positions, the determination of whether the balances transfer to the buyer is generally dependent on which party is considered the "primary obligor" under the applicable jurisdiction's tax law. If the disposition is structured as an asset sale, the seller is generally responsible for any income tax liabilities that exist prior to the disposition and is entitled to any income tax receivables. As such, the balances would be excluded from the carrying value of the disposal group. Alternatively, if the disposition is structured as a stock sale, the respective balances will generally transfer to the buyer and, as such, would be included in the disposal group. However, if the stock of the entity that is being disposed of is part of a consolidated tax filing group or is benefitting from group relief, identifying the primary obligor will require careful evaluation based on the specific facts and the applicable tax law.

Other balance sheet considerations

There may be other income tax balances related to the operations being disposed that should be excluded from the disposal group based upon the underlying nature of those balances. Specifically, a company may have deferred taxes related to outside basis differences in its investments in the entities being sold. Since the basis difference will be settled by the parent, the amounts should not be considered in the carrying value of the disposal group.

Companies may also have “deferred charges” related to the income tax effects of intra-entity inventory sales. Under ASC 740-10-25-3(e) and ASC 810-10-45-8, any income taxes paid by the seller are deferred in the consolidated financial statements until the inventory is sold to a third party. Because deferred charges relate to the consolidated financial reporting requirements for a prior event that is unrelated to the disposal, such amounts would not be included in the disposal group.

Measuring the disposal group

Once the assets and liabilities of the disposal group have been determined, the fair value of the group is measured in accordance with ASC 820-10. This assessment is performed for the entire disposal group, rather than at the individual asset level. Based upon that measurement, the disposal group should be reported at the lower of the fair market value less costs to sell or the carrying value (after appropriate consideration of potential impairments pursuant to ASC 350 or ASC 360), beginning in the period the held-for-sale criteria are met, and is subject to remeasurement in subsequent reporting periods. Any write-downs of the disposal group to fair market value less costs to sell are considered losses on sale rather than impairment losses. If, in a subsequent reporting period, there is appreciation in the fair market value less costs to sell, those increases may only be recognized to the extent of the cumulative write-downs previously recognized for the disposal group.

When an impairment or fair value adjustment is required, a company may need a corresponding adjustment to the deferred taxes associated with the inside basis of the disposal group’s assets and liabilities. The potential impacts may depend on the structure of the transaction.

Assessing the ASC 740 implications of a planned divestiture

A divestiture often gives rise to changes in facts and circumstances that can affect judgmental areas of the income tax provision, including outside basis differences, valuation allowances, and uncertain tax positions. Given that certain impacts must be accounted for no later than the period in which the disposal group is classified as held-for-sale, companies should assess the potential implications early in the transaction process and continuously reevaluate the relevant facts each reporting period up to the disposal date.

Outside basis differences

Recognition of deferred taxes

ASC 740 generally requires recognition of deferred taxes for all book-tax basis differences, including outside basis differences, unless an exception applies. Depending on the tax status of the investment, whether it is domestic or foreign, and in some cases, the company’s intention with respect to its investment, a company may have previously concluded the recognition of a deferred tax asset or liability was not required because one of three exceptions applied.

| Exceptions to recognition of deferred taxes | | |
|---|--|--|
| Criteria | Applicable investments | Outcome |
| The investment is expected to be recovered tax-free and without incurring significant cost (ASC 740-30-25-7 and ASC 740-30-25-8) | Domestic subsidiary | DTL for book-over-tax basis difference is not recognized |
| The parent has the ability and intent to indefinitely prevent reversal of the outside basis difference (ASC 740-30-25-17) | Foreign subsidiary or foreign corporate joint venture* | DTL for book-over-tax basis difference is not recognized |
| The basis difference is not expected to reverse in the foreseeable future (ASC 740-30-25-9) | Domestic or foreign subsidiary or corporate joint venture* | DTA for tax-over-book basis difference is not recognized |

*Whether a corporate joint venture qualifies for an exception depends on specific facts and circumstances

Due to the planned disposition, a company may need to record deferred taxes on existing outside differences, as these exceptions are typically no longer available for the investments involved in the sale.

Book-over-tax basis differences

The tax-free recovery exception for book-over-tax basis differences is only available when the investment in a domestic subsidiary can be recovered tax-free, without incurring significant cost, and the company intends to use that manner of recovery. When the planned divestiture will result in a taxable transaction, a company that previously avoided recognition of a deferred tax liability will no longer meet the requirements to apply this exception.

With respect to the indefinite reversal exception, it may only be applied when a company has both the ability and intent to prevent reversal of the book-over-tax basis difference attributable to a foreign subsidiary or joint venture. A decision to sell an investment represents a change in intent that prevents a company from continuing to apply this exception for a previously unrecorded deferred tax liability, as the effectuation of the sale would result in realization of the outside basis difference.

For either exception, a company should recognize the deferred tax liability when its intent has changed, with recognition no later than the balance sheet date on which the disposal group is classified as held-for-sale.

Observation: Before executing the divestiture, a company may decide to distribute existing cash that exceeds working capital from the disposal group up to the parent, including excess cash held by lower-tier subsidiaries. If this decision represents a change in intent from a previous assertion, a deferred tax liability should be recorded in the period the change in intent occurs. The deferred tax liability should

account for all tax consequences of the planned distribution, including withholding taxes, foreign exchange gains and losses, and any available tax credits.

Tax-over-book basis differences

The “foreseeable future” exception for tax-over-book basis differences applies when a company intends to hold and operate its subsidiary or corporate joint venture (whether domestic or foreign). Although ASC 740 does not specifically define the term “foreseeable future,” we believe that it would generally mean within the next year. As such, a deferred tax asset should only be recognized when it is apparent that the outside basis difference will reverse in the foreseeable future. In the context of a sale of the investment, to record the deferred tax asset, management should be fully committed to the disposition and not just exploring it as a possibility. Therefore, we believe that in most cases, the deferred tax asset should be recognized in the reporting period that the held-for-sale criteria are met, since it is considered probable that the sale will occur within a year.

Measurement of deferred taxes

Outside basis differences are measured based on the expected manner in which the temporary difference will be settled or recovered. If a company previously recognized deferred taxes on outside basis differences, a subsequent decision to dispose of a subsidiary or corporate joint venture likely represents a change in the expected manner of recovery and may require a remeasurement of the respective outside basis difference. When remeasuring existing outside basis differences or recognizing basis differences that were previously unrecorded due to an applicable exception, the company should determine a realistic and reasonable expectation of the transaction’s structure and identify the related tax consequences under the relevant jurisdiction’s tax law. These assumptions and related tax consequences should be reassessed each reporting period to ensure any changes to the intended structure of the transaction are appropriately considered.

Observation: When assessing the tax consequences of the intended structure of the sale, companies should consider whether the disposition will result in capital or ordinary gain or loss. Certain jurisdictions may have preferential capital gains tax rates or other exclusions, such as participation exemptions, which could impact the measurement of outside basis differences.

Other measurement considerations

When a disposal group includes an investment classified as a partnership, a company should assess the implications of the change in the expected manner of recovery. The change—from holding and operating to held-for-sale—may affect the measurement of the outside basis difference, both due to character and, where applicable, due to the application of the look-through approach if that was previously elected as an accounting policy.

If a company previously elected the look-through approach as an accounting policy prior to the decision to sell, a portion of the outside basis difference in the partnership may not have been previously recognized if it related to an underlying corporate subsidiary or joint venture owned by the partnership for which the indefinite reinvestment assertion or the foreseeable future exception applied. Due to the disposition, this exception may no longer be available; thus, a company may need to remeasure its deferred tax asset or liability to reflect the change. Importantly, a company should not change its accounting policy as a result of the transaction. A company that previously elected the look-through approach should continue to apply it consistently to other investments in partnerships as applicable.

As it relates to the character of the outside basis difference, a company should evaluate whether the disposition of the partnership interest will result in capital or ordinary gain or loss. These considerations

may affect the measurement of the deferred tax asset or liability, particularly in jurisdictions with preferential tax rates or other applicable exemptions.

Observation: If the disposal group includes a US partnership interest, companies should consider the character of the anticipated gain or loss under Subchapter K and the related regulations. Although Section 741 of the Internal Revenue Code generally treats the sale of a partnership interest as the disposition of a capital asset, Section 751 may require a portion of the gain or loss attributable to certain assets held by the partnership to be recharacterized as ordinary. While US corporate partners do not benefit from preferential capital gains rates, the distinction between capital and ordinary treatment may affect the realizability of existing tax attributes (e.g., capital loss carryforwards). In addition, capital losses generated from the sale of the partnership interest may be subject to limitations that do not apply to ordinary losses.

Valuation allowances

ASC 740 requires companies to assess at each reporting period whether each taxpaying component's deferred tax assets are more-likely-than-not realizable (i.e., a greater than 50% likelihood). This assessment often requires significant judgment and is based upon the weight of all available evidence, with greater weight given to evidence that is objectively verifiable. Realization of deferred tax assets ultimately depends on the existence of sufficient future taxable income of the appropriate character that is within the carryforward and carryback periods available under the relevant jurisdiction's tax law. In making this determination, companies must consider the four sources of future taxable income outlined in ASC 740.

Sources of taxable income (ASC 740-10-30-18)

1. Future reversals of existing taxable temporary differences
2. Future taxable income exclusive of reversing temporary differences and carryforwards
3. Taxable income in prior carryback year(s) if carryback is permitted under the tax law
4. Tax-planning strategies

A divestiture may impact the seller's available sources of future taxable income, which may depend, in part, on whether the transaction is structured as a stock sale or an asset sale. In the case of a stock sale, the potential impacts also depend on whether the entity being sold is part of a consolidated tax filing group. Any change in the valuation allowance should generally be recognized in the period the disposal group is classified as held-for-sale.

Taxable temporary differences

While taxable temporary differences are a source of taxable income under ASC 740, the mere existence of such differences may not, on their own, provide a sufficient source of taxable income to support realization of deferred tax assets. A company must assess whether, and to what extent, the existing taxable temporary differences will reverse in the appropriate period(s) to serve as a source of income, which often requires a scheduling analysis. A divestiture may change the timing and availability of taxable temporary differences used as a source of future taxable income; accordingly, such changes warrant careful evaluation.

Asset sales

For an asset sale, the reversal pattern of the seller's temporary differences may change, as deferred taxes associated with the disposal group's assets and liabilities will generally be recovered or settled upon sale. Companies should carefully evaluate potential changes in the timing of reversal, particularly for goodwill, indefinite and finite-lived intangible assets, and property, plant, and equipment.

With respect to deferred tax liabilities related to goodwill and other indefinite-lived intangibles, the book-tax basis difference typically can only support realization of indefinite-lived deferred tax assets. However, when such assets are part of the disposal group, the basis difference is expected to reverse within one year. As a result, the deferred tax liabilities may support realization of the deferred tax assets with a finite life.

For finite-lived intangibles and property, plant, and equipment, once classified as held-for-sale, depreciation and amortization are no longer recognized for book purposes. However, for tax purposes, the related deductions generally continue in accordance with the applicable tax law, which may increase the related deferred tax liabilities or decrease the deferred tax assets, depending on the underlying basis differences. Companies should evaluate how this may impact their scheduling analysis.

Stock sales

For a stock sale, the disposition may affect the seller's overall composition of deferred tax assets and liabilities. This impact generally arises for two reasons.

First, a stock sale may only involve certain entities within a consolidated tax filing group. In such cases, the deferred tax assets and liabilities related to the inside basis of the disposal entities will generally transfer to the buyer and accordingly, should be excluded from the seller's inventory of deferred taxes. As a result, the consolidated tax filing group's composition of remaining deferred tax assets and liabilities may change significantly. These changes may affect the availability and timing of taxable temporary differences as a source of future taxable income and, therefore, should be considered in the seller's valuation allowance assessment.

Second, the transaction may result in the remeasurement of existing outside basis differences or the recognition of previously unrecorded basis differences in the seller's investment being sold. For a book-over-tax basis difference, changes to the related deferred tax liability may provide an incremental source of future taxable income to support realization of the seller's existing deferred tax assets, depending on the character of income that is expected to be generated upon reversal. Alternatively, for a tax-over-book basis difference in the investment, the respective deferred tax asset should be evaluated for realizability, taking into consideration the expected character of the deduction upon its reversal. In either case, these changes should be reflected in the scheduling analysis to ensure any held-for-sale effects are appropriately captured in the realizability assessment.

Projections of future taxable income

When evaluating projections of future taxable income, a company should weigh all available information, including recent results, trends, and anticipated changes in the business. While recent results are generally considered indicative of future performance, a divestiture may affect this source of income. This is due to the exclusion of the operating results of the held-for-sale business and the potential recognition of a gain on sale, which may impact the realizability of the seller's deferred tax assets.

The effect of excluding the operating results of the disposal group from projected taxable income is relevant to both stock and asset sales. In a stock sale, if the subsidiary being sold is part of a consolidated tax filing group, its projected income or loss should no longer be considered when

assessing the realizability of the consolidated tax filing group's remaining deferred tax assets. In an asset sale, a company should assess the impact of removing the future income and expenses attributable to the assets being sold, such as revenue from the licensing of intellectual property or depreciation of property, plant, and equipment.

If the transaction is expected to result in a gain, a question may arise as to whether the seller's projected taxable income should include the anticipated gain. Generally, ASC 740 assumes recovery of assets and settlement of liabilities at the amounts reported in the financial statements. This assumption could be interpreted to mean that any anticipated pretax gain arising because the disposal group is expected to be sold for more than its book value should not be considered until the disposal group is sold. However, we believe such gain may be considered in the valuation allowance assessment if the anticipated gain is objectively verifiable. Consistent with the overall valuation allowance framework, the anticipated gain should be evaluated and weighted with all other pieces of positive and negative evidence.

If the anticipated gain is objectively verifiable, its ability to support realization of the seller's deferred tax assets depends on the overall projections of taxable income, as the gain itself is not a separate source of future taxable income. If the seller is projecting taxable income for the year in which the sale is expected to occur, inclusive of the anticipated gain, the gain may be considered in the evaluation of future sources of taxable income. This determination requires careful evaluation and judgment. If, however, the seller is projecting a loss for the respective year, even after considering the anticipated gain, the gain would not provide a source of income to support realization.

Taxable income in prior carryback periods

The availability of taxable income in a prior year requires an assessment of whether sufficient taxable income exists within the carryback period permitted under the relevant jurisdiction's tax law to realize deferred tax assets. This assessment should consider the character of income and the impact of any tax law limitations. When a disposition results in the reversal of a deferred tax asset and a loss or deduction that is eligible for carryback, a company should also evaluate whether income of the appropriate character exists in the applicable carryback years to support realization of the benefit.

Observation: When the divestiture includes the sale of a US subsidiary's stock and the outside basis difference reflects tax-over-book basis, the transaction may result in a capital loss for US tax purposes. Under current US tax law, capital losses are deductible only to the extent of capital gains in the same year; however, such losses may either be carried back three years or carried forward five years. Accordingly, companies should assess whether sufficient income of the appropriate character was generated in each of the three preceding taxable years to support realization of the deferred tax asset related to the outside basis difference.

Tax planning strategies

For a tax planning strategy to be considered a source of taxable income to support realization of a deferred tax asset, the strategy must be both feasible and prudent. This requires an assessment as to whether a company has the ability to implement the strategy and whether its execution would be in the company's best interest. In addition, tax planning strategies are actions that the company would undertake to prevent a tax attribute from expiring unused.

When a disposal group is classified as held-for-sale, the availability of previously identified tax planning strategies may be affected. Accordingly, a company should reassess whether such strategies continue to meet the feasibility and prudence criteria and whether they remain a viable source of future taxable income in light of the anticipated divestiture.

Uncertain tax positions

Under ASC 740, a company must assess uncertain tax positions using a two-step model: recognition and measurement. Recognition is based on whether the position is more-likely-than-not to be sustained (i.e., a greater than 50% likelihood), considering the technical merits of the position and the taxing authority's administrative practices and precedents. If the recognition threshold is met, the tax benefit is measured using a cumulative probability approach, such that only the portion of the tax benefit that is greater than 50% likely to be realized upon settlement is reflected in the financial statements.

In the context of a disposition, a company should assess the recognition and measurement of uncertain tax positions taken with respect to the transaction, including those arising from pre-separation and separation steps undertaken to effectuate the sale.

Observation: Companies may obtain “should” level tax opinions from outside tax advisors to support tax positions taken with respect to a divestiture. While a “should” level tax opinion may support recognition of the tax position, it may not support recognition of the full amount of the expected tax benefit. Therefore, it may be possible for less than the full amount of the tax position to be recognized.

Observation: In connection with a divestiture, the seller may enter into income tax indemnification arrangements related to uncertain tax positions that arose prior to the transaction. These arrangements are contractual agreements between two parties under which one party agrees to reimburse the other for income taxes paid to a taxing authority. In a stock sale, the buyer may become the primary obligor for any pre-sale uncertain tax positions, and the seller may agree to indemnify the buyer for future payments to the tax authorities related to those positions. In this case, the seller is no longer the primary obligor, and the related indemnification liabilities should be accounted for by the seller under ASC 460, *Guarantees*, rather than ASC 740. The indemnification liability should be recorded in the period the indemnification agreement becomes effective, which is generally the period in which the transaction occurs.

Other ASC 740 implications

Companies pursuing a divestiture should evaluate whether the sale will affect the measurement of the seller's inside basis differences due to changes in the tax rates that are expected to apply in the period when the related deferred tax assets or liabilities reverse. Certain jurisdictions may grant a tax holiday or preferential tax rate to companies that meet specified criteria, such as maintaining a minimum employee headcount or satisfying a capital investment threshold. If a planned divestiture would cause an entity to no longer meet those requirements, the deferred tax assets and liabilities should be remeasured in the period the company meets the criteria to be classified as held-for-sale.

In addition, companies should consider whether the exclusion of a disposed entity from a combined, consolidated, or unitary tax filing group could affect the measurement of deferred tax balances of the remaining group. For instance, excluding a disposed entity from a state unitary group's apportionment calculation may affect the measurement of the seller's state-deferred tax balances.

Intraperiod tax allocation considerations

When recording the effects of the anticipated divestiture on areas such as outside basis differences, valuation allowances, and uncertain tax positions, companies must apply the intraperiod tax allocation requirements under ASC 740. These requirements provide a framework for allocating the total tax expense or benefit among the various financial statement components, including continuing operations,

discontinued operations, and other comprehensive income (OCI). The basic model consists of three steps.

Basic model for intraperiod allocation (ASC 740-20-45-1 through ASC 740-20-45-14)

Step 1 - Compute the total tax expense or benefit for the period

Step 2 - Compute the tax expense or benefit attributable to continuing operations

Step 3 - Allocate the difference between the amounts calculated in steps 1 and 2 among the other financial statement components

When applying this model, ASC 740 requires certain tax effects to be allocated to continuing operations, even if the underlying item arose in another financial statement component; as such, the appropriate allocation should be carefully evaluated.

For companies pursuing a divestiture that also meets the criteria for discontinued operations under ASC 205-20, the application of the intraperiod allocation rules can result in additional complexities.

Financial statement disclosures

A divestiture can give rise to significant financial reporting implications, requiring clear and transparent disclosures regarding the tax effects of the transaction. Such disclosures may include qualitative information presented in the income tax footnote or within the Management Discussion and Analysis (MD&A) section.

Within the income tax footnote, companies should provide transparent disclosure of any significant impacts to the tax provision that were recorded in the period as a result of the anticipated divestiture, such as changes to valuation allowances or the recognition and measurement of deferred taxes related to outside basis differences. When material, these disclosures should include the amount of the change, the weight of evidence considered, and the rationale for the timing of such changes.

Companies may also consider providing additional information regarding the impact of the planned disposition on other required income tax disclosures, including the effective tax rate reconciliation. For public business entities, ASU 2023-09 requires the effective tax rate reconciliation to be disaggregated into eight prescribed categories based on the country of domicile, with certain categories subject to additional disaggregation requirements. Further, reconciling items are generally required to be presented on a gross basis (i.e., not netted) with only limited exceptions. When a divestiture involves multiple jurisdictions or affects more than one of the prescribed categories, these requirements may result in the overall impact of the recorded tax effects being disaggregated across multiple lines within the rate reconciliation. Accordingly, companies may consider including qualitative disclosures to help users of the financial statements understand the overall impact.

With respect to MD&A, ASC 275, *Risks and Uncertainties*, requires companies to provide early warning disclosures of material adjustments to estimates that are reasonably possible to occur in the near term, generally considered to be within one year. A planned divestiture may lead to such uncertainties, for example, when potential changes to a valuation allowance depend on conditions of the sale that are not objectively verifiable. In such cases, companies should disclose these uncertainties, along with an estimate or range of possible changes to the amounts reflected in the financial statements as of the reporting date.

See also

- Accounting and reporting guide: [Income taxes](#)
- Accounting and reporting guide: [Property, plant, equipment and other assets](#)
- Accounting and reporting guide: [Financial statement presentation](#)
- In depth: [FASB issues guidance on income tax disclosures](#)

Let's talk

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