Income Reporting and Accounting Methods of Non-U.S. Corporations Members of a Combined Group

TB-101(R) - Revised October 13, 2023
Tax: Corporation Business Tax

Revision Information: This Technical Bulletin was revised to include links to information about the changes for non-U.S. corporations claiming treaty protection that were codified in P.L. 2023, c. 96.

Combined reporting is mandatory in New Jersey for tax years ending on and after July 31, 2019 (this applies to any taxpayer whose tax year begins on and after August 1, 2018, if a full 12-month tax year of the managerial member begins August 1, 2018, and ends July 31, 2019). This Technical Bulletin discusses the income reporting and accounting methods for non-U.S. corporations that are included as members of a combined group filing a New Jersey Combined Return when a member of the combined group is a non-U.S. corporation that only uses the International Financial Reporting Standards for financial and tax purposes.

Under N.J.S.A. 54:10A-4.6(b), the income of a non-U.S. corporation is required to be determined based on "accounting principles generally accepted in the United States for the presentation of those statements" or in a manner that "reasonably approximates income" under the Corporation Business Tax:

> For a member not incorporated in the United States, the income to be included in the entire net income of the combined group shall be determined from a profit and loss statement that shall be prepared for each foreign branch or corporation in the currency in which the books of account of the branch or corporation are regularly maintained, adjusted to conform it to the **accounting principles generally accepted in the United States** for the presentation of those statements and further adjusted to take into account any book-tax differences required by federal or State law. The profit and loss statement of each foreign member of the combined group and the allocation factors related thereto, whether United States or foreign, shall be translated into or from the currency in which the parent company maintains its books and records on any reasonable basis consistently applied on a year-to-year or entity-by-entity basis. Income shall be expressed in United States dollars. In lieu of these procedures and subject to the determination of the director that the income to be reported **reasonably approximates income** as determined under the Corporation Business Tax Act (1945), P.L. 1945, c. 162 (C. 54:10A-1 et seq.), income may be determined on any reasonable basis consistently applied on a year-to-year or entity-by entity basis. **(Emphasis added.)**

Generally Accepted Accounting Principles refers to accounting principles, standards, and procedures established by either:

- U.S. Generally Accepted Accounting Principles (U.S. GAAP), which are issued by the Financial Accounting Standards Board (FASB); **or**
- International Financial Reporting Standards (IFRS), which are issued by the International Accounting Standards Board (IASB).

Insofar as International Financial Reporting Standards (IFRS) are used globally by many foreign corporations doing business in the United States and are permitted to be used by foreign registrants by the Securities and Exchange Commission, IFRS qualifies as a set of "accounting principles generally accepted in the United States." The Division recognizes that IFRS qualifies as one of the "generally accepted accounting principles" for purposes of the net deferred tax liability deduction computation (as outlined in TB-96(R)).

Since a non-U.S. corporation that only uses IFRS as its method of accounting would have substantial difficulty converting to U.S. GAAP merely for New Jersey Corporation Business Tax purposes, the Division will accept IFRS as an acceptable accounting method that "reasonably approximates income" if that is the only method of accounting the specific entity uses.

If there are material differences in accounting methods between U.S. GAAP and IFRS that cause a material numerical discrepancy, taxpayers should maintain explanations in their books, records, and work-papers, which will be available upon request if the Division of Taxation asks for such information. Taxpayers will not be penalized merely due to differences between U.S. GAAP and IFRS.

Note: In most instances, taxpayers will use either IFRS or GAAP. However, there are some taxpayers with multi-national operations that are required to use multi-GAAP reporting in order to meet their reporting obligations with multiple financial regulators. Taxpayers cannot deviate from their accounting method that was used for federal purposes.

More Information

TB-94(R), *General Information on the Net Operating Loss Regime for Tax Years Ending on and After July 31, 2019*

TB-95(R), *Net Operating Losses and Combined Groups*

TB-107, *Changes to Corporation Business Tax, Gross Income Tax, and Other Requirements from P.L. 2023, c.96*

TB-109, *Combined Group Filing Methods for Privilege Periods Ending on and After July 31, 2023*

Also see N.J.A.C. 18:7-5.2 and N.J.A.C. 18:7-21.1 through 21.29. The Division of Taxation is in the process of updating regulations addressing the topics covered by this Technical Bulletin.

Note: A Technical Bulletin is an informational document that provides guidance on a topic of interest to taxpayers and may describe recent changes to the relevant laws, regulations, and/or Division policies. It is accurate as of the date issued. However, taxpayers should be aware that subsequent changes to the applicable laws, regulations, and/or the Division's interpretation thereof may affect the accuracy of a Technical Bulletin. The information provided in this document does not cover every situation and is not intended to replace the law or change its meaning.