Snapshot

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Implications of economic and fiscal policy uncertainty

Accounting and financial reporting considerations

Changes in the economic and fiscal policy priorities of the U.S. government can have a significant, wide-ranging economic impact on entities, both directly and indirectly, which could trigger the need for responses in accounting and financial reporting, including disclosures.

Accounting considerations

Entities are often required by U.S. GAAP to assess the potential accounting and financial reporting implications of major disruptive social and political changes and events, as well as significant biological and environmental events. However, forecasting the magnitude and duration of the economic impact of these events and changes is often challenging.

Accounting estimates

Accounting estimates rely on an entity's judgmental assumptions, which must be based on a reasonable interpretation of conditions or events that are either known or knowable as of the requisite measurement date. In other words, the assumptions used by an entity in its estimates must be both *reasonable* and *supportable*.

Determining what constitutes a "reasonable and supportable" assumption during times of economic uncertainty requires an entity to exercise professional judgment grounded in a *well-controlled and supported* estimation process. A well-controlled and supported estimation process will generally include the steps outlined in the following diagram.

Figure 1: Steps in estimation process

Step 1:
Identify information relevant to the estimate that is reasonably known or knowable as of the measurement date. Information discovered after the measurement date, but before the financial statements are issued, may confirm such information.

Step 2:
Use the relevant information identified in Step 1 to develop a reasonable and supportable forecast of future conditions.

Step 3:
Use the reasonable and supportable forecast from Step 2 in the estimation approach to arrive at a quantitative estimate. The estimation approach used should be consistent with the relevant accounting framework.

Step 4:
Produce transparent and robust disclosures describing the key inputs and assumptions used in the entity's estimation approach.

Changes in the U.S. government's economic and fiscal policies—particularly the imposition of tariffs and freezes in federal spending for grants and other programs—may have implications for a variety of accounting estimates, including, but not limited to, the following:

- Impairment of indefinite-lived intangible assets, including goodwill (see Grant Thornton's *Impairment: Indefinite-lived intangibles and goodwill*)
- Impairment of finite-lived intangibles and long-lived tangible assets, including right-of-use assets (see Grant Thornton's *Applying ASC 360 to right-of-use assets*)
- Impairment of receivables under ASC 326, *Credit Losses*, if an entity's customers or borrowers may be potentially impacted by the fiscal and economic policy changes
- Estimates of fair value in accordance with ASC 820, *Fair Value*
- The realizability of deferred tax assets under ASC 740, *Income Taxes*

Subsequent events in the current political environment

While entities need not consider every possible future scenario when developing estimates, entities may not generally exclude future scenarios from consideration in their estimation process on the basis of uncertainty alone if those scenarios are reasonable and supportable in light of known or knowable information at the estimation date. Rather, the uncertainty should impact the weighting that a reasonable and supportable future scenario receives in the entity's estimation process.

For example, the imposition of significant and widespread tariffs was a major economic policy position emphasized by the current administration during the 2024 presidential election campaign. Accordingly, entities may need to consider whether economic scenarios that incorporate the direct and indirect impact of U.S.−imposed tariffs (including the potential for retaliatory tariffs) are reasonable and supportable as of any post-election estimation dates.

In contrast, other fiscal and economic policy positions of the current administration have emerged more abruptly, such as the federal funding freeze enacted in January 2025. It is likely that scenarios predicated on this policy are not reasonable and supportable as of estimation dates prior to the policy's announcement. However, entities need to consider how the economic scenarios used in developing estimates as of estimation dates arising after the announcement of the new policy should incorporate the direct and indirect implications of this policy.

Entities should carefully and continuously monitor developments in the economic and fiscal policy priorities of the U.S. government, including the status of various legal challenges in order to ensure its forecasts are reasonable and supportable in light of currently known and knowable information.

Contract modifications

Entities that experience a negative economic impact from changes in the U.S. federal government's fiscal and economic policies, as well as entities whose customers or borrowers experience a negative impact, may need to modify their existing contracts as a result of the negative impact. Those modifications may have accounting and financial reporting implications, including

- Price concessions or other modifications to revenue contracts under ASC 606, *Revenue from Contracts with Customers* (see Grant Thornton's *Revenue from Contracts with Customers: Navigating the guidance in ASC 606 and ASC 340-40*)
- Rent concessions or other modifications to leases under ASC 842, *Leases* (see Grant Thornton's *Leases: Navigating the guidance in ASC 842)*
- Debt modifications, which may constitute troubled debt modifications, under ASC 470, *Debt*

Debt classification

Entities that expect to be significantly impacted by potential changes in economic and fiscal policies of the U.S. government may need to consider whether such changes result in debt covenant violations (for instance, many lending agreements include "material adverse change" provisions that render debt immediately callable by the lender). Entities should evaluate whether any debt covenant violations could have occurred as of the financial reporting date and whether any identified covenant violations impact the classification of the debt as a current or noncurrent liability on the borrower's balance sheet. Additionally, that analysis should inform the entity's consideration of its ability to continue as a going concern, as discussed below.

Disclosure considerations

Going concern

The guidance in ASC 205-40, *Presentation and Disclosure: Going Concern*, requires entities to evaluate their ability to continue as a going concern within one year after the financial statements are either issued or made available to be issued. An entity must provide disclosures if it concludes that there is substantial doubt about its ability to continue as a going concern or that its plans alleviate that doubt.

An entity may need to evaluate whether it has sufficiently considered the impact of existing changes (or of reasonably foreseeable changes) to U.S. fiscal and economic policies based on known or knowable information as of the financial statement date when determining whether substantial doubt exists about its ability to continue as a going concern or whether its plans alleviate that doubt.

Evaluating ability to continue as going concern after freeze of U.S. foreign aid

Entity A, a not-for-profit entity with a calendar year-end annual reporting date, receives a significant portion of its annual funding through a grant from USAID. In January 2025, following Entity A's 2024 year-end but prior to the date when the financial statements were made available to be issued, Entity A learned that the grant program facilitated by USAID had been indefinitely suspended and that the suspension was the subject of various legal challenges.

In performing its assessment of its ability to continue as a going concern, Entity A carefully evaluates how to incorporate these developments in forecasts used in its assessment of its ability to remain a going concern within one year after the financial statements are made available to be issued. Considering the guidance in ASC 250-40, *Going Concern*, Entity A concludes that, in its specific facts and circumstances, the impact of the suspension of the USAID grant program raises substantial doubt about its ability to continue as a going concern. Further, Entity A concludes that, in its specific facts and circumstances, its plans to secure replacement funding do not alleviate the substantial doubt about its ability to remain a going concern. As a result, Entity A provides the disclosures required by ASC 250-40-50-13 and 50-14.

Entities also need to exercise judgment when weighting different scenarios in the current environment—for example, less weight may be assigned to scenarios based on actions that have been proposed but not yet enacted through executive order or legislation, such as tariffs or changes in government grants and other fiscal programs, than to scenarios based on changes that have already been enacted.

Risks and uncertainties

Under ASC 275, *Risks and Uncertainties*, entities are required to make qualitative disclosures about risks and uncertainties that could significantly impact the amounts reported in the financial statements in the near term (that is, within one year from the date of the financial statements). Entities may need to evaluate whether it is necessary to include specific disclosures related to risks and uncertainties introduced by the imposition of tariffs, suspension of certain government grants or other federal spending, or other changing economic and fiscal policies of the U.S. government, including disclosures for significant accounting estimates and vulnerabilities due to concentrations in vendors or customers.

MD&A and Risk Factors

In addition to disclosures in their financial statements, public entities may need to provide additional disclosures about the impact of changing economic and fiscal policies of the U.S. government in their SEC filings under Regulation S-X in both Management's Discussion and Analysis (MD&A) and Risk Factors.

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