

Lease Accounting Standards: Coming in ~~2020~~ 2021?

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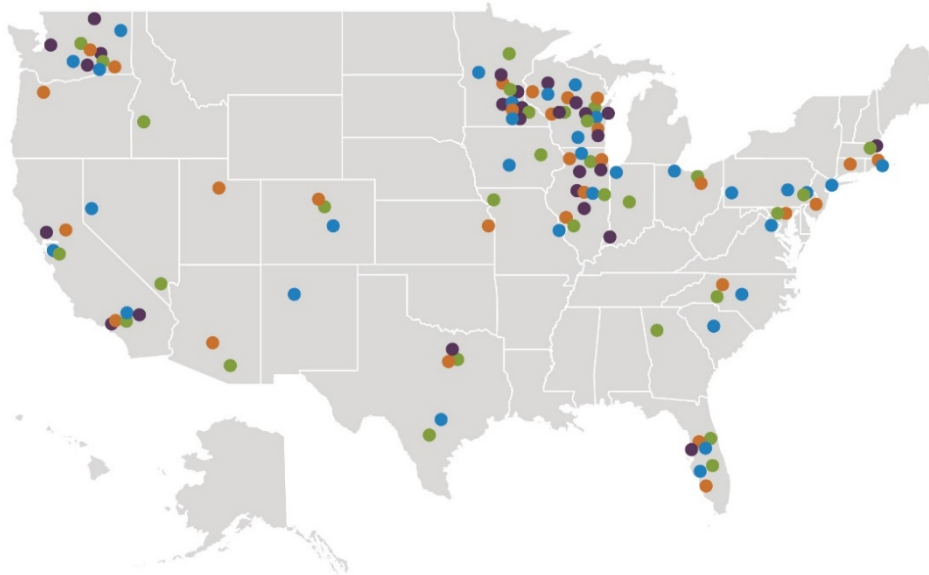
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Learning Objectives

- At the end of this session you will be able to:
 - Understand the changes associated with the new lease standard
 - Define what is a lease under the new standard and the type of lease
 - Recognize and measure a lease transaction





Background and Overview of the New Lease Standard

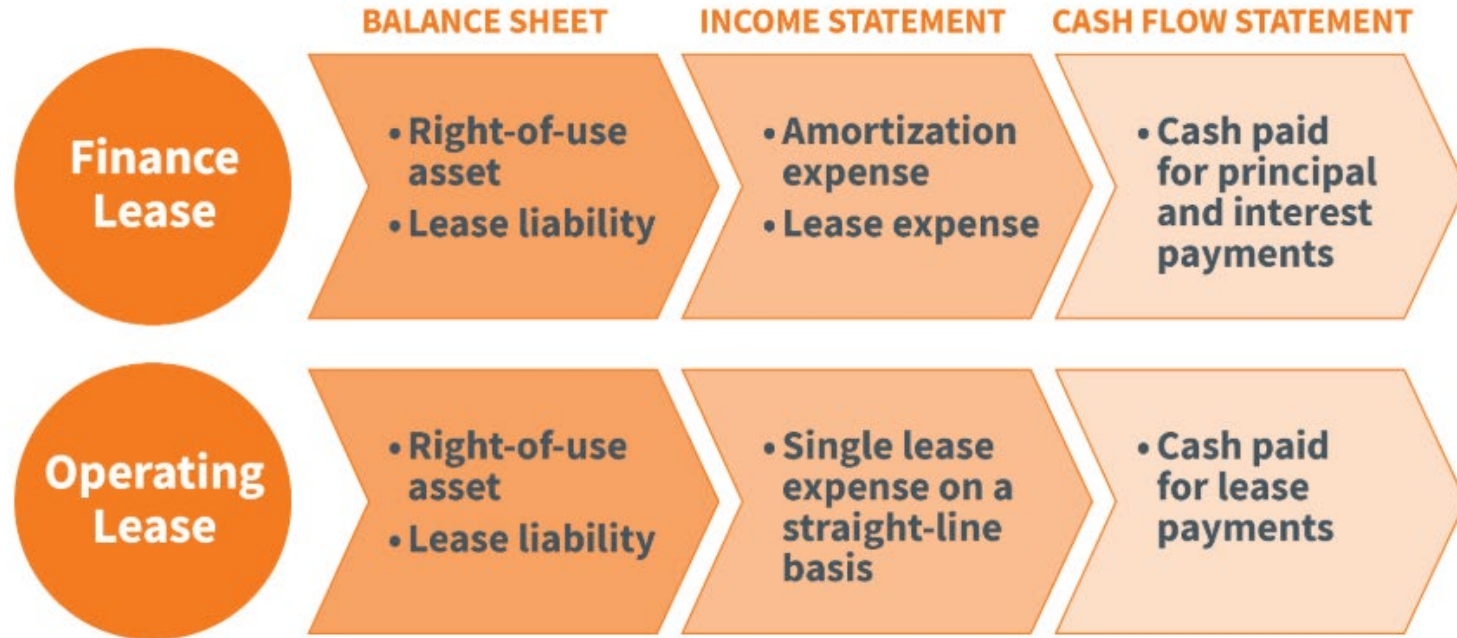
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An Overview

- Amended guidance issued in February 2016 for the treatment of leases, including subleases
- Affects all industries and leases
- Lessee will be required to recognize a right-of-use asset and lease liability for substantially all operating and finance leases
- Election of exemption for leases with <12 month terms
- Lessor accounting will remain relatively unchanged
- Changes the accounting for sale and leaseback transactions
- Enhanced disclosures for lessees and lessors

An Overview



Source: FASB in focus, Accounting Standards Update No. 2016-02, Leases (Topic 842), February 25, 2016

An Overview

The standard **DOES NOT** apply to:

- Leases of intangible assets
- Leases to explore for or use minerals, oil, natural gas, and similar nonregenerative resources
- Leases of biological assets, including timber
- Leases of inventory
- Leases of assets under construction



Why the Change?

Lessee

- Most lease assets and liabilities are off-balance sheet currently (operating)
- Limited information about operating leases
- Abuse of current standards

Lessor

- Lack of transparency regarding residual values
- Consistency with leases and revenue recognition

Why the Change?

- Challenging to gain an accurate understanding of a company's real indebtedness.
- Professional investors, bankers, and other FS users are able to make estimates. However, they sometimes **overestimate** the liabilities arising from those obligations.

Why the Change?

- Can the average user get the complete picture?
- The SEC determined NO!
- Now what? SEC asked FASB and IASB to work a new, global, converged standard.
 - ASU No. 2016-02 Leases (Topic 842)
was issued in February 2016



Why the Change?

- The new lease accounting standards bring a much higher level of transparency and comparability to leases
- Additional disclosures about key leasing arrangements will be required, primarily for lessees



Effective Dates

- Fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for any of the following:
 - A public business entity;
 - A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market;
 - An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC).



Effective Dates

- For privately held companies, fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020
- Early application is permitted for all entities
- HOWEVER, FASB has proposed a delay in the effective date by one year for private companies....



Lease Determination

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What is a Lease?

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.



Lease Determination



- An identified asset
 - Can be explicitly or implicitly specified
 - Supplier has no practical ability to substitute
 - Supplier receives no economic benefit from substituting
- The right to control the use during the lease term
 - Decision making authority over the use of the asset
 - Ability to obtain substantially all economic benefits from the use of the asset

Right to control

- Asset has been identified...now what?
- Evaluation of whether control exists over the period of use
- If no control – Service or Supply Contract
- Both requirements are needed:
 - The right to obtain substantially all of the economic benefits from use of the identified asset
 - The right to direct the use of the identified asset



A Closer Look at Control: Decision-Making Rights

Yes

- Right to change type of output produced
- Right to change when the output is produced
- Right to change where the output is produced
- Right to change whether the output is produced and the quantity of that output

No

- Rights that are limited to operating and maintaining the asset

Example: Control of Identified Asset

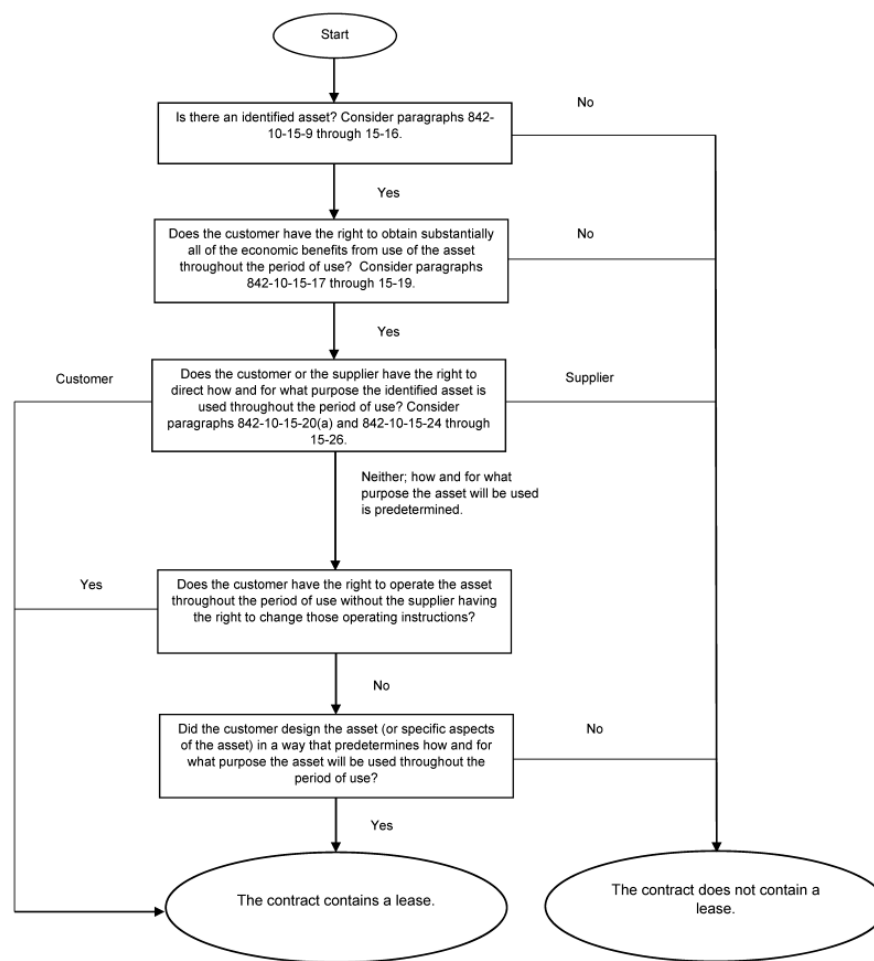
- Worldwide Construction Corp enters into a contract with Supplier Corp for airplane transportation on an identified asset for executives over a four-year period
- Worldwide tells Supplier dates and location 2 weeks in advance of meetings
- Worldwide will pay Supplier Corp a \$125,000 fee per month for use of the airplane
- Supplier Corp provides the airplane, crew, and pilot



Example: Control of Identified Asset

- Which party has the right to control the use of the identified asset during the period of use?
- *Analysis*
- Worldwide!
 - It can decide how and when the plane will be utilized during the period of use
 - The frequency and distance traveled are more relevant to the overall economic benefits
- Supplier Corp only makes operational decisions about the flight plan





Contract Components



- Once it has been identified that a contract contains a lease, an entity must separate the lease components in the contract
- Lease component if **BOTH** criteria are met:
 - Lessee can benefit from the (right of use) ROU either on its own or together with other readily available resources
 - The ROU is neither highly dependent nor highly interrelated with other right(s) to use underlying assets in the contract
- Consideration in the contract should be allocated to each separate lease component and nonlease component of the contract

Contract Components – Example 1

- Lease for a bulldozer, truck, and a crane to be used for three years
- Lessor agrees to maintain each piece of equipment throughout the lease term



Contract Components – Example 1

- Are the leases of the bulldozer, truck, and crane each separate lease components?
 - Lessee can benefit from each piece on its own or together with readily available resources
 - The machines are not highly dependent on or highly related to each other
- Nonlease maintenance service components accounted for separately
 - Not a part of the lease!!



Contract Components – Example 1

- Lessor allocation of consideration:
 - Apply guidance in Topic 606
- Lessee allocation of consideration:
 - Allocated based upon observable standalone prices for similar equipment and services



Contract Components – In Summary

Lessee

- Separate lease components from nonlease components
- Allocate the consideration on a relative standalone basis
 - Use observable standalone prices wherever available
- May elect practical expedient to not separate the nonlease component
 - Accounting policy

Lessor

- Allocate the transaction price to separate performance obligations
 - Follows the new revenue recognition standard





Lease Classification

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Lease Classification: What changed?

- Before ASU 842
 - Lease classification determined asset or liability recognition
 - ◇ Specific criteria, including specific bright lines (operating vs capital)
 - ◇ Numerous interpretations
- ASU 842
 - The terms of a lease arrangement
 - ◇ Either operating or financing
 - ◇ All leases on the balance sheet
 - ◇ Income statement recognition



Plain English - Operating or Financing?

- When the terms of a lease effectively transfer control of the underlying asset, the lease is, in substance, a financed purchase (sale) of an asset and the lease is classified as a finance lease by the lessee and a sales-type lease by the lessor.
- All other leases are classified as operating leases.



Lease Classification – Lessee

- Finance lease if ANY of the following 5 conditions are met:
 - Transfer of ownership
 - Option to purchase is reasonably certain
 - Lease term is a major part of the economic life
 - Present value of lease payments is substantially all of the fair value of the underlying asset
 - The underlying asset is of a specialized nature
- If none of the above are met, the lease is operating

Lease Classification – Lessee

- Lease term is a “major part” of the economic life
 - 75% or more of remaining economic life of the underlying asset
 - A commencement date that falls at or near the end of the economic useful life refers to a commencement date that falls within the last 25% of the total economic life
- Present value of lease payments is “substantially all” of the fair value of the underlying asset
 - 90% or more of the fair value of the underlying asset
- The %s are not hard lines! Use as guide.



Lease Term – Initial Measurement

- Slightly new definition
 - Noncancellable period for which lessee has right to use the underlying asset, plus periods covered by:
 - ◇ Option if lessee reasonably certain to extend
 - ◇ Option to terminate if lessee is reasonably certain not to exercise
 - ◇ Option to extend (or not terminate) controlled by lessor
- Reasonably certain
 - Must consider all relevant factors that create an economic incentive for the lessee to exercise the option

Lease Term – Subsequent Measurement

Lessee

- Reassess only upon the occurrence of a significant event/change in circumstances that is within the control of the lessee (ex. no longer reasonably certain to exercise option)
 - Absent a modification

Lessor

- Not required to reassess
 - Absent a modification

Lease Term – Other Considerations

- Related party leases must follow contractual provisions
- Beware of potential impact on leasehold improvement amortization lives



Lease Term Example

- Lessee Corp enters into an agreement to lease a warehouse for 15 years. The lease grants Lessee Corp the option to renew the lease for an additional 15 years. Lessee Corp has a history of exercising renewal options for other warehouses. Per the lease arrangement, the rental costs adjust to current market rents for equivalent warehouse space upon exercise of the renewal option.
- What is the lease term?

Lease Term Example

- Since the rents at the beginning of the renewal period will adjust to market rents, the renewal option does not create an economic incentive for Lessee Corp. Even though Lessee Corp historically renews similar leases, they will likely conclude, at the lease commencement date, that the option is not reasonably certain of exercise.
- Accordingly, the lease term would be 15 years.

Lease Classification – Lessor

- Sales-type lease if ANY of the following 5 conditions are met:
 - Transfer of ownership
 - Option to purchase is reasonably certain
 - Lease term is a major part of the economic life
 - Present value of lease payments is substantially all of the fair value of the underlying asset
 - The underlying asset is of a specialized nature
- If none of the above are met, the lease is either a direct financing lease or an operating lease

Lease Classification – Lessor

- Direct financing lease if BOTH of the following conditions are met:
 - PV of the sum of the lease payments plus any residual value guaranteed by the lessee not already reflected in the lease payments and/or any other third party unrelated to the lessor equals or exceeds substantially all of the fair value of the underlying asset
 - It is probable that the lessor will collect lease payments plus any amount necessary to satisfy the residual value guarantee
- If both are not met, the lease is an operating lease





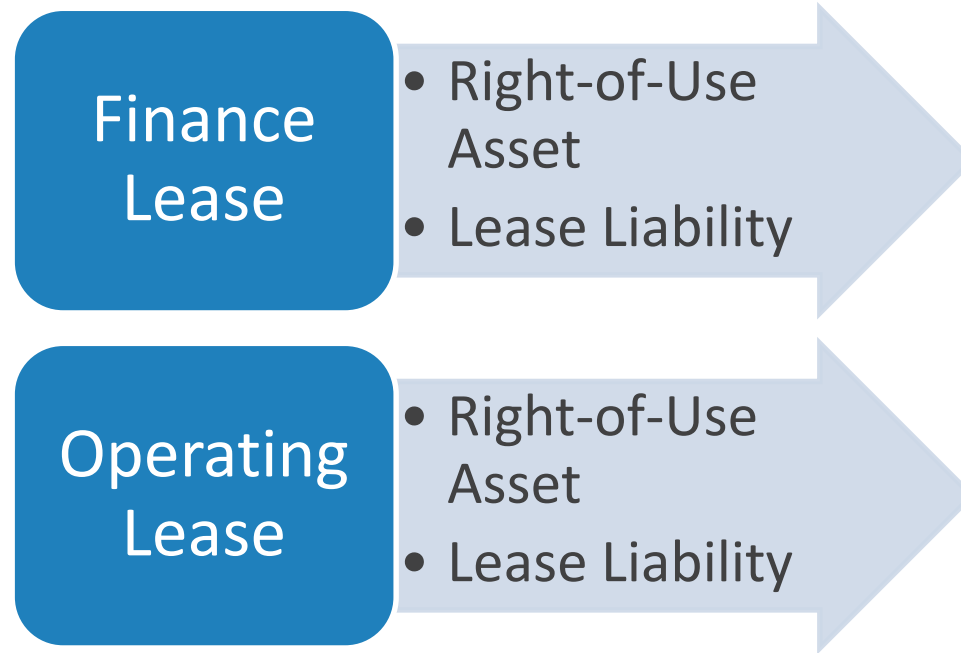
Recognition and Measurement

Lessee Accounting

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Balance Sheet Impact



Lease Liability – Initial Measurement

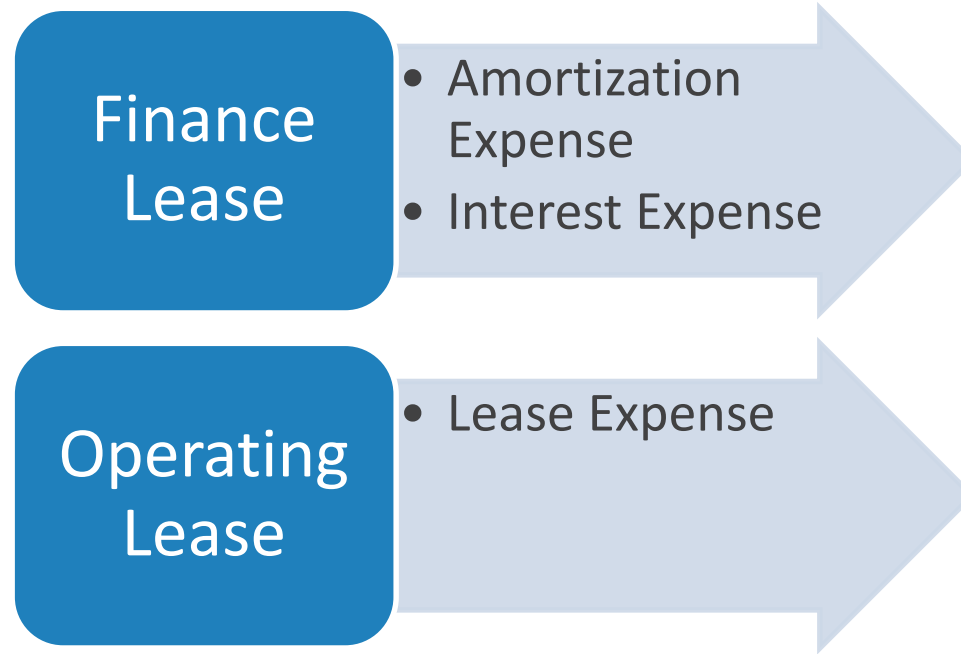
- Present value of the lease payments not yet paid, discounted using the discount rate for the lease at lease commencement
- Other than PBEs may elect to use the risk-free rates for measurement of all lease liabilities
 - Simpler, but will likely result in recording a larger asset and liability.
 - Can not pick and choose - It is a package
- Real estate taxes and insurance
 - Sometimes included in lease liability measurement



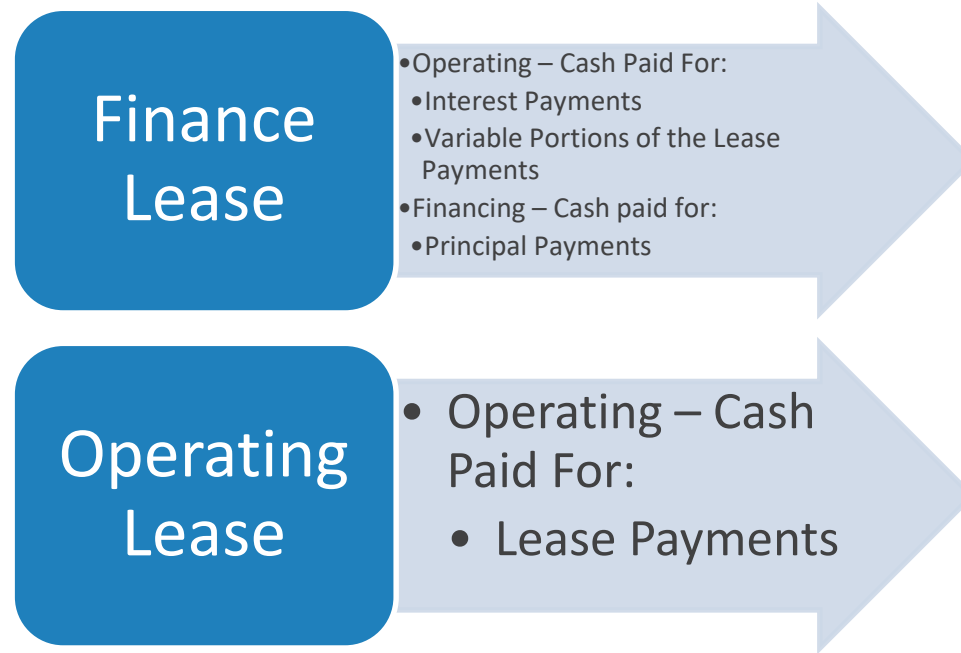
Right-of-Use Asset – Initial Measurement

- Consists of all of the following at commencement date:
 - Initial measurement of the lease liability
 - Any lease payments made to the lessor at or before the commencement date, minus any lease incentives received
 - Any initial direct costs incurred by the lessee
 - ◇ Commissions
 - ◇ Payments made to existing tenants
- NOTE: The asset and liability may not always agree to each other!

Income Statement Impact



Cash Flow Statement Impact



Example – Operating Lease

3 year lease term

Annual rent of \$100, escalating \$3 annually

7% interest rate

Example – Operating Lease

Initial Recognition:

Dr. ROU Asset	270	
Cr. Lease Liab		270

Year 1 Entry:

Dr. Lease Exp	103	A	
Dr. Lease Liab	81	D	
Cr. Cash			100 B
Cr. Accum Amort	84	A-C	

NOTE: No amortization expense is recorded! It is a component of the lease expense!

	Expense	Liability			Asset
		Payment	Interest	Principal	Amortization
Year	A	B	C	D	A-C
1	103	100	19	81	84
2	103	103	13	90	90
3	103	106	7	99	96
	309	309	39	270	270

Example – Finance Lease

3 year lease term

Annual rent of \$100, escalating \$3 annually

7% interest rate

Example – Finance Lease

Initial Recognition:

Dr. ROU Asset	270	
Cr. Lease Liab		270

Year 1 Entry:

Dr. Interest Exp	19 C	
Dr. Amort Exp	90 A	
Dr. Lease Liab	81 D	
Cr. Cash		100 B
Cr. Accum Amort	90 A	

	Asset	Liability			Expense
	Amortization	Payment	Interest	Principal	
Year	A	B	C	D	A+C
1	90	100	19	81	109
2	90	103	13	90	103
3	90	106	7	99	97
	270	309	39	270	309

NOTE: No lease expense is recorded. Each component is recorded.



Lessor Accounting

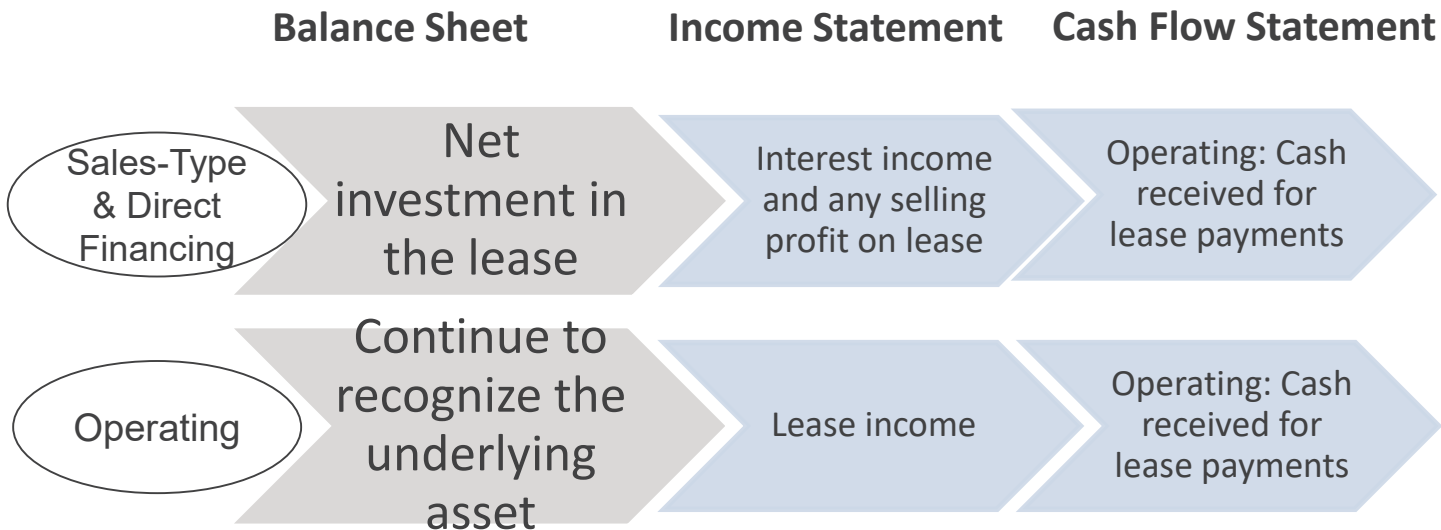
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What Changed?

- Largely unchanged, however some changes made to align:
 - The lessor accounting guidance with specific changes made to the lessee accounting guidance
 - ◇ Primarily changes to glossary terms applied by both lessees and lessors for consistency
 - Key aspects of the lessor accounting model with the new revenue recognition standard

Lessor Accounting Model



Lessor accounting is largely unchanged

Classification criteria substantially similar to that in previous lease guidance



Other Considerations

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Transition - Overview

- Modified Retrospective Approach - REQUIRED
 - Requires application at the beginning of the earliest comparative period presented in the period of adoption
- Package of practical expedients
- Change in classification (between operating and capital/finance)
- Existing leveraged leases are grandfathered

Transition – Package of Practical Expedients

- An entity need not reassess:
 - Whether any expired or existing contracts are or contain embedded leases
 - Lease classification of any expired or existing leases
 - Initial direct costs for any existing leases



Transition – Package of Practical Expedients

- Applies to leases that commenced **BEFORE** the effective date
- Must apply as a package to all leases
 - Can not pick and choose which leases
 - Can not pick and choose which practical expedients
- Hindsight can also be elected as a practical expedient
 - Determination of lease term
 - Impairment of right-of-use assets
 - Can be used separately or in conjunction with package
 - Must apply consistently to all leases



Transition – Change in Classification

- Operating to finance
 - Measure the ROU asset as the applicable proportion of the lease liability at the commencement date
 - ◇ Lease liability = PV of remaining minimum rental payments plus any amounts probably of being owed under a residual value guarantee
 - ◇ Applicable portion = remaining lease term at the beginning of the earliest comparative period presented
 - Adjust the ROU asset recognized by the carrying amount of any prepaid or accrued lease payments and the carrying amount of any liability recognized

Transition – Change in Classification

- Operating to finance
 - Write-off, as an adjustment to equity, any unamortized initial direct costs that do not meet the definition of an initial direct cost in this topic at the LATER of:
 - ◇ The beginning of the earliest period presented in the financial statements OR
 - ◇ The commencement date of the lease



Transition – Change in Classification

- Capital to operating
 - Derecognize the carrying amount of any capital lease asset and capital lease obligation
 - ◇ Later of the beginning of the earliest comparative period presented or the commencement date of the lease
 - ◇ Any difference between the carrying amounts should be accounted for in the same manner as prepaid or accrued rent
 - Recognize ROU asset and lease liability
 - ◇ Measurement will depend upon when lease commenced
 - If commenced before beginning of earliest period presented vs. after the beginning of the earliest period presented



Transition – Change in Classification

- Capital to operating
 - Account for the operating lease in accordance with the rest of the guidance
 - Write-off, as an adjustment to equity, any unamortized initial direct costs that do not meet the definition of an initial direct cost in this topic at the LATER of:
 - ◇ The beginning of the earliest period presented in the financial statements OR
 - ◇ The commencement date of the lease



Leveraged Lease Arrangements

- Existing leveraged leases are grandfathered
- The lessor model has been carried forward substantially unchanged
- Netting of non-recourse debt previously permitted under the leveraged lease model will no longer be available



Sale and Leaseback Transactions

- Under the new standard, a sale-leaseback transaction will qualify as a ***sale*** only if
 - It meets the sale guidance in the new revenue recognition standard;
 - The leaseback is not a finance lease;
 - If there is a repurchase option:
 - ◇ The repurchase price is at the asset's fair value at the time of exercise and
 - ◇ Alternative assets that are substantially the same as the transferred asset are readily available in the marketplace

Sale and Leaseback Transactions

Has a Sale Occurred?

- Apply topic 606 (new revenue recognition standard)
- If there is a sale, apply the guidance in this topic for a leaseback
- Finance leasebacks
 - No sale has occurred
- Repurchase options
 - May be a sale given certain criteria are met

Accounting for the Sale and Purchase

- Seller-lessee
 - Gain or loss on sale recognized the same as the sale of other nonfinancial assets
- Buyer-lessor
 - Account for the purchase the same as other nonfinancial assets

Accounting for Reassessment

Indicator to Reassess	Accounting Treatment
Lease Term and Purchase Options	
Change in the assessment of lessee renewal, termination or purchase options	Reallocate contract consideration between lease and nonlease components
Residual Value Guarantees	
Change in amounts probable of being owed under a lessee provided residual value guarantee	Remeasure the lease liability
Resolution of Contingency	
Contingency resolved - some or all of variable payments become fixed	Adjust the ROU asset



Lease Modifications

- A change to the terms and conditions of a contract that results in a change in the scope or consideration for a lease. For example:
 - Terminates or adds the right to use one or more underlying assets
 - Extends or shortens contractual lease term
- Remeasure lease payments if modification is not a separate contract
- Reassess classification of the lease upon modification
- The exercise of an existing purchase or renewal option is not a modification, but can result in remeasurement



Asset Impairment

Lessee

- Apply guidance for long-lived assets (ASC 360)
- Appropriately write-down the ROU asset
- Amortize the ROU asset on a straight-line basis

Lessor

- Sales-type and direct financing leases: apply guidance for receivables (ASC 310)
- Operating leases: apply guidance for long-lived assets (ASC 360)

Variable Lease Payments – Initial Measurement

- A lessee should remeasure variable lease payments that depend on an index or a rate when the lessee is otherwise required to remeasure the lease
 - Remeasurement based on the index/rate as of the remeasurement date
 - Subsequent changes to variable payments based on index/rate are expensed in the period incurred (absent a new requirement to remeasure)



Variable Lease Payments – Subsequent Measurement

- A lessee should remeasure if:
 - A contingency associated with a variable lease payment is subsequently resolved
 - There is a change in the amounts expected to be payable under residual value guarantees





Disclosures and Other Presentation Matters

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Disclosures

- Objective
 - Enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases
- Requirement
 - Enhanced qualitative and quantitative disclosures

Lessee Disclosures - Qualitative

- Nature of leases
- Leases that have not yet commenced but create significant rights and obligations for the lessee
- Significant assumptions and judgements made in application
- Main terms and conditions of any sale and leaseback transactions

Lessee Disclosures - Quantitative

- Finance lease cost segregated between amortization and interest
- Operating lease cost
- Short-term lease cost
- Variable lease cost
- Sublease income
- Gains/losses from sale and leaseback transactions
- Weighted-average remaining lease term
- Weighted-average discount rate



Example Footnote:

Note: Tabular
format is not a
requirement

For the years ended December 31, 20X8 and 20X7 (in thousands)

		20X8	20X7
Lease expense			
1	Finance lease expense		
	Amortization of ROU assets	\$ 600	\$ 525
	Interest on lease liabilities	150	110
2	Operating lease expense	1,000	900
3	Short-term lease expense	50	40
4	Variable lease expense	75	60
5	Sublease income	(10)	(8)
Total		\$1,865	\$1,627
Other Information			
6	(Gains) losses on sale-leaseback transactions, net	\$ (8)	\$ 5
7	Cash paid for amounts included in the measurement of lease liabilities for finance leases		
	Operating cash flows	\$ 1,400	\$ 1,300
	Financing cash flows	\$ 200	\$ 170
	Cash paid for amounts included in the measurement of lease liabilities for operating leases		
	Operating cash flows	\$ 800	\$ 635
8	ROU assets obtained in exchange for lease liabilities		
	Finance leases	\$ 275	\$ 375
	Operating leases	\$ 200	\$ 140
9	Weighted-average remaining lease term (in years)		
	Finance leases	5.2	5.9
	Operating leases	9.2	8.4
10	Weighted-average discount rate		
	Finance leases	6.1%	6.3%
	Operating leases	7.2%	7.3%
11	Maturity Analysis	Finance	Operating
	20X9	\$ 1,700	\$ 1,000
	20Y0	1,900	1,100
	20Y1	2,050	1,200
	20Y2	1,500	1,300
	20Y3	1,200	1,400
	Thereafter	1,550	3,300
	Total	\$9,900	\$9,300
	Less: Present value discount	(3,456)	(4,302)
	Lease liability	\$ 6,444	\$ 4,998

1. For finance leases, amortization of ROU assets and interest on lease liabilities (including capitalized interest)*
2. Operating lease expense (including capitalized costs)*
3. Short-term lease expense, when term > 30 days*
4. Variable lease expense*
5. Sublease income
6. Gains and losses on sale-leaseback transactions
7. Cash paid for amounts included in measurement of lease liabilities, segregated by finance and operating leases and between operating and financing cash flows
8. Supplemental noncash information on ROU assets obtained in exchange for new lease liabilities, separately for finance and operating leases
9. Weighted-average remaining lease term, presented separated by finance and operating leases
10. Weighted-average discount rate for operating and finance leases as of the balance sheet date
11. Maturity analysis of lease liabilities for each of the first five years after balance sheet date and in total thereafter, including reconciliation of undiscounted cash flows to lease liabilities on the balance sheet



Lessor Disclosures - Qualitative

- Nature of leases
- Significant assumptions and judgments made in application
- Significant changes in components of net investment in the lease
- Residual value risk mitigation

Lessor Disclosures - Quantitative

- Table of lease income
- Lease income related to variable lease payments not included in measurement of the lease receivable
- Maturity analysis of undiscounted cash flows that comprise the lease receivable
- Profit or loss recognized at commencement date

Balance Sheet Presentation

ROU Asset

- Permitted to present separately or combined with other assets
- If combined, disclose amount and line items where they are presented
- Presenting finance lease ROU assets with operating lease ROU assets is prohibited

Lease Liability

- Permitted to present separately or combined with other liabilities
- If combined, disclose amount and line items where they are presented
- Presenting finance lease liabilities with operating lease liabilities is prohibited



Tax Implications

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General Lease Treatment under Current Tax Law

- General Rule: Lease payments are deductible as rent expense in the tax year paid, unless contract contains provisions resulting in capital lease for tax purposes.
- ✓ New standard does not change the treatment of leases for income taxes.



Leases Requiring Capitalization for Tax Purposes

- Capital Lease for Tax Purposes:
 - Portion of lease payment designated as interest
 - Bargain purchase option
 - Title passing to lessee at end of lease term
 - Lease payments exceed fair rental value
 - Unreasonably low rental payments upon renewal
- Capital Lease Tax Treatment:
 - Depreciable Tax Basis Capitalized = FMV at Inception of Lease
 - ◇ Typically equal to PV of minimum lease payments
 - Depreciated in same manner as is if asset purchased
 - ◇ Tax life & depreciation method based on underlying asset leased
 - Interest on lease obligation deductible over lease term
 - ◇ If no interest rate stated, use Lessee's incremental borrowing rate



Other Tax Considerations

- State Apportionment

- Only applies to states using property factor to apportion taxable income.
- Computation of property factor may be affected to the extent that the property factor is computed based on the GAAP basis of PP&E (e.g. Mississippi).
- Capital Lease: Right-of-use assets presented on GAAP balance sheet line item other than PP&E
 - ◊ Evaluation under laws of relevant tax jurisdiction required to determine whether such assets are includible in the property factor.
- Operating Lease: Amortization and interest expense reported as rent expense line item on income statement.



Other Tax Considerations

- Other State Tax Considerations:
 - Franchise, Net Worth and Other Non-Income-Based Taxes
 - Personal Property or Real Estate Taxes
 - Sales and Use Tax
 - ❖ **Contact CLA for Assistance**
- Deductible Interest Expense under IRC Section 163(j)
- Transfer Pricing (Related Party Leases)
 - ❖ **Contact CLA for Assistance**
- Foreign Tax Considerations:
 - Some foreign jurisdictions account for lease transactions for tax purposes in accordance with book treatment.
 - ❖ **Contact CLA for Assistance**

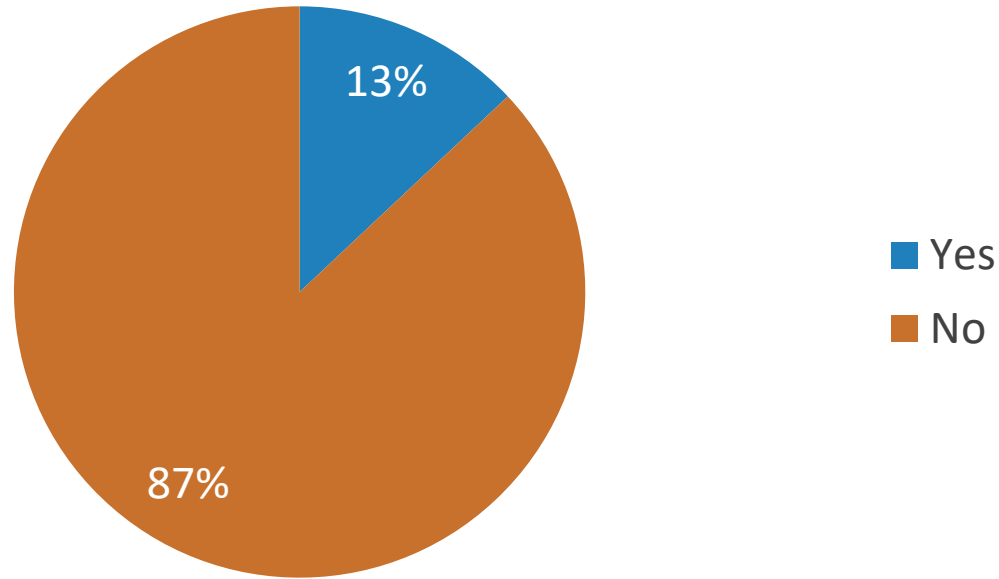


Action Items

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Does Your Company Have a Clear Plan for Implementation?



What Lessees Should Be Doing Now

- Begin gathering data on the leases you have now
- Evaluate the processes and controls currently in place
- Decide whether or not to elect optional practical expedients
- Review existing and future debt agreements for covenants



Data Collection and Ongoing Data Management

- Existing systems(e.g., spreadsheets and software) may include some lease information
 - All information required to make the calculations?
 - Judgements (including on going assessments) and information for disclosures?
- Significant effort could be required to manually gather missing lease information



IT Systems, Processes and Controls

- Update existing systems or implement new
- Require input, not only from accounting, but also from the lease administration and IT functions, depending on the company's enterprise resource planning (ERP) environment
- Define system requirements and the expectations of relevant stakeholders prior to selecting a vendor



Accounting Policies and Manuals

- Ensure accurate and consistent policies and processes around areas of judgement and estimates
 - Evaluating whether an arrangement meets the definition of a lease could require judgement
 - Certain arrangements such as those with a significant service component
- Other key decisions requiring judgement include
 - Lease payments and lease term
 - Ongoing evaluations of lease term
 - Accounting for lease modifications



Implementation Considerations



Minimizing the Impact of New Rules

- Where do I start? Start big!
 - Strategic evaluation of the lease portfolio
 - Start with the largest leases and assess the accounting
 - Pay special attention to those for which there may be a significant economic incentive to exercise a renewal option



Minimizing the Impact of New Rules

- Consider renegotiating leases now — even if they are not up for renewal
- During the negotiations, ensure that any service charges for operating expenses, such as maintenance and taxes, are clearly delineated
 - These expenses do not have to be recorded on the balance sheet! If they are rolled into the lease, it is often difficult to separate the expenses from rent
 - Pay attention to variable vs fixed definition for additional expenses







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