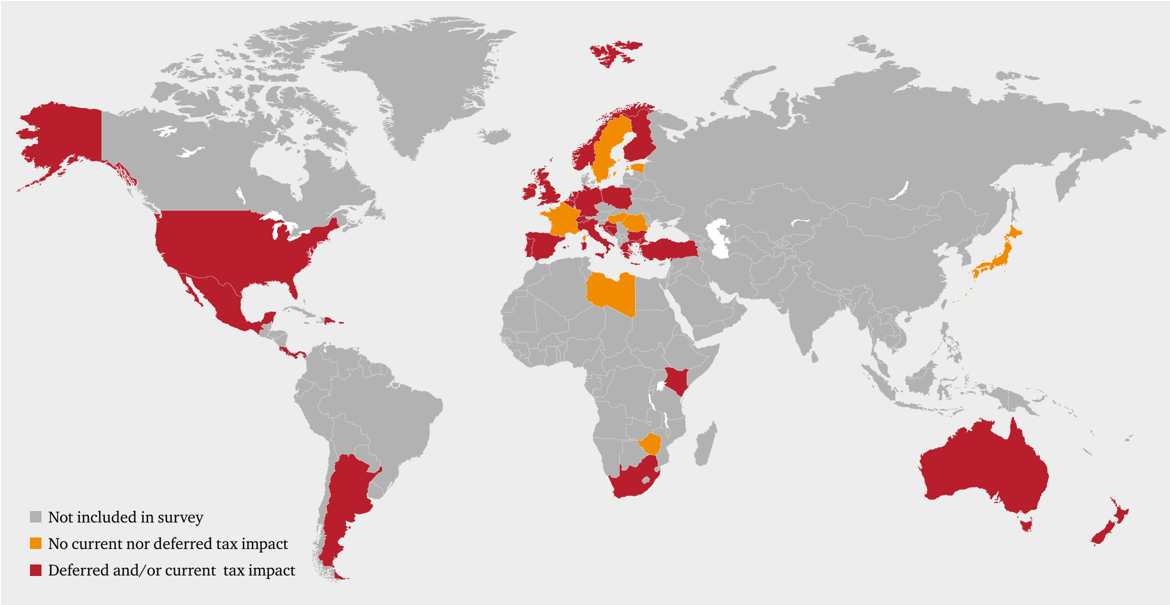
At a glance
Tax accounting considerations of IFRS 16

On 13 January 2016, IFRS 16 was issued by the International Accounting Standards Board (IASB) and thereby starting a new era of lease accounting.



As you may have become aware through various media publications, the new standard for leases – IFRS 16, which will supersede the current IAS 17 standard – could have a significant impact on the financial statements for lessees. This new guidance will be effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. PwC has prepared a publication which gives further insight on the newly issued standard including a comprehensive overview of suggested phases for implementing the new standard. Companies which will be affected are currently still at a stage of assessing the accounting consequences of this standard, how to adopt it and integrate it in their financial administration. Consequently, limited consideration is currently given to the tax accounting consequences of this standard. We have conducted a survey amongst a representative number of jurisdictions to assess the potential tax accounting implications of IFRS 16. The key takeaways are outlined below.

IFRS 16 – A quick recap

Under IFRS 16 all leases (both finance as well as operating lease) with limited exceptions need to be reported on the balance sheet for lessees, i.e. lessees are required to reflect on the balance sheet their 'Right Of Use' (ROU) as an asset as well as the associated liability for the future payments. This is a significant change, since under the current guidance of IAS 17 only financial leases are reflected/capitalized on the balance sheet of the lessee.

Consequently, the new standard will affect virtually all commonly used financial ratios and performance metrics for lessees such as EBIT(DA), operating profit and net income, in case of an operating lease agreement. Note that the guidance for lessor accounting remains largely unchanged and therefore probably will not have a tax (accounting) impact.

Expected tax (accounting) consequences

As depicted in the infographic, the tax consequences will differ per jurisdiction, given the worldwide differences in treatment of operating leases for tax purposes, and hence so will the tax accounting consequences. The potential tax accounting implications are depicted below based on our survey.

Key findings

In more than 70% of the countries the change in lease accounting is expected to have a deferred and/or current tax impact.

As an example, current tax can be impacted due to the fact that the depreciation expense on the ROU asset may not be deductible for tax purposes or in case there are specific interest deduction limitations, for example based on debt to equity ratios.

Given the fact that capitalized lease assets and lease liabilities will be recorded on the balance sheet in the financial statements (carrying value), new temporary difference might originate in case the tax treatment and hence the associated tax base is not in line with the new accounting standard.

Depending on the circumstances and a company's tax accounting policy, this will potentially have an impact on the deferred tax position in the financial statements.

Additional potential tax consequences depending on local (tax) law and/or points of attention

Tax related processes and controls may need to be updated/adjusted to capture all required information;

The new guidance may have an impact on the transfer pricing policy and KPI's given the fact that certain commercial ratios will change;

The recognition of deferred tax assets may be affected given the changes in the deferred tax position (and the reversal pattern of the book to tax differences);

The new guidance may have an impact on current tax agreements with the tax authorities due to changes in facts and circumstances;

The new guidance may have an impact on interest deductibility due to the change in debt/equity ratios.

We help you gain a clear view of tax risks and opportunities so you can create transparent reporting and enhance enterprise risk management.

Do you have questions? Want more information?

Our Tax accounting experts can assist you with the assessment of the (potential) tax (accounting) consequences of the application of IFRS 16 on your financial statements.
Besides, PwC has tax accounting tooling in place to assist you calculating and monitoring the tax accounting impact of the new leasing standard.

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