

# NEW LEASES STANDARD

It will impact your business - but do you know how?

The effects of adopting the new leases standard, AASB 16 *Leases*, should be considered now so that you can take any remedial action needed and deal with any potential planning issues.

- How will your financial results and position be impacted?
- Which processes and systems will need changing?
- Which wider business planning activities will be affected?
- What staff training will be required?
- How will your current agreements be affected?

## BACKGROUND

The International Accounting Standards Board (IASB) has fundamentally changed the financial reporting landscape for how lessees account for operating leases, with the introduction of AASB 16 *Leases*. The new standard effectively removes the operating leases classification and requires all lessees to show a lease liability and a corresponding right-of-use asset for all leases.

Entities are now beginning to consider how to prepare their financial statements using this new accounting standard. The changes can be complex and can have effects beyond just the accounting. When adopting AASB 16, including deciding which transition route to apply, you need to consider the commercial and practical impacts of the changes in your accounting.

As choices you make will affect the way the performance of your business is measured and reported, it is vital to consider not only the commercial and practical issues, but also any tax impact of these changes.

Our experts in this area can help you establish the impact of these issues and decide what actions you should be taking.

## COMMERCIAL AND PRACTICAL CONSIDERATIONS

You may need to consider the following:

- Consequences on reported earnings
- Consequences for balance sheet presentation
- Consequences for management accounts, forecasts and strategies
- Impact on distributable reserves
- Agreements which are based on profit, EBIT or EBITDA such as debt covenants, management agreements, remuneration and share-based payment schemes
- Accounting systems changes to enable transition to AASB 16
- Training requirements for finance teams
- Training requirements for executives and directors.



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## CHECKLIST OF COMPLEX ISSUES

Below are just a few of the areas where complex issues typically arise on the adoption of AASB 16:

- Identification of which assets are held by way of a lease
- Significant judgement in determining whether an arrangement meets the definition of a 'lease' contained within AASB 16
- Significant judgement in determining the appropriate lease term to apply, including option periods, when calculating the value of the right-of-use asset
- Identification of potential impacts of adoption.

## TAX IMPACT

Any changes to accounting policies may have an impact on a company's cash tax, income tax expense, and deferred tax in the year of change and over future years. This is because:

- The analysis of tax expense and deferred taxes begins with accounting concepts and reconciles to tax payable, and
- Certain tax provisions (such as thin capitalisation and the taxation of financial arrangements provisions) rely on accounting standards for their application.

The adoption of AASB 16 may impact how leases will be structured and accounted for and may give rise to potential tax planning issues. To achieve the best outcome entities should now be considering:

- The effect on cash tax of choosing one lease arrangement over the others
- How to manage tax charges or maximise reliefs due to one-off transitional adjustments
- Identifying transaction types that may cause issues in determining an entity's taxable profit. In particular, taxpayers subject to the thin capitalisation provisions will need to understand the effect of the provisions in their maximum allowable debt calculation.
- Whether and when to make any elections in advance of adoption
- Any other actions or decisions to improve the upside or reduce the downside for tax.

Our experts in this area can help you understand the issues, the tax impacts and what actions you should be taking.

## ADOPTION METHODOLOGY

We can assist you by:

- Carrying out an initial 'high level diagnostic' review, including a review of your latest financial statements, followed up by a discussion of the results
- For the issues identified in the initial review, where applicable, carrying out a further assessment to identify the impacts of AASB 16 in more detail, as well as the system and commercial impacts of adoption
- Helping you with your adoption process and preparing template financial statements for applying AASB 16
- Providing advice on the tax impacts of adoption, including transitional adjustments, assisting with tax planning and any tax elections required, and
- Providing assistance with areas such as systems support and design, training, and transition journals.

We can also provide on-call support to help you prepare for adoption.

For advice on AASB 15 please get in touch with your usual BDO adviser or contacts attached.

## MORE INFORMATION

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