

August 22, 2018

Financial Accounting Standards Board
File Reference No. 2018-260
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

The language in Paragraph 842-10-15-39A that addresses taxes that lessors collect from lessees should be more inclusive and specifically reference property taxes. The examples in the paragraph should specifically indicate that lessors may make a policy election to exclude property taxes from consideration in the contract. Since such a large portion of leases are for tangible property, property taxes are a significant consideration for lessors.

Property taxes, just as sales and use taxes, related to equipment financed with a lease agreement are the sole responsibility of the lessee in standard industry documentation and practice. Lessors should be able to make a policy election to treat property taxes as they treat sales and use tax because the net effect of sales and use taxes, and property taxes is zero on the income statement of a lessor.

If due to a lack of clarity in the standard, property taxes are considered part of a lease contract and lessors do not have the option to make a policy election to exclude property taxes from a contract, the result would be an income statement gross up – with lease revenue and lease expense being overstated because of a pass-through item. Consistent with the summary description regarding sales taxes, the net effect of including property taxes in lease revenue and lease expense would be zero in the income statement. Treating property taxes differently than sales and use tax would be costly and complex and would have no impact on the income statement. Just as with sales and use tax a lessor simply collects property tax from a lessee obligor and remits the same amount of property tax to a taxing jurisdiction.

Property taxes should be specifically included as part of the policy election to exclude from the consideration in the contract in Paragraph 842-10-15-39A.

Sincerely,

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