TOYOTA
FINANCIAL SERVICES

September 10, 2018

Technical Director
Financial Accounting Standards Board

Re: Exposure Draft – Proposed Accounting Standards Update - *Leases (Topic 842): Narrow-Scope Improvements for Lessors*

Dear Sir or Madam:

Toyota Motor Credit Corporation (TMCC, we, our) appreciates the opportunity to comment on the Proposed Accounting Standards Update - *Leases (Topic 842): Narrow-Scope Improvements for Lessors* (the Exposure Draft or ED), recently issued by the Financial Accounting Standards Board (the Board).

Our business includes the leasing of vehicles to consumers. While TMCC supports the Board's decision to allow a policy election to exclude sales and other similar taxes collected from lessees from the consideration in the contract and from variable payments not included in the consideration in the contract, we believe that the ED should also have included property tax within the scope of the policy election. We do not believe the Board has addressed the stakeholders' concerns related to the challenges of accounting for property tax on vehicles for which the lessee controls the location of the leased asset and the resulting jurisdictions in which those taxes are assessed.

The Board states in the Basis for Conclusions section of the ED that one of the reasons it proposed the accounting policy election on sales (and other similar) taxes was to eliminate costs and complexities for lessors when the financial reporting effect of the requirement has no effect on net income. The same rationale should also apply to property tax. We have over 250,000 vehicles that incur property tax. Property tax laws vary on a jurisdiction-by-jurisdiction basis similar to sales and other similar taxes. The timing of when the tax is assessed and for what period the assessment pertains varies by state. During the lease term, these assets often relocate to different jurisdictions, unlike real property. The amounts paid are also subject to audit or protest at a later date which introduces accounting and operational complexity.

It is important to note that property tax on a building does not arise from a specific leasing transaction as it is an obligation of the owner regardless of whether or not the building is leased. This is not the case for property tax owed by the lessor of a vehicle as the tax arises from a specific leasing transaction. This important distinction makes property tax on leased vehicles fall within the scope of the policy election in 606-10-32-2A. Furthermore, the inclusion of property tax in lease revenue for vehicles is onerous and will cause us to incur substantial cost without providing any significant benefit to our investors in understanding our financial statements.

We thank the FASB for their careful consideration of our concerns within this letter. We strongly support the principle that lease accounting should provide users of financial statements with a complete and understandable picture of an entity's leasing activities, and we support the objective to establish principles so that lessees and lessors report useful information to users of financial statements about the amounts, timing and uncertainty of the cash flows arising from leases. However, in our view, the Exposure Draft does not achieve this objective.

We appreciate the opportunity to express our opinion on this matter, and would be pleased to discuss our comments in greater detail.

Sincerely,

Steve Barro
Financial Controller