



September 12, 2018

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference No. 2018-260

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), *Leases (Topic 842), Narrow-Scope Improvements for Lessors*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We support the amendments proposed by the Board to a lessor’s accounting for sales and similar taxes, but do not agree with the proposed approach for lessee payments of property taxes and insurance. Further, we recommend that additional clarifications be provided. Our responses to the questions in the proposed ASU are included below.

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We appreciate the opportunity to provide our comments and observations on the proposed ASU and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

**Brian Kot, CPA**  
Chair, Accounting Principles Committee

**William Keirse, CPA**  
Vice Chair, Accounting Principles Committee

Sales Taxes and Other Similar Taxes Collected from Lessees

**Question 1:** *Should a lessor's accounting for sales taxes and other similar taxes collected from lessees be aligned with Topic 606? If not, please explain why.*

**Response:** We agree that lessor accounting for sales taxes should be aligned with Topic 606.

**Question 2:** *Is the proposed accounting policy election, as written in this proposed Update, operable? If not, please explain why.*

**Response:** In general, we believe the proposed policy election is operable. However, we believe the reference to a "specific lease revenue-producing transaction" is confusing as written. It is unclear whether this refers to taxes on the periodic rental payments made by a lessee to a lessor or to taxes that may be paid upon the delivery of the leased asset (as may be the case in a common automobile lease, for example). We recommend the Board clarify the meaning of this phrase. We believe the Board intended the guidance to apply to taxes collected from the lessee on each rental, in addition to taxes collected at the commencement of the lease but believe the phrase should be clarified.

**Question 3:** *Would the proposed accounting policy election result in a reduction of decision-useful information to users of a lessor's financial statements? If so, please explain why.*

**Response:** We do not believe such a policy election would result in a loss of decision useful information.

**Question 4:** *Should a lessor's accounting policy election for sales taxes and other similar taxes collected from lessees be applied to new lease contracts only or to all existing and new lease contracts? Please explain your rationale.*

**Response:** We believe the policy election should be applied consistently to all existing and new lease contracts as of the effective date of Topic 842.

Certain Lessor Costs Paid Directly by Lessees

**Question 5:** *Should a lessor be required to exclude certain lessor costs paid directly by lessees to third parties on behalf of a lessor as variable payments when the uncertainty in the amount is not expected to ultimately be resolved? If not, please explain why.*

**Response:** We believe the Board should provide lessors with an accounting policy election to account for costs paid directly by lessees as a reduction of the related cost. We are concerned that the Board's proposed use of the term "readily determinable" will raise operability challenges with respect to certain costs that may be determinable by lessors only with some cost and effort. For example, in many jurisdictions, property taxes are a matter of public record, and thus would appear to be "readily determinable" to a lessor that leases property on a net basis (that is, a lease in which the lessee pays the taxes). However, we believe it may be difficult for lessors to obtain this information for great numbers of properties across many jurisdictions because that information is only accessible by visiting the assessor's office. We believe the Board should provide a practical expedient to allow a lessor to elect to present lessee direct payments of property taxes as a reduction of the cost. We do not believe providing such a practical expedient will result in a reduction of decision-useful information to users of a lessor's financial statements because the lessee's payment is equal to the lessor's property tax payment (in other words, there is no margin on property taxes in a net lease) and has no impact on the lessor's cash flows. Further, property tax payments by lessees is not a significant amount in comparison to rentals paid by lessees.

In addition, we believe the approach to determining whether amounts paid for insurance by the lessee are reimbursements of the lessor's costs should be based on whether the lessor is a principal to the insurance

arrangement. We believe that would be a more consistent approach with the discussion in paragraph BC158 of the Basis for Conclusions to ASU 2016-02 and will be easier to apply in practice than the Board's proposed approach.

**Question 6:** *Are the proposed amendments for the accounting for certain lessor costs operable? If not, please explain why.*

**Response:** We do not believe the Board's proposed approach is operable. We believe preparers and auditors will expend considerable effort attempting to determine whether the amount paid by the lessee is "readily determinable" and how much effort the lessor is required to expend in order to determine whether the amount paid is "readily determinable". As noted above, we do not believe the effort that preparers will expend to determine the amount paid by the lessee (or to determine that such amount is not reasonably determinable) will provide a substantial improvement in financial reporting.

**Question 7:** *Would the proposed requirement for a lessor to not report certain lessor costs paid directly by a lessee to a third party on behalf of the lessor result in a reduction of decision-useful information to users of a lessor's financial statements? If so, please explain why.*

**Response:** We do not believe the proposed amendment (or our preferred approach) would result in a loss of decision useful information.

**Question 8:** *Should the proposed amendment in paragraph 842-10-15-40A to exclude certain lessor costs paid directly by lessees on behalf of a lessor as variable payments be applied to new lease contracts only or to all existing and new lease contracts? Please explain your rationale.*

**Response:** We believe the proposed amendment should be applied consistently to all existing and new lease contracts as of the effective date of Topic 842.

#### Recognition of Variable Payments for Contracts with Lease and Nonlease Components

**Question 9:** *Would the proposed amendments clarify the application of paragraph 842-10-15-40? If not, please explain why.*

**Response:** We believe the proposed amendments would clarify application of the guidance. However, we believe the Board should provide additional clarity by explicitly stating that, in certain circumstances, a lessor may allocate variable payments solely to the lease component, rather than allocating the payment across the lease and nonlease components. We are aware of interpretive guidance suggesting that variable payments received from a lessee should be allocated to lease and nonlease components, or in some cases solely to a nonlease component, by the lessor. However, we note that paragraphs 606-10-32-39 to 40 provide that variable consideration may be allocated to one or more performance obligations in certain situations. We believe the lease guidance should be consistent with Topic 606 in this respect and recommend that the Board add this clarification.

**Question 10:** *Are the proposed amendments for the accounting for certain variable payments for contracts with lease and nonlease components operable? If not, please explain why.*

**Response:** We believe the proposed amendments are operable, but recommend the Board make the additional clarification noted in our response to Question 9.

#### Transition and Effective Date for Early Adopters

**Question 11:** *How much time would be needed to implement the amendments in this proposed Update for an entity that early adopts Update 2016-02 before these proposed amendments are finalized? What transition*

*method and transition disclosures should those entities be required to apply (provide)? Please explain your reasoning.*

**Response:** In most cases, we believe entities will not require significant time to implement the amendments in the proposed Update. To the extent that the proposed amendments require a change in application for early adopters, we believe those entities should apply the amendments as of the effective date of Update 2016-02.

**Question 12:** *Should the effective date for the amendments in this proposed Update be aligned with that of Update 2016-02? If not, please explain why.*

**Response:** We believe the effective date for the amendments in this proposed Update should be aligned with Update 2016-02.

APPENDIX A  
ACCOUNTING PRINCIPLES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2018-2019

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Jared Bourgeois, CPA	PricewaterhouseCoopers LLP
Ryan Brady, CPA	Grant Thornton LLP
Matthew Denton, CPA	Sikich LLP
Ashlee Earl, CPA	Ernst & Young LLP
Jason Eaves, CPA	Crowe LLP
William Keirse, CPA (Vice Chair)	Ernst & Young LLP
Scott Lehman, CPA	Crowe LLP
Melissa Lynch, CPA	Plante Moran, PLLC
Thomas Masterson, CPA	Wipfli LLP
Reid Mitchell, CPA	Wipfli LLP
Matthew Mitzen, CPA	Marcum LLP
Elizabeth Prossnitz, CPA	BDO USA LLP
Darshana Raigaga, CPA	BDO USA LLP

**Medium:** (more than 40 professionals)

Almira Goethe, CPA	CDH, PC
Danielle Martin, CPA	Porte Brown LLC
Iryna Prokhorov, CPA	Mueller & Company, LLP
Jeffery Watson, CPA	Miller Cooper & Company Ltd

**Small:** (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA (Chair)	Cray Kaiser Ltd CPAs

**Educators:**

John Hepp, CPA	University of Illinois at Urbana-Champaign
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**Industry:**

Jason Crider, CPA	Molto Properties LLC
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Adam Karac, CPA	Baxter International Inc.
Michael Maffei, CPA	GATX Corporation
Lisa Sezonov, CPA	Northern Trust
Richard Tarapchak, CPA	Reynolds Group Holdings
William Wang, CPA	MAT Holdings, Inc.
Daniel Wilfong, CPA	Sunset Transportation, Inc.

**Staff Representative:** Rafael Wiesenber, CPA      Illinois CPA Society