

STAFF PAPER

October 2021

IASB® meeting

Project	Non-refundable Value Added Tax on Lease Payments (IFRS 16)		
Paper topic	Finalisation of agenda decision		
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Introduction and purpose

1. At its September 2021 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission on IFRS 16 *Leases*. The Committee instead decided to finalise an agenda decision explaining that it has not received evidence that the matter has widespread effect and has, or is expected to have, a material effect on those affected.
2. The purpose of this meeting is to ask Board members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation [Due Process Handbook](#).

Background

3. The Committee received a submission about how a lessee accounts for any non-refundable value-added tax (VAT) charged on lease payments. In particular, the submission asked whether, in applying IFRS 16, the lessee includes non-refundable VAT as part of the lease payments for a lease.
4. In March 2021, the Committee discussed the submission and decided to publish a tentative agenda decision. The tentative agenda decision noted that outreach conducted by the Committee had provided limited evidence (a) that non-refundable VAT on lease payments is material to affected lessees; and (b) of diversity in the way lessees in similar circumstances account for non-refundable VAT on lease payments.

The Committee therefore concluded that it had not yet obtained evidence that the matter had widespread effect and had, or was expected to have, a material effect on those affected.¹

Overview of the feedback on the tentative agenda decision

5. The Committee received 16 comment letters on its tentative agenda decision by the comment letter deadline.

Agreement with the tentative agenda decision

6. Most respondents agreed with the Committee’s decision not to add a standard-setting project to the work plan. Some of these respondents suggested that the agenda decision explain the accounting lessees apply to non-refundable VAT on lease payments. In their view, explaining the accounting a lessee applies would reduce any existing diversity and prevent new diversity from arising. These respondents, however, expressed differing views on the accounting they suggested the agenda decision explain.
7. Some respondents neither agreed nor disagreed with the tentative agenda decision. Instead, these respondents provided information about the tax legislation in their jurisdiction or shared their views on the accounting

Prevalence and diversity

8. Some respondents said non-refundable VAT on lease payments affects many lessees in different jurisdictions and sectors (such as banking and insurance). However, these respondents did not comment on the materiality of non-refundable VAT for affected lessees, except for one respondent that said the matter could be material and another respondent that said the matter is generally immaterial for lessees in its jurisdiction.
9. Almost all respondents did not comment on whether there is diversity in the way lessees account for non-refundable VAT. Two respondents said diversity may or is

¹ Paragraph 5.16 of the *Due Process Handbook* sets out the criteria the Committee considers when deciding whether to add a standard-setting project to the work plan. One of these criteria—included in sub-paragraph 5.16(a)—is that ‘the matter has widespread effect and has, or is expected to have, a material effect on those affected’.

likely to exist; another respondent said there is no evidence of diversity in its jurisdiction.

Committee's conclusion

10. The Committee considered this feedback and confirmed its conclusions in the tentative agenda decision.² The Committee made only minor changes to the wording of the tentative agenda decision.
11. Ten of 13 Committee members present at the meeting voted to finalise the agenda decision.
12. Appendix A to this paper includes the wording of the agenda decision, approved by the Committee.

Questions for the Board

Do Board members object to the Committee's:

- (a) decision that a standard-setting project should not be added to the work plan; and
- (b) conclusion that the agenda decision does not add or change requirements in IFRS Standards?

² [Agenda Paper 2](#) to the Committee's September 2021 meeting analyses comments received.

Appendix A—The Agenda Decision

A1. The Agenda Decision below was approved by the Committee at its September 2021 meeting.

Non-refundable Value Added Tax on Lease Payments (IFRS 16 *Leases*)

The Committee received a request about how a lessee accounts for any non-refundable value added tax (VAT) charged on lease payments. In the fact pattern described in the request:

- a. the lessee operates in a jurisdiction in which VAT is charged on goods and services. A seller includes VAT in an invoice for payment issued to a purchaser. In the case of leases, VAT is charged when an invoice for payment is issued by a lessor to a lessee.
- b. the applicable legislation:
 - i. requires a seller to collect VAT and remit it to the government; and
 - ii. generally allows a purchaser to recover from the government VAT charged on payments for goods or services, including leases.
- c. because of the nature of its operations, the lessee can recover only a portion of the VAT charged on purchased goods or services. This includes VAT charged on payments it makes for leases. Consequently, a portion of the VAT the lessee pays is non-refundable.
- d. lease agreements require the lessee to make payments to the lessor that include amounts related to VAT charged in accordance with the applicable legislation.

The request asked whether, in applying IFRS 16, the lessee includes non-refundable VAT as part of the lease payments for a lease.

Outreach conducted by the Committee and comment letters on the Committee’s tentative agenda decision provided limited evidence:

- a. that non-refundable VAT on lease payments is material to affected lessees; and
- b. of diversity in the way lessees in similar circumstances account for non-refundable VAT on lease payments.

The Committee has therefore not received evidence that the matter has widespread effect and has, or is expected to have, a material effect on those affected. Consequently, the Committee decided not to add a standard-setting project to the work plan.