

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.