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Reference: IAS 17, leases (revised 1997).

Issue

1. In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent.

2. The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

Consensus

3. All incentives for the agreement of a new or renewed operating lease should be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

4. The lessor should recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

5. The lessee should recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

6. Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), should be accounted for by the lessee in accordance with the International Accounting Standards applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

   Date of consensus: June 1998.

   Effective date: this interpretation becomes effective for lease terms beginning on or after 1 January 1999.

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STANDING INTERPRETATIONS COMMITTEE INTERPRETATION SIC-21

Income taxes — recovery of revalued non-depreciable assets

Paragraph 11 of IAS 1 (revised 1997), presentation of financial statements, requires that financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable standard and each applicable interpretation issued by the Standing Interpretations Committee. SIC interpretations are not intended to apply to immaterial items.

Draft interpretation SIC-D21, income taxes — omnibus was issued for comment in September 1999. The draft interpretation included both the issue addressed in this interpretation and the issue included in interpretation SIC-25, income taxes — changes in the tax status of an enterprise or its shareholders.

Reference: IAS 12, income taxes (revised 1996).

Issue

1. Under IAS 12.51, the measurement of deferred tax liabilities and assets should reflect the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of those assets and liabilities that give rise to temporary differences.

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2. IAS 12.20 notes that the revaluation of an asset does not always affect taxable profit (tax loss) in the period of the revaluation and that the tax base of the asset may not be adjusted as a result of the revaluation. If the future recovery of the carrying amount will be taxable, any difference between the carrying amount of the revalued asset and its tax base is a temporary difference and gives rise to a deferred tax liability or asset.

3. The issue is how to interpret the term 'recovery' in relation to an asset that is not depreciated (non-depreciable asset) and is revalued under paragraph 29 of IAS 16 (revised 1998).

4. This interpretation also applies to investment properties which are carried at revalued amounts under IAS 25.23(b) but would be considered non-depreciable if IAS 16 were to be applied.

Consensus

5. The deferred tax liability or asset that arises from the revaluation of a non-depreciable asset under IAS 16.29 should be measured based on the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of that asset. Accordingly, if the tax law specifies a tax rate applicable to the taxable amount derived from the sale of an asset that differs from the tax rate applicable to the taxable amount derived from using an asset, the former rate is applied in measuring the deferred tax liability or asset related to a non-depreciable asset.

Date of consensus: August 1999.

Effective date: This consensus becomes effective on 15 July 2000. Changes in accounting policies should be accounted for according to the transition requirements of IAS 8.46.

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STANDING INTERPRETATIONS COMMITTEE INTERPRETATION SIC-25

Income taxes — changes in the tax status of an enterprise or its shareholders

Paragraph 11 of IAS 1 (revised 1997), presentation of financial statements, requires that financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable standard and each applicable interpretation issued by the Standing Interpretations Committee. SIC interpretations are not intended to apply to immaterial items.

Draft interpretation SIC-D21, income taxes — omnibus was issued for comment in September 1999. The draft interpretation included both the issue addressed in this interpretation and the issue included in interpretation SIC-21, income taxes — recovery of revalued non-depreciable assets.

Reference: IAS 12, income taxes (revised 1996).

Issue

1. A change in the tax status of an enterprise or of its shareholders may have consequences for an enterprise by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an enterprise's equity instruments or upon the restructuring of an enterprise's equity. It may also occur upon a controlling shareholder's move to a foreign country. As a result of such an event, an enterprise may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future.

2. A change in the tax status of an enterprise or its shareholders may have an immediate effect on the enterprise's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the enterprise, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the enterprise's assets and liabilities.