

24 May 2021

Sue Lloyd  
Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
United Kingdom

Dear Ms Lloyd

## **Tentative agenda decision – Non-refundable Value Added Tax on Lease Payments (IFRS 16)**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2021 Update of the tentative decision not to take onto the Committee's agenda the request for clarification on how a lessee accounts for any non-refundable value added tax (VAT) charged on lease payments.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda. However, we do not agree with the proposed wording of the agenda decision. We believe that the agenda decision should set out the appropriate treatment of VAT charged on lease payments and offer our thoughts on possible wording below. We believe that this would be useful as we encounter the issue of how to treat non-refundable VAT charged on lease payments regularly in practice.

In our view the appropriate treatment for the type of VAT scheme described in the agenda decision, and other similar tax schemes, is to exclude the VAT within the lease payments used to calculate the lease liability. The basis of this accounting treatment is that as an amount collected by the lessor on behalf of the tax authority (rather than a reimbursement of a cost incurred by the lessor), the VAT does not 'relate to the right to use the underlying asset'. Therefore, it does not form part of either 'lease payments' or 'variable lease payments' as defined in Appendix A to IFRS 16 and is not a cost to be included in the consideration for the contract under IFRS 16:B33. Instead, the lessee accounts for the VAT applying IFRIC 21 and recognises a VAT liability when payment is triggered under the relevant legislation.

We believe strongly that an explanation of the appropriate accounting treatment in the agenda decision would prevent diversity arising in practice.

Additionally, we would suggest that the agenda decision should refer to 'Value added tax and other similar taxes' to ensure that it is clear that this decision applies to other tax regimes with similar terms.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', with a stylized flourish at the end.

**Veronica Poole**  
Global IFRS Leader