

PwC's Lease Automation Services Innovative tax leasing solutions delivered in real time

New lease accounting standard will create tax reporting challenges

The Financial Accounting Standards Board (FASB) recently issued an Accounting Standards Update, *842 Leases*, changing the accounting for leases to increase transparency and provide more information to users of financial statements. This new guidance will eliminate the traditional concept of an operating lease resulting in virtually all leases recorded on the balance sheet.

Adoption of the new lease accounting standard will create tax data and system challenges in producing annual tax return adjustments and a reconciliation of the lease portfolio tax basis to the corresponding book basis.

New data requirements

The new lease accounting standard will create new book-tax differences and change the source of data required to compute existing book-tax differences. Some of these differences may relate to embedded leases, lease classification, tenant allowances, rent expense, depreciation, and mid-life lease events, such as impairments and lease-term modifications, that will need to be tracked for both book and tax purposes.

New system requirements

Many companies will need to implement new lease management systems in order to properly address the requirements of the new lease accounting standard. While new lease management systems will be configured to produce the data and calculations needed for financial reporting purposes, most will not have preconfigured tax reporting capabilities. As a result, companies will need to assess the costs and benefits of buying versus building and maintaining a tax lease reporting solution.

Because the buy options are limited and may require add-on modules or updates, many companies will choose the build option. However, the build option may result in reliance on spreadsheets and manual processes that require substantial internal and external resources to maintain the process and tools necessary to ensure the completeness and accuracy of data.

How can PwC help your company address the tax reporting challenges associated with the new lease accounting standard?

PwC's Lease Automation Service (LAS) is an attractive alternative to building a tax lease reporting solution internally. At the heart of LAS is a proprietary, web-based technology developed by our experienced tax professionals to help companies extract, validate, and perform calculations over the leasing data needed for tax reporting.

LAS utilizes a standardized leasing taxonomy that automates the identification and categorization of lease management system transactions to produce corresponding tax transactions. Built-in controls validate imported source data and notify users of data that may not have been properly captured for tax reporting purposes, as well as identification of new accounts or leasing transaction codes. The result is greater confidence in the accuracy of book to taxable income adjustments and the reconciliation to the book basis balance sheet and income statement.

LAS provides detailed support for tax calculations by producing various reports including tax basis roll-forwards, tax return adjustment summaries, and reconciliations to key data.

In summary, the utilization of LAS will reduce tax reporting risk, provide greater visibility into the lease data, while freeing up internal resources. Accurate and accessible lease data will facilitate the ability to optimize lease related tax accounting methods and assess the tax impacts and planning opportunities related to the lease portfolio such as sales and use tax mitigation, lease procurement company considerations and transfer pricing.

What are the benefits of LAS?

Data management and tax calculations

- Automates the import and validation of lease transaction-level data from lease management system
- Automates interpretation of lease management system transactions to produce a tax basis balance sheet and roll-forward
- Provides support for the tax basis balance sheet reconciliation at the asset/lease level and is supported by transaction-level detail
- Supports tax reporting at the lowest level of detail (transactional) and reconciles to the highest level (tax return and financial statement)
- Supports portfolios of all sizes
- Provides web-based access to transaction/asset/lease-level detail and tax basis calculations and reports
- Integrates with PwC's Tax Depreciation Services (TDS) and Like-Kind Exchange Services (eLKE)

Reporting

- Produces standard reports, including tax basis roll-forwards, a tax basis balance sheet and income statement, tax return adjustments, and a reconciliation of the tax basis for the entire lease portfolio
- Produces customized reports that can be grouped by any number of fields for specific needs or reconciliations, i.e. at the asset, sub-portfolio, or aggregate level
- Produces reports in both summary, drill-down and detailed formats
- Produces reports that can be exported for further analysis
- Identifies reconciliation differences between annual tax return adjustments and the annual change in book and tax basis balance sheets

Reliability

- Contains data validation controls that are customizable
- Maintains historical asset detail for open tax years
- Reflects federal tax regulatory updates
- Includes a quality review of all reports

For more information on LAS, please contact:

Ed Tarka, Partner
Philadelphia, PA
(267) 330-2370
edward.a.tarka@pwc.com

Joe Barnes, Partner
Stamford, CT
(203) 539-5614
joseph.barnes@pwc.com

Brad White, Partner
Los Angeles, CA
(213) 356-6148
brad.white@pwc.com

Glenn Tallon, Director
Baltimore, MD
(410) 659-3484
glenn.tallon@pwc.com

Dave Ho, Director
Philadelphia, PA
(267) 330-2116
david.t.ho@pwc.com

Solicitation

This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.