

# Presenters



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# Federal Tax Update

January 2022





# Overview

## LEGISLATION PASSED:

- Consolidated Appropriations Act of 2021-signed 11/28/2020
- American Rescue Plan Act-signed 3/11/2021
- Infrastructure and Investment and Jobs Act-signed 11/15/2021

## LEGISLATION STALLED:

- Build Back Better Bill

## OTHER TOPICS:

- Qualified Small Business Stock
- What is left of Qualified Opportunity Zone



# Consolidated Appropriations Act

## HIGHLIGHTS:

- Extended 100% cash charitable contribution limit through 2021;
- Increased business meals deduction to 100% for meals provided at a restaurant for 2021 and 2022
- Codified tax deductibility of PPP related expenses reversing IRS policy; IRS changed rules related to timing of PPP forgiveness T/E income
- Extended CARES Act employer credit for paid sick and family leave to eligible wages paid through 3/31/21; (more later)
- Extended CARES Act Employee Retention Credit to 6/30/21 (more later);



# American Rescue Plan Act

## HIGHLIGHTS:

- Provided third round of Stimulus checks-treated as 2021 refundable credit.
- Extended credit for paid family leave and sick pay to 9/30/21 and raises eligible amounts;
- Extends Employee Retention Credit to 12/31/21(less later);



# Infrastructure Investment and Jobs Act

## HIGHLIGHTS:

- Reduces the eligible period for employee retention credit to 9/30/21
- Cryptocurrency reporting extended to brokers to mirror current reporting standards for securities brokers beginning in 2023



# Polling Question 1

- Did your business receive employee Retention Credit in 2021?
  - a) Yes
  - b) No
  - c) Not Sure



# Build Back Better Bill (Proposed)

## HIGHLIGHTS:

- Individual Proposals:
  - 5% tax surcharge on MAGI over \$10 million (\$5 million Married Separate; \$200,000 fiduciaries)
  - Additional 3% on MAGI over \$25 million (\$12,.5 million and \$500,000)
- NIIT would apply to high income taxpayers (\$500,000 MFJ; \$250,000 MFS; \$400,000 all others) on all investment income, gains and business income regardless of material participation.
- Target-S Corps and LLC income not already subject to NIIT or SE
- Excess Business Loss limitation would be made permanent, and carryover would remain as an EBL.
- SALT limitation would be increased to \$80,000





# Build Back Better Bill (Proposed)

## HIGHLIGHTS:

- Retirement Plan Proposals-Effective in 2029:
  - Prohibit annual contributions for high income taxpayers if FMV of retirement benefits exceeds \$10 million ;
  - High income taxpayers would have increased RMD requirement equal to 50% of FMV of retirement plans in excess of \$10 million.



# Build Back Better Bill (Proposed)

## HIGHLIGHTS:

- Business Proposals:
  - 15% AMT on C Corps with 3 year average Adjusted Financial Statement Income in excess of \$1 billion;
  - Business interest expense limitations for both partnerships and S Corps would be computed at the individual level;
    - No entity level limitations
    - All attributes Pass through and are aggregated at individual level
- What's NOT in the Bill:
  - Estate and Gift Tax Changes
  - General rate increases



# Polling Question 2

- Would you expect more or less tax legislation in 2022?
  - a) More
  - b) Less
  - c) Not Sure
  - d) Don't Care



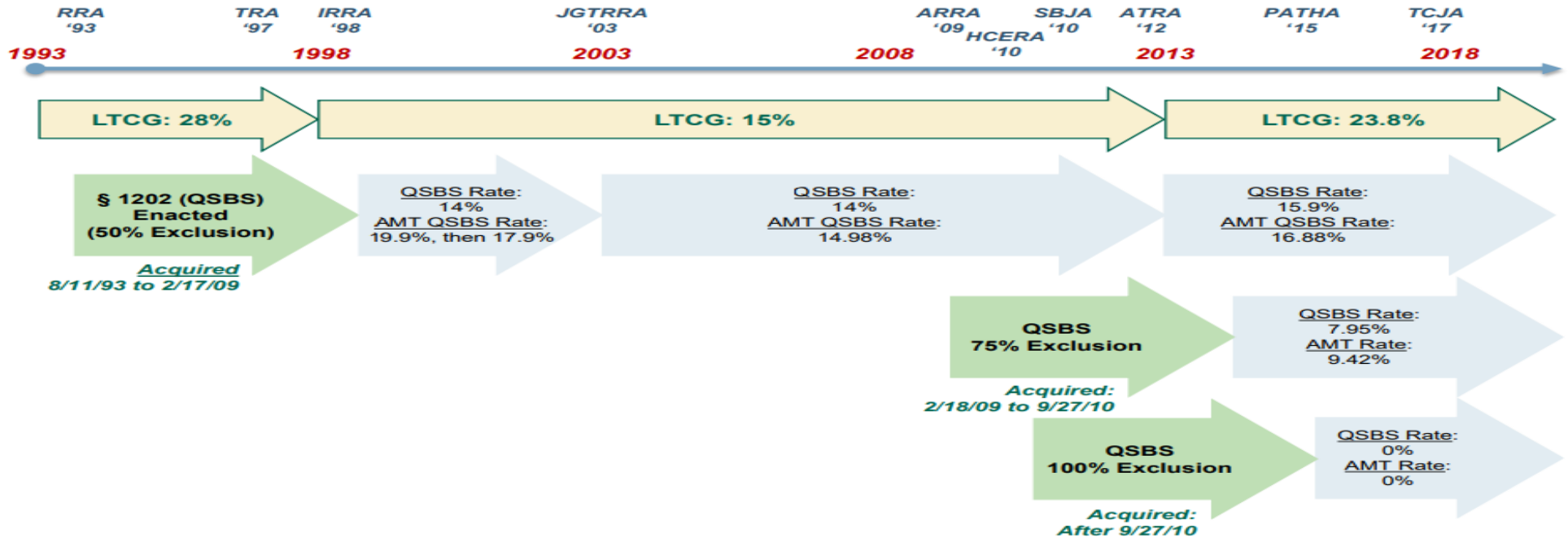
# Qualified Small Business Stock

## WHAT IS A QUALIFIED SMALL BUSINESS STOCK?

- Must be a C corporation in the U.S. (it can't be an S corporation).
- Assets must be \$50 million or less during the existence period.
- Must be an active business (not a holding company)
- Must be in a business other than one involving personal services; banking, insurance, financing, leasing, or investing; farming; mining; or operating a hotel, motel, or restaurant.
- Stock must be acquired in exchange for money or property or as pay for services provided to the corporation.

# Qualified Small Business Stock

## WHAT IS SO SPECIAL ABOUT QUALIFIED SMALL BUSINESS STOCK?



Each taxable year gain exclusion limited greater of \$10 Million (life-time) per taxpayer or 10 times basis limitation.



# Qualified Opportunity Zone

## Can I still benefit from investment in QOZ in 2022?

- Deferral until December 31, 2026 on original gain.
- No tax on appreciation if QOZ investment held in 10 years.

## Types of gains eligible for deferral:

- Capital gains and qualified 1231 gains
- Must be invested within 180 days period



# Polling Question 3

• **Would you invest in a qualified opportunity Zone to defer capital gains tax until December 31, 2026?**

- a) Yes
- b) No

# QUESTIONS



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# SALT Update

*2021 and Beyond*

January 20, 2022





# Overview

## Corporate/Partnership Income Tax Update:

- PTET Update
- COVID Impact: Nexus, Sourcing, Withholding/Payroll

## Personal Income Tax Update:

- Residency/Domicile Issues

## Sales Tax Update

## Unclaimed Property

## Federal Legislation (BBB) – Impact on SALT



# Polling Question 4

**How familiar are you with the current updates on state pass-through entity taxes?**

- a. Very familiar
- b. Somewhat familiar
- c. Not at all familiar
- d. What is a state pass-through entity tax?



# Pass-Through Entity Tax (“PTET”) Background

- 2018 Tax Cuts & Jobs Act - \$10,000 SALT deduction cap.
- Cap applies to individual taxpayers, but not business entities paying entity-level taxes.
- Significant tax ramifications for pass-through entity owners in high income tax states.
- Pass-Through Entity Tax Work-Around
  - More than twenty states have enacted (and counting).
  - Mandatory vs. elective considerations.
- IRS Notice 2020-75
  - Provided IRS-approval for federal deductibility of state pass-through entity taxes.
  - Approval regardless of deduction or credit mechanism that may be available to partners, members and shareholders.



# States with a PTET

- Numerous states have enacted a PTET in order to work-around the \$10k SALT cap.
- CT is the only state that is mandatory. The rest are elective.
- Each state has its own nuances.
- More states expected to pass a PTET in 2022.
- Many states were waiting on additional Federal legislation.

STATE	EFFECTIVE DATE
Alabama	January 1, 2021
Arizona	January 1, 2022
Arkansas	January 1, 2022
California	January 1, 2021
Colorado	January 1, 2022
Connecticut	January 1, 2018
Georgia	January 1, 2022
Idaho	January 1, 2021
Illinois	January 1, 2022
Louisiana	January 1, 2019
Maryland	January 1, 2020
Massachusetts	January 1, 2021
Michigan	January 1, 2021
Minnesota	January 1, 2021
New Jersey	January 1, 2020
New York	January 1, 2021
Oklahoma	January 1, 2019
Oregon	January 1, 2022
Rhode Island	January 1, 2019
South Carolina	January 1, 2021
Wisconsin	January 1, 2018



# PTET – Common Issues

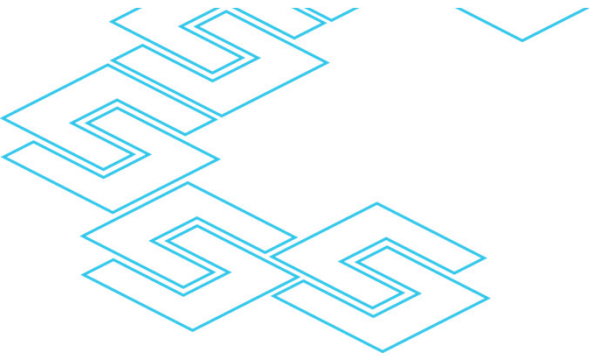
- **Common Issues**

- Utilization of tax credits
- Allowance for composite returns and availability of credit if composite filed
- Non-resident withholding/cash flow
- Credit for tax paid in resident state
- Add-back
- Allocations when dealing with pass-through entity owners who may be exempt
- Tiered structures



# PTET – Conclusion

- Opportunity should be there for many pass-through entity owners.
- Focus on make-up of residency of owners of PTE.
  - No resident credit issue for owners in no income tax states like FL, TN, TX, etc.
  - Possible resident credit issue for owners in states without PTE tax regimes.
- Weigh added compliance costs (e.g., administrative costs of electing in and navigating new tax regime; no composite allowed in states like MD).
- Consider cash flow impact of required withholding and estimated payments.



# COVID Impacts

- COVID has had substantial impacts on the way taxpayer's conduct business.

## Remote workforce

- Taxpayers that never allowed employees to work from home were now forced to due to "stay-at-home" orders issued by the states.
- Quickly, tax professionals and taxpayers asked - What effect will COVID-19 teleworking employees have on state nexus and apportionment positions?

## COVID Guidance

- Numerous states were quick to respond and issue COVID guidance indicating that teleworkers would not create nexus and withholdings should stay the same.
- Now that we are going on Year 3 of the pandemic, some stay-at-home orders have expired and any COVID-19 guidance issued by the states have expired.





# COVID Impacts

- Thereafter, employers continued to allow their employees to either work fully remote or do a hybrid between office and home.
- Taxpayers that once had no multi-state presence, now find themselves with employees spread out throughout the U.S.

## NEXUS

- Corporate Income – remote employees (unless sales people who are selling tangible personal property and protected by PL 86-272) should give a taxpayer nexus for corporate income tax purposes.
- Sales Tax- any remote employee should give nexus for sales tax purposes.

## APPORTIONMENT

- Sourcing – There may be “nowhere sales” that now should be sourced because of remote employee presence.
  - Services – “Cost of Performance” states should be reviewed with remote employees. Could have a positive or negative impact on the return.
- Throwback – There may be sales that no longer should be thrown back because the company has nexus.



# COVID Impacts – Employer Withholding/Payroll

- Employer withholding is typically required in a state when an employee performs services in a state. Historically, most businesses withheld in the state where the employee worked in the office. Now that employees are working from home, the state where an employer is required to withhold may have changed. Or has it?....

## “Convenience Rule”

- In general, if an employee works from home for his/her own convenience, the workdays at home will be treated as days worked at the *assigned work location*.
  - Seven states currently have a convenience rule (AR, DE, CT, MA, MS, NE, NY, and PA).
    - CT’s rule only comes into play when the other involved state has a convenience rule (i.e., NY).
    - MA convenience rule is solely a COVID-19-related rule and has expired.
    - MS rule states the total wages of a nonresident employee are subject to MS withholding if a corporation has his or her base situs in MS and the employee earns his or her salary while assigned to the MS base.
  - Businesses are *required* to withhold state taxes based on which “sourcing rule” state follows. Potentially *required* to withhold in 2 states.
- Unemployment Insurance Tax



# COVID Impacts – Employer Withholding/Payroll

- If an employee is “assigned” to an office in a state that has convenience rule and lives/work in a state that does not have such there is a potential for double tax on employee’s wages. Typically the employee needs to have worked “inside and outside” the state in order for the COE rule to be triggered.
- **Credit for taxes paid to another state**
  - Credit available for taxes paid on income “earned” in other state.
    - Determination of income earned is based on resident state’s nonresident sourcing rules.
  - Credit available for taxes paid to other state on income taxed by resident state.
- ***Withholding should be the responsibility of the employer and the employer thus can be liable for under withheld tax.***



# Personal Income Tax Update

- During COVID employees fled cities for more space. Other employees traveled the world while working remote.

2 ways a state can tax an individual as a resident:

- **Domicile** – subjective test. Domicile looks to the intent of the individual and where they make their “true home.” Factors reviewed include: family, business, home, time spent and items “near and dear.”
  - Simple Test – If your “life” substantially reverts back to what *and where* it was pre-COVID, it will likely be VERY difficult to convince the historical domicile state that the intent was to change domicile, regardless of the amount of time spent in the proposed “new domicile.”
- **Statutory Resident** – 184 days spent in a state plus a permanent place of abode.
- Numerous individuals spent more than 183 days in locations other than their domicile.
- Possible to have 2 resident states.



# Personal Income Tax Update

## NYS/NYC Updated Guidance –

- Under the statutory residency test, an individual is taxed as a New York State resident when they spend more than 183 days in the state AND maintain a PPA in the state “for substantially all of the taxable year.” Before 2022, the guidelines made clear that “substantially all” meant a period exceeding 11 months.
- This 11-month rule was prevalent in other places as well, including tax return instructions, guidance on the tax department’s [website](#), and other sources.
- But the new guidelines change this rule to define “substantially all of the year” to mean a period *exceeding 10 months*, starting in tax years beginning in 2022.



# Sales Tax Update

- CT Department of Revenue Services (“DRS”) worked with U.S. Customs to identify anyone that imported goods from outside of the U.S. Notices were sent out reminding individuals that anyone making purchases outside of CT for use in CT and did not pay CT sales tax must self-assess CT use tax.
- The Notices also reminded taxpayers that CT currently has an Amnesty Program in effect until January 31, 2022. The program provides the following:
  - A 75% reduction in interest;
  - Waives penalties; and
  - Waives the possibility of criminal prosecution to those who have not filed, have under reported or have existing liabilities related to taxes owed to the State for any tax period ending on or before December 31, 2020.
- All taxes administered by the Connecticut DRS, except for Connecticut motor carrier road tax (IFTA), are eligible for Tax Amnesty.
- Tax Amnesty applications must be filed electronically and payment made in full by January 31, 2022. Once Tax Amnesty ends taxpayers will be liable for the full tax, penalty, and interest on any amount owed.



# Unclaimed Property

- With State Budget deficits, there may be an increase in Unclaimed Property audits.
- We recommend an internal audit to determine the amounts (if any) of unclaimed property.
- Generally, in an unclaimed property audit, every holder will be asked to produce the following documents for audit review:
  - Chart of accounts; general ledger/trial balance; annual report; journal entries; bank reconciliations; organizational charts; accounting policies and procedural manual; and an analysis of other income/expense accounts.
- Depending upon the business involved, an analysis should also be done of: gift certificates; credit vouchers and customer refunds; possibly patient credit balances and patient credit refunds; royalties; customer deposits; rentals; unidentified remittances; uncashed checks; payroll registers; and rebates.



# Federal Legislation Impact on SALT

**Federal Build Back  
Better Act could have  
numerous State Tax  
implications if passed**

- Corporate Minimum Tax
- Federal Tax Credits
- Interest expense – 163(n)
- Dividends received deduction – 245(A)
- GILTI
- SALT Cap
- Limitation on deduction of business interest expense
- Fixed Date Conformity





# Polling Question 5

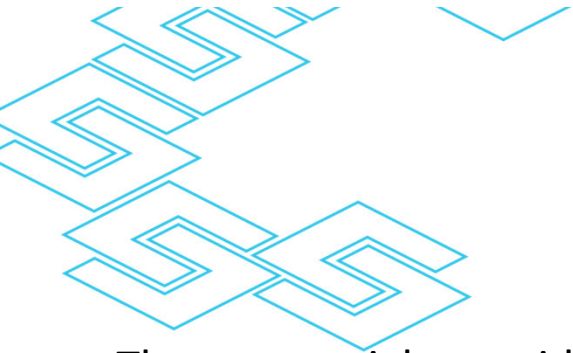
**To which of the following state tax areas did your organization direct the most internal and external resources?**

- a. Sales Tax
- b. Nexus Considerations
- c. Apportionment Considerations
- d. Defending State Tax Audits



# Concluding Thoughts...

- COVID has changed the SALT landscape in numerous ways.
- Federal legislation has had various implications on SALT.
- Have a conversation with a SALT advisor regarding the impact it has had on your business.
- Be prepared for increased audits in states that have budget deficits. Changes on the horizon for states with budget surpluses (FL and NE).
- Be prepared if your business will be going through a Tax Due Diligence – don't be surprised.



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# Lease Accounting

*Preparing Your Business for ASC 842*

January 2022





# Overview

## EFFECTIVE DATES:

- Public Companies – Fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.
- Private Companies – Fiscal years beginning after December 15, 2021, amended in June 2020. Early adoption is permitted.

## TRANSITION OPTIONS:

- Adopt using a modified retrospective transition method OR optional cumulative effect adjustment to opening retained earnings (ASU 2018-11).



# Important Matters to Consider

## COMPARISON OF GAAP

	Existing	New
<b>BALANCE SHEET</b>	Leases are classified as either capital or operating lease  Only capital leases are recognized on balance sheet as asset and related liabilities	Lessees will recognize almost every lease on balance sheet
<b>INCOME &amp; CASH FLOW</b>	Substantially retains concept of operating versus capital (finance) leases	

### COVENANT COMPLIANCE

- Potential impact on debt service coverage ratio
- Other financial covenants may be impacted
- Potential impact on working capital



# What is a Lease?

“A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.”

## LEASE CLASSIFICATION

Five criteria: If any of the following apply, the lease is classified as finance; otherwise classified as operating.

1. Ownership of the underlying asset transfers to the lessee at end of lease term.
2. An option exists under which the lessee may purchase the underlying asset and exercise of that option is reasonably certain.
3. The lease term makes up a major part of the underlying asset's remaining economic life.
4. The sum of the present value of the lease payments is equal to or exceeds substantially all of the underlying asset's fair value.
5. **NEW:** The underlying asset's specialized nature is expected to result in it not having an alternative use to the lessor at the end of the lease term.

# Initial Recognition and Subsequent Measurement – All Leases

On day 1, recognize the following:

Right-of-Use Asset	Lease Liability
Off setting lease liability	Present value of future lease payments

Once in service, recognize the following:

<b>Finance Lease</b>	<ul style="list-style-type: none"> <li>• <b>Amortize on straight-line basis over lease term</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Calculate interest expense on the carrying value of the lease liability</b></li> <li>• <b>Reduce lease liability as lessee makes lease payments</b></li> </ul>
<b>Operating Lease</b>	<ul style="list-style-type: none"> <li>• Calculate straight-line lease expenses (similar to current GAAP)</li> <li>• Amortize asset over lease term by difference between straight-line lease expense and interest expense</li> </ul>	





# Polling Question 6

- How many leases does your organization have?
  - a) 10 or less
  - b) 50 or less
  - c) 50+
  - d) Not sure



# Example Facts

## Lease term is for 3 years

### Payment schedule

- \$200,000 at the end of Year 1
- \$300,000 at the end of Year 2
- \$400,000 at the end of Year 3

Discount rate is 5%

Present value of lease payments is \$808,120

Operating lease straight line annual payment is \$300,000

There are no variable lease payments





# Finance Lease Example

Using the example facts

Year	Right-of-Use Asset			Lease Liability			
	<u>Beginning Balance</u>	<u>Amortization</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Interest @ 5%</u>	<u>Payments</u>	<u>Ending Balance</u>
1	808,120	269,373	538,747	808,120	40,406	200,000	648,526
2	538,747	269,373	269,373	648,526	32,426	300,000	380,952
3	269,373	269,373	-	380,952	19,048	400,000	-



# Finance Lease Example - Summary

	Year 1	Year 2	Year 3	Total
Interest	40,406	32,426	19,048	91,880
Amortization	269,373	269,373	269,373	808,120
Total Expense	309,779	301,800	288,421	900,000
	Year 1	Year 2	Year 3	Total
Operating Cash Flow	40,406	32,426	19,048	91,880
Financing Cash Flow	159,594	267,574	380,952	808,120
Total Cash Flow	200,000	300,000	400,000	900,000



# Operating Lease Example

Year	Right-of-Use Asset					Lease Liability			
	<u>Beginning Balance</u>	<u>Straight-line Expense</u>	<u>Interest</u>	<u>Amortization</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Interest @ 5%</u>	<u>Payments</u>	<u>Ending Balance</u>
1	808,120	300,000	40,406	259,594	548,526	808,120	40,406	200,000	648,526
2	548,526	300,000	32,426	267,574	280,952	648,526	32,426	300,000	380,952
3	280,952	300,000	19,048	280,952	-	380,952	19,048	400,000	-

## Expense Classified as A Single Line Item

- Above illustration depicts calculations necessary for subsequent measurement of the ROU asset and lease liability
- Interest and amortization components above are presented as a single operating expense similar to existing GAAP



# Operating Lease Example - Summary

	Year 1	Year 2	Year 3	Total
Interest	40,406	32,426	19,048	91,880
Amortization	259,594	267,574	280,952	808,120
Total Expense	300,000	300,000	300,000	900,000
	Year 1	Year 2	Year 3	Total
Operating Cash Flow	200,000	300,000	400,000	900,000
Financing Cash Flow	-	-	-	-
Total Cash Flow	200,000	300,000	400,000	900,000



# Operating Lease Example – Sample Journal Entry

Account	Debit	Credit
Cash		200,000
Rent expense	300,000	
Right-of-use asset		259,594
Lease liability	159,594	



# Polling Question 7

- All other things being equal, which type of lease will result in a higher EBITDA?
  - a) Operating lease
  - b) Finance lease
  - c) Both have an identical impact on EBITDA



# Balance Sheet – Assuming Operating Lease

Balance Sheet 01/01/20xx	Before new lease standards	After new lease standards
Cash	\$ 300,000	\$ 300,000
Accounts receivables	1,100,000	1,100,000
Inventory	1,400,000	1,400,000
Prepaid	90,000	90,000
<b>Total Current Assets</b>	<b>2,890,000</b>	<b>2,890,000</b>
Fixed Assets	900,000	900,000
Other assets	40,000	40,000
<b>Right of use asset</b>	<b>-</b>	<b>808,120</b>
<b>Total Assets</b>	<b>3,830,000</b>	<b>4,638,120</b>
Accounts payable and accrued expenses	600,000	600,000
Current loan payable	200,000	200,000
<b>Current lease liability</b>	<b>-</b>	<b>159,594</b>
Other current liabilities	50,000	50,000
<b>Total current liabilities</b>	<b>850,000</b>	<b>1,009,594</b>
Loan payable	2,030,000	2,030,000
<b>Lease liability</b>	<b>-</b>	<b>648,526</b>
<b>Total liabilities</b>	<b>2,880,000</b>	<b>3,688,120</b>
Common stock	100	100
APIC	99,900	99,900
Retained earnings	850,000	850,000
<b>Total Stockholder's equity</b>	<b>950,000</b>	<b>950,000</b>
<b>Total liabilities and SE</b>	<b>\$ 3,830,000</b>	<b>\$ 4,638,120</b>

Day 1 changes to ratios				
	Before new lease standards	After new lease standards	Difference	Difference - %
Current ratio	3.40	2.86	(0.54)	-15.81%
Debt to Equity	2.35	3.20	0.85	36.24%
Net Working Capital	2,040,000	1,880,406	(159,594)	-7.82%

# EBITDA and Debt Service – Finance vs Operating Lease

	EBITDA under Operating Leases		EBITDA under Financing Leases	
Net income	\$	250,000	\$	250,000
Depreciation on fixed assets		60,000		60,000
Depreciation on ROU assets		-		269,373
Interest on debt		89,000		89,000
Interest on finance lease liability		-		40,406
Taxes		100,000		100,000
<b>EBITDA</b>	\$	<b>499,000</b>	\$	<b>808,779</b>
			Difference - \$	309,779
			Difference - %	62.08%

	Operating Lease		Finance Lease	
	ASC 840 (old)	ASC 842 (new)	ASC 840 (old)	ASC 842 (new)
EBITDA	499,000	499,000	808,779	808,779
Fixed Charges	200,000	359,594	359,594	359,594
Fixed Charge Coverage	2.50	1.39	2.25	2.25
FCC Difference - \$		(1.11)		-
FCC Difference - %		-44.38%		0.00%



# Qualitative Disclosures

- Lease not yet commenced, but creates significant rights and obligations for lessee

- The nature of leases and subleases



- Significant assumptions and judgments in accounting for leases



- General description of leases
- Basis, terms and conditions applicable to variable lease payments
- Existence, terms and conditions of options to extend or terminate leases
- Existence, terms and conditions of residual value guarantees
- Restrictions or covenants imposed by leases

- Determination of whether a contract contains a lease
- Allocation of contract consideration to lease and nonlease components
- Determination of the discount rate



# Qualitative Disclosures (continued)

- **Short term leases** →

- Disclosure of accounting policy election to not recognize short term leases
- If the short-term lease expense for the period does not reasonably reflect the lessee's short-term lease commitments, a lessee shall disclose that fact and the amount of its short-term lease commitments.

- **Nonlease components** →

- Disclosure of accounting policy election to group nonlease components into related lease components
- Asset class(es) for which election was made

For the years ended December 31, 20X8 and 20X7 (in thousands)

	20X8	20X7
<b>Lease expense</b>		
1 Finance lease expense		
Amortization of ROU assets	600	525
Interest on lease liabilities	150	110
2 Operating lease expense	1,000	900
3 Short-term lease expense	50	40
4 Variable lease expense	75	60
5 Sublease income	(10)	(8)
<b>Total lease expense</b>	<b>1,865</b>	<b>1,627</b>
<b>Other information</b>		
6 (Gains) losses on sale-leaseback transactions, net	(8)	5
7 Cash paid for amounts included in the measurement of lease liabilities for Finance leases		
Operating cash flows	1,400	1,300
Financing cash flows	200	170
Cash paid for amounts included in the measurement of lease liabilities for Operating leases		
Operating cash flows	800	635
8 ROU assets obtained in exchange for lease liabilities		
Finance leases	275	375
Operating leases	200	140
9 Weighted-average remaining lease term (in years)		
Finance leases	5.2	5.9
Operating leases	9.2	8.4
10 Weighted-average discount rate		
Finance leases	6.1%	6.3%
Operating leases	7.2%	7.3%
11 Maturity Analysis	<u>Finance</u>	<u>Operating</u>
20X9	1,700	1,000
20Y0	1,900	1,100
20Y1	2,050	1,200
20Y2	1,500	1,300
20Y3	1,200	1,400
Thereafter	<u>1,550</u>	<u>3,300</u>
Total	9,900	9,300
Less: Present value discount	<u>(3,456)</u>	<u>(4,302)</u>
Lease liability	6,444	4,998

1. For Finance leases, amortization of right-of-use (ROU) assets and interest on lease liabilities (including capitalized interest)\*
2. Operating lease expense (including capitalized costs)\*
3. Short-term lease expense, when term > 30 days\*
4. Variable lease expense\*
5. Sublease income
6. Gains and losses on sale-leaseback transactions
7. Cash paid for amounts included in measurement of lease liabilities, segregated by Finance and Operating leases and between operating and financing cash flows
8. Supplemental noncash information on ROU assets obtained in exchange for new lease liabilities, separately for Finance and Operating leases
9. Weighted-average remaining lease term, presented separately by Finance and Operating leases
10. Weighted-average discount rate for Operating and Finance leases as of the balance sheet date
11. Maturity analysis of lease liabilities for each of the first 5 years after balance sheet date and in total thereafter, including reconciliation of undiscounted cash flows to lease liabilities on the balance sheet

\*The disclosed expense items should include any amounts that were capitalized as part of the cost of another asset, such as inventory, software development costs, and equipment.



# Polling Question 8

- Does your organization have software for monitoring and tracking of leases.
  - a) Yes
  - b) No



# Summary of Practical Expedience

- Package of Three transition relief allows entities to not reassess:
  - Whether any expired or existing contracts are, or contain, leases
  - The lease classification for any expired or existing leases
  - Initial direct costs for any existing leases
- Short-term leases.
- Combining lease and nonlease components
- Risk-free discount rate



# Other important considerations

- Impairments of ROU Assets
- Subleases
- Lease modifications