



Securities Law Alert

Reminder to Complete Your Lease Accounting Transition and Your Tax Reform Analysis

By the Corporate & Securities Law and Tax Law Practice Groups

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Companies could use a break after implementing the new revenue recognition rules that took effect this year. Unfortunately, the new lease accounting rules take effect in 2019 for public companies and 2020 for most other entities. On top of that, public companies were given up to one year from December 22, 2017 under Staff Accounting Bulletin ("SAB") 118 to complete the analysis of the income tax accounting effects on their financial statements covering the period in which the Tax Cuts and Jobs Act (the "Act") was enacted. We join many others in encouraging those companies that have not started on these projects to begin in earnest the work that will be needed to adopt the new lease accounting standard and to complete the analysis to disclose the income tax accounting effects as a result of the Act before the end of the year.

I. Lease Accounting Transition

According to a survey released in May of over 2,000 finance leaders in more than 20 major metropolitan areas by Robert Half and Protivity, more than half of the companies surveyed had not begun transitioning to the new standard. Of those companies who had begun doing so, fewer than half of them had reported completing an assessment of how much needs to be done.

Training staff, determining and implementing the needed changes and finding consultants/professionals with the expertise required have been identified as three major areas that will provide challenges that will only increase as the year progresses. According to the SEC's Deputy Chief Accountant, implementation will require (among other things): understanding the accounting and disclosure requirements; identifying

relevant arrangements and leases within those arrangements; determining appropriate accounting policies, including applicable transition elections; applying the new standard to applicable arrangements; preparing transition and ongoing disclosures; and establishing processes and controls to support implementation and application of the standard. Accordingly, implementation will involve many areas such as accounting, tax, financial reporting and planning, investor relations, treasury (e.g., debt covenants), operations, procurement, legal, information technology and real estate. Early adopters have warned that more time was needed than they anticipated, which confirms that doing anything for the first time can be challenging.

The Center for Audit Quality has developed a [tool](#) to help audit committee members meet their oversight obligations related to the new leases standard. It focuses on the need for audit committees to (i) understand the new standard (including the key judgments required), (ii) evaluate the company's impact assessment, (iii) evaluate and monitor the implementation project plan (including specifics of the plan, culture and resources, involvement of stakeholders, accounting policies and significant accounting judgments, systems and controls), and (iv) other implementation considerations, including the transition method and disclosure requirements.

We join many others in encouraging companies to begin in earnest the work that will be needed to adopt the new lease accounting standard.

II. Tax Reform Analysis

Accounting Standards Codification Topic 740 provides accounting and disclosure guidance on accounting for income taxes under generally accepted accounting principles. Under Staff Accounting Bulletin ("SAB") 118, public companies were given up to one year from December 22, 2017 to complete the analysis of the income tax accounting effects on their financial statements covering the reporting period in which the Tax Cuts and Jobs Act (the "Act") was enacted. Companies should be making a good faith effort to complete that analysis to disclose the results prior to the one-year deadline. For a summary of the business tax reform changes under the Act, see our prior [Federal Tax Client Alert](#).

Staff at the SEC's Office of Chief Accountant ("OCA") helpfully issued SAB 118 on the same day that the Act was enacted to provide guidance to companies that did not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act.

The OCA has reminded companies that SAB 118 does not provide an option to defer application of the income tax accounting guidance. For those companies that have not completed their analysis of the income tax accounting effects (whether a reasonable estimate has been determined or not), SAB 118 directs those companies to act in good faith to complete the accounting during the one-year measurement period. The OCA staff has been reminding companies not to delay their analysis until later this year, but to use their good faith efforts to complete this analysis. The disclosure of the

income tax accounting effects provides important information to financial statement users about the financial reporting impact of the Act.

Should companies have questions about the implementation of this guidance, the OCA staff stands ready to consult on accounting considerations. In addition, the Financial Accounting Standards Board issued additional guidance in this area in January and February of this year.

For more information on the new lease accounting standard or the income tax accounting effects under the Act, contact one of the attorneys in our Corporate & Securities Law or Tax Law Practices, including:

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