

IFRS AT A GLANCE

SIC-15 Operating Leases: Incentives



SIC-15 *Operating Leases: Incentives*

Effective Date
Periods beginning on or after 1 January 1999

ISSUE

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

CONSENSUS

- All incentives for the agreement of a new or renewed operating lease are 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
- The lessor recognises 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
- The lessee recognises 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
- Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), are accounted for by the lessee in accordance with the IFRSs applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

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