

EITF ABSTRACTS

Issue No. 86-44

Title: Effect of a Change in Tax Law on Investments in Safe Harbor Leases

Date Discussed: December 4, 1986

References: FASB Statement No. 13, *Accounting for Leases*
Proposed FASB Statement, *Accounting for the Sale or Purchase of Tax Benefits through Tax Leases*, issued October 29, 1981
Proposed FASB Statement, *Accounting for the Sale or Purchase of Tax Benefits through Tax Leases*, issued April 13, 1982

ISSUE

The Tax Reform Act of 1986 affects the net income to be recognized by an investor in a safe harbor lease over its remaining life. The FASB issued two Exposure Drafts of a proposed FASB Statement addressing the accounting for safe harbor leases but did not issue a final Statement. As a result, investments in safe harbor leases may be accounted for in a variety of ways.

The first Exposure Draft, issued October 29, 1981, does not address the subsequent accounting required by the change in tax law or other significant assumptions. The revised Exposure Draft, issued April 13, 1982, however, states that income from a safe harbor lease should be recalculated, similar to the requirements for leveraged leases in paragraph 46 of Statement 13.

The issue is how to calculate and report the effect of the change in tax law.

EITF DISCUSSION

The Task Force reached a consensus that, if the investor accounted for the investment under the revised Exposure Draft, the lease should be recalculated from inception in accordance with paragraph 11 of the revised Exposure Draft. The difference between the amounts originally recorded and the recalculated amounts would be included in income of the year in which the tax law is enacted (a cumulative catch-up adjustment).

The Task Force was divided, however, over the appropriate accounting to be followed when the investor accounted for the investment under the first Exposure Draft. Some Task Force members stated that no cumulative catch-up adjustment is required because the first Exposure Draft does not address the accounting for a change in major assumptions. Other Task Force members responded that the effect of the change in the tax law on an investment in a safe harbor lease should be accounted for in the same way, irrespective of which Exposure Draft the investor used to account for the investment in the safe harbor lease.

The Task Force reached a consensus that it was appropriate to account for the effect of the new tax law on an investment in a safe harbor lease accounted for under the first Exposure Draft either prospectively or by recalculating the safe harbor lease from its inception and making a catch-up adjustment, similar to a leveraged lease.

STATUS

No further EITF discussion is planned.