

# LEVIES

## INTERNATIONAL FINANCIAL REPORTING BULLETIN

### 2013/13



#### Overview

In May 2013, the International Accounting Standards Board (IASB) published a new Interpretation IFRIC 21 *Levies*, which provides guidance on when to recognise a liability for a government imposed levy's that:

- Are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- Where the timing and amount are certain.

The final interpretation differs from the draft interpretation 2012/01 *Levies Charged by Public Authorities on Entities that Operate in a Specific market*, released in May 2012, in a number of areas including:

- Widening of the scope
- Incorporating new guidance for levies with a minimum threshold
- Removing guidance in determining whether recognition of a levy liability results in either an asset or a liability
- Exclusions of emission trading schemes.

IFRIC 21 does not supersede IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, and applies equally to interim financial statements.

The Interpretation is effective for periods beginning on or after 1 January 2014 on a respective basis in accordance with IAS 8 *Accounting Policies, Changes in Estimates and Errors*. Early adoption is permitted.

#### Background

Many governments impose various levies on entities. However questions arise in relation to when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

More specifically, the Interpretation addresses the following:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?
- Are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

#### STATUS

Final Interpretation

#### EFFECTIVE DATE

1 January 2014

#### ACCOUNTING IMPACT

Applicable to entities that are subject to government levies that are within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

### Scope

IFRIC 21 addresses the accounting for levy liability that is within the scope of IAS 37.

The following are not within the scope of IFRIC 21 and/or do not meet the definition of a levy:

- Cost arising from the recognition of a levy liability
- Payments relating to a contractual payment under a contract with a government for the acquisition of an asset or rendering of services
- Emission trading schemes.

A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), except for:

- a) Outflows of resources within the scope of other IFRSs (i.e. income taxes under IAS 12 *Income Taxes*)
- b) Fines or other penalties relating to breaches of the legislation.

### Consensus

IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The following factors do not create or imply the existence of an obligating event:

- Preparation of the financial statements under the going concern principle
- Economic compulsion of the entity.

The recognition of a levy liability occurs progressively so long as the obligating event itself occurs over a period of time.

If the levy is subject to a minimum threshold, recognition of a levy liability occurs only at the point the minimum threshold is breached, and not before.


### Illustrative examples

The Interpretation includes several illustrative examples to clarify its application to several common generic levy arrangements.

- i. Where a levy is triggered progressively as the entity generates revenue*
  - The levy is recognised progressively from the point at which the entity first begins to generate revenue (i.e. as the generation of revenue is the obligating event).
- ii. Where a levy is triggered in full as soon as the entity generates revenue*
  - The levy is recognised in full as soon as the entity generates revenue (i.e. as the generation of revenue is the obligating event).
- iii. Where a levy is triggered in full if the entity operates as a bank [or some other specified activity] at a specified date*
  - The levy is only recognised on the specified date, and is only recognised in full, subject to the entity operating in the specified activity (the obligating event is operating in a specified activity at a specified date).
- iv. Where a levy is triggered if the entity generates revenue above a minimum amount of revenue*
  - The levy is only recognised once the minimum threshold has been reached (the obligating event is breaching the minimum threshold).

### Effective date and transition

The Interpretation is effective for periods beginning on or after 1 January 2014 on a respective basis in accordance with IAS 8 *Accounting Policies, Changes in Estimates and Errors*. Early adoption is permitted.



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