INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD

INT SB-FRS 121

Levies

The Interpretation applies for annual periods beginning on or after 1 January 2014.
Earlier application is permitted.

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INT SB-FRS 121 *Levies*

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Background

1 A government may impose a levy on an entity. There were requests received for guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The question relates to when to recognise a liability to pay a levy that is accounted for in accordance with SB-FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

2 This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of SB-FRS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

3 This Interpretation does not address the accounting for the costs that arise from recognising a liability to pay a levy. Entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

4 For the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:

(a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of SB-FRS 12 *Income Taxes*); and

(b) fines or other penalties that are imposed for breaches of the legislation.

'Government' refers to government, government agencies and similar bodies whether local, national or international.

5 A payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy.

6 An entity is not required to apply this Interpretation to liabilities that arise from emissions trading schemes.

Issues

7 To clarify the accounting for a liability to pay a levy, this Interpretation addresses the following issues:

(a) what is the obligating event that gives rise to the recognition of a liability to pay a levy?

(b) 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?

(c) 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?

(d) 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?

(e) 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?

(f) are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

Consensus

8 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. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

9 An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

10 The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

11 The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.

12 If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs 8–14 of this Interpretation (in particular, paragraphs 8 and 11). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognised when that minimum activity threshold is reached.

13 An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements. As a result, in the interim financial report, a liability to pay a levy:

(a) shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period; and

(b) shall be recognised if a present obligation to pay the levy exists at the end of the interim reporting period.

14 An entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Appendix A

Effective date and transition

This appendix is an integral part of the Interpretation and has the same authority as the other parts of the Interpretation.

A1 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

A2 Changes in accounting policies resulting from the initial application of this Interpretation shall be accounted for retrospectively in accordance with SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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Illustrative examples

These examples accompany, but are not part of, INT SB-FRS 121.

IE1 The objective of these examples is to illustrate how an entity should account for a liability to pay a levy in its annual financial statements and in its interim financial report.

Example 1—A levy is triggered progressively as the entity generates revenue

Entity A has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered progressively as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X1.

In this example, the liability is recognised progressively during 20X1 as Entity A generates revenue, because the obligating event, as identified by the legislation, is the generation of revenue during 20X1. At any point in 20X1, Entity A has a present obligation to pay a levy on revenue generated to date. Entity A has no present obligation to pay a levy that will arise from generating revenue in the future.

In the interim financial report (if any), the liability is recognised progressively as Entity A generates revenue. Entity A has a present obligation to pay the levy on revenue generated from 1 January 20X1 to the end of the interim period.

Example 2—A levy is triggered in full as soon as the entity generates revenue

Entity B has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full as soon as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X0. Entity B generated revenue in 20X0 and in 20X1 starts to generate revenue on 3 January 20X1.

In this example, the liability is recognised in full on 3 January 20X1 because the obligating event, as identified by the legislation, is the first generation of revenue in 20X1. The generation of revenue in 20X0 is necessary, but not sufficient, to create a present obligation to pay a levy. Before 3 January 20X1, Entity B has no present obligation to pay a levy. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the point at which Entity B first generates revenue in 20X1. The generation of revenue in 20X0 is not the activity that triggers the payment of the levy and the recognition of the liability. The amount of revenue generated in 20X0 only affects the measurement of the liability.

In the interim financial report (if any), the liability is recognised in full in the first interim period of 20X1 because the liability is recognised in full on 3 January 20X1.

Example 3—A levy is triggered in full if the entity operates as a bank at a specified date

Entity C is a bank and has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full only if an entity operates as a bank at the end of the annual reporting period. The amount of the levy is calculated by reference to the amounts in the statement of financial position of the entity at the end of the annual reporting period. The end of the annual reporting period of Entity C is 31 December 20X1.

In this example, the liability is recognised on 31 December 20X1 because the obligating event, as identified by the legislation, is Entity C operating as a bank at the end of the annual reporting period. Before that point, Entity C has no present obligation to pay a levy, even if it is economically compelled to continue to operate as a bank in the future. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the entity operating as a bank at the end of the annual reporting period, which does not occur until 31 December 20X1. The conclusion would not change even if the amount of the liability is based on the length of the reporting period, because the obligating event is the entity operating as a bank at the end of the annual reporting period.

In the interim financial report (if any), the liability is recognised in full in the interim period in which 31 December 20X1 falls because the liability is recognised in full on that date.

Example 4—A levy is triggered if the entity generates revenue above a minimum amount of revenue

Entity D has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered if an entity generates revenue above CU50 million in 20X1.[a] The amount of the levy is calculated by reference to revenue generated above CU50 million, with the levy rate at 0 per cent for the first CU50 million revenue generated (below the threshold) and 2 per cent above CU50 million revenue. Entity D's revenue reaches the revenue threshold of CU50 million on 17 July 20X1.

In this example, the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date that exceeds the threshold of CU50 million revenue.

In the interim financial report (if any), the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold.

<u>Variation:</u>

Same fact pattern as above (ie a levy is triggered if Entity D generates revenue above CU50 million in 20X1), except that the amount of the levy is calculated by reference to all revenue generated by Entity D in 20X1 (ie including the first CU50 million revenue generated in 20X1).

In this example, the liability for the payment of the levy related to the first CU50 million revenue is recognised on 17 July 20X1 when the threshold is met, because the obligating event, as identified by the legislation, for the payment of that amount is the reaching of the threshold. The liability for the payment of the levy related to revenue generated above the threshold is recognised between 17 July 20X1 and 31 December 20X1 as the entity generates revenue above the threshold, because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is

Example 4—A levy is triggered if the entity generates revenue above a minimum amount of revenue
reached). The amount of the liability is based on the revenue generated to date, including the first CU50 million revenue. The same recognition principles apply in the interim financial report (if any) as in the annual financial statements. a In this Interpretation, currency amounts are denominated in 'currency units' (CU).