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IFRS in Focus
IFRS Interpretations Committee issues Draft Interpretation on the Accounting for Levies

Contents

The Bottom Line

- The proposals clarify 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 relevant legislation.
- Neither economic compulsion nor the going concern principle would create or imply a constructive obligation to pay a levy.
- A liability and the related expense would be recognised progressively only if the obligating event occurs over a period of time.
- The proposals would be applied retrospectively.
- The comment period on the proposals ends on 5 September 2012.

Background

On 31 May 2012, the International Financial Reporting Standards Interpretations Committee ("the Committee") published draft Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market* ("the draft Interpretation"). The draft Interpretation was developed in response to a request to clarify when a liability should be recognised for levies that are conditional on an entity participating in an activity on a specified date.

The draft Interpretation addresses the following questions.

- What is the obligating event that gives rise to a liability to pay a levy?
- Does the economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will arise from operating in that future period?
- Does the going concern principle imply that an entity has a present obligation to pay a levy that will arise from operating in a future period?

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Scope

The draft Interpretation addresses the accounting for levies that are not within the scope of IAS 12 *Income Taxes*. Furthermore, the scope of the draft Interpretation is limited to levies that are non-exchange transactions (i.e., transactions in which the entity paying the levy does not receive any specific asset or service directly in exchange for the payment of the levy) and does not address the accounting for levies that are due only if a minimum revenue threshold is achieved, fines or other penalties imposed for breaches of legislation or contracts between a public authority and a private entity.

> **Observation**
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> Examples of levies that would be within the scope of the draft Interpretation are a levy assessed in the United Kingdom on entities acting as banks at the end of the annual reporting period and a tax (C3S) in France that is triggered when an entity participates in its market on the first day of the annual reporting period.
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> The UK bank levy is measured based on the carrying amount of equity and liabilities at the end of the reporting period and the French C3S tax is calculated as a percentage of revenues in the preceeding annual period.

The proposal

The draft Interpretation proposes certain underlying principles associated with recognition of a liability. Namely:

- the obligating event that gives rise to recognition of a liability is the activity that triggers the payment of the levy as identified by the legislation;
- a constructive obligation to pay a levy that arises from operating in a future period is not created even if an entity is economically compelled to continue operating in that future period;
- the going concern principle would not affect whether an entity recognises a liability at a reporting date for levies that arise from operating in future periods;
- an obligating event arises progressively if the activity that creates the present obligation occurs over a period of time (e.g., if the obligating event as identified by the legislation is the generation of revenues over a period of time); and
- an entity would recognise an expense upon recognition of the liability for those levies within the scope of the draft Interpretation.

The recognition principles outlined above would be applied to both the annual and interim financial statements. As a result, interim financial statements would not include any anticipated levy expense if there is no present obligation to pay the levy at the end of the interim reporting period, nor would the levy expense be deferred if a present obligation to pay the levy exists at the end of the interim period.

Effective date and comment period

The draft Interpretation does not specify an effective date. The Committee will determine the effective date after considering the comments they receive on the draft Interpretation.

Entities would be required to apply the draft Interpretation retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The comment period on the proposals ends on 5 September 2012.

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