Straight away

IFRS bulletin from PwC

May 2013

IFRS IC issues an interpretation on the accounting for levies

What is the issue?

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation could result in recognition of a liability later than today, particularly in connection with levies that are triggered by circumstances on a specific date.

Scope and objective

Levies are imposed by governments in accordance with legislation and are often measured by reference to an entity's revenues, assets or liabilities (for example, 1% of revenue).

The interpretation addresses diversity in practice around when the liability to pay a levy is recognised. Practice differs particularly when a levy is measured based on financial data relating to a period before the date on which the obligation to pay the levy arises.

IFRIC 21 addresses the accounting for a liability to pay a levy recognised in accordance with IAS 37, 'Provisions', and the liability to pay a levy whose timing and amount is certain. It excludes income taxes within the scope of IAS 12, 'Income taxes'. Its application to liabilities arising from emissions trading schemes is optional.

The interpretation does not address whether the liability to pay a levy gives rise to an asset or an expense. Entities will need to apply other standards to determine the accounting for the expense.

Key provisions

IFRIC 21 addresses the following issues:

What is the obligating event that gives rise to a liability to pay a levy?

The obligating event that gives rise to a liability to pay a levy is the event identified by the legislation that triggers the obligation to pay the levy.

The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future.

When is a liability to pay a levy recognised?

A liability to pay a levy is recognised when the obligating event occurs. This might arise at a point in time or progressively over time.

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Example 1

Levy A – 1% of current year revenues is due if the entity is operating on 1 January
A liability equal to 1% of the current year revenues is recognised progressively as revenue is generated.

Levy B - 1% of prior year revenues is due if the entity is operating on 1 January
A liability equal to 1% of the prior year revenues is recognised in full on 1 January.

Levy C –1% of current year revenues is due if the entity is operating on 31 December
A liability equal to 1% of the current year revenues is recognised in full on 31 December.

The interpretation also requires that an obligation to pay a levy triggered by a minimum threshold is recognised when the threshold is reached.

Example 2

Levy D – *1% of current year revenues is due if the entity is operating on 1 January (same as Levy A)* ***and*** *if current year revenue exceeds CU20m*
A liability equal to 1% of CU20m is recognised in full when the threshold is reached. The liability is then increased progressively as revenue over CU20m is generated.

Is the accounting at an interim reporting date the same as at year end?

The same recognition principles apply in interim and annual financial statements. The obligation should not be anticipated or deferred in the interim financial report if it would not be anticipated or deferred in annual financial statements.

The interpretation provides examples that illustrate the accounting for the liability to pay a levy.

Am I affected?

IFRIC 21 will affect entities that are subject to levies that are not income taxes within the scope of IAS 12. These are common in many countries and in many industries – banking, retail and transportation, to name a few.

What do I need to do?

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and should be applied retrospectively. Earlier adoption is permitted.

Management should identify and consider the accounting for any levies that are in the scope of the interpretation.