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IFRS Developments

IASB issues IFRIC Interpretation 21 *Levies*

What you need to know

- The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.
- For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
- The interpretation is effective for annual periods beginning on or after 1 January 2014, with early application permitted.
- Retrospective application of this interpretation is required.

Highlights

In May 2013, the IASB issued IFRIC Interpretation 21 *Levies*, which was developed by the IFRS Interpretations Committee (the Committee). The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached.

Background

As a result of economic events in recent years, levies have become more common as governments try to generate income from other sources. Consequently, the Committee has received requests for clarification on the accounting for levies in the annual and interim financial statements of an entity subject to such levies. In particular, when should the liability to pay a levy be recognised, when applying the definition of a present obligation under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*?

Scope

The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation.

The interpretation does not address the accounting for the debit side of the transaction that arises from recognising a liability to pay a levy. Entities should look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards.

How we see it

We believe the interpretation will eliminate the current diversity in practice. However, its scope is very broad and covers all types of levies, not just bank and railway levies, which were in the original submission to the Committee. It will also include levies measured based on non-financial information. Entities need to consider whether the interpretation would impact the treatment of levies in their financial statements.

When is a liability recognised?

A liability is recognised for a levy when the activity that triggers payment of the levy under the specified legislation occurs. This event may be at a point in time, such as on a specified date or when a transaction occurs. Alternatively, it may occur over time, such as a levy on revenue generating activities occurring during the current year. The same recognition principles in the annual financial statements apply to the interim financial reports. The following provides examples of when to recognise a liability for levies with different characteristics.

Levies that are triggered progressively as revenues are generated

In the situation where a levy is triggered progressively, as an entity generates revenues over a specified period (according to legislation), a liability must be recognised progressively. That is because, at any point in time during the period, the entity has a present obligation to pay a levy on revenues generated to date.

Levies that are triggered in full as soon as the entity generates revenues

In some jurisdictions, an entity becomes liable for a levy as soon as it generates revenue in a period subsequent to the period in which the amount of the levy due is measured. In this example, an entity would generate revenue in one period, which serves as the basis for measuring the amount of the levy. However, the entity does not become liable for the levy, and therefore cannot recognise a liability, until it first starts generating revenue in the subsequent period.

Levies that are triggered in full if the entity operates as a bank at a specified date

Where an entity is obligated to pay a levy (calculated based on amounts in the statement of financial position at the end of the annual reporting period), only if the entity operates as a bank at the end of the annual reporting period, when would the bank be required to record a liability? According to the interpretation, the activity that triggers the payment of the levy is the entity operating as a bank at the end of the reporting period. Therefore, before the end of the annual reporting period, the entity has no present obligation to pay a levy, even if it is economically compelled to continue operating as a bank in the future.

Levies that are triggered if the entity generates revenues above a minimum specified threshold

For levies that are triggered only when revenues reach a minimum threshold, a liability is recognised only at the point that the specified minimum threshold is reached. For example, a levy is triggered when an entity generates revenues above specified thresholds: 0% for the first CU50 million[1] and 2% above CU50 million. In this example, no liability is accrued until the entity's revenues reach the revenue threshold of CU50 million. The same recognition principle applies for both interim and annual financial statements. Accordingly, no liability is recognised if the minimum threshold has not been reached at the end of the interim reporting period.

Transition and effective date

The interpretation is applicable for annual periods beginning on or after 1 January 2014. Early application is permitted. If an entity decides to early adopt the interpretation, disclosure of that fact is required. Furthermore, retrospective application of this interpretation is required, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

[1] Currency amounts are denominated in currency units (CU).

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