

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.



This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2013 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdointernational.com