



**IFRS AT A GLANCE**  
**IFRIC 21 *Levies***



# IFRIC 21 Levies

## ISSUES

IFRIC 21 addresses the following issues:

- ▶ 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?

## SCOPE

The interpretation applies to liability to pay a levy:

- ▶ If that liability is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, or
- ▶ Whose timing and amount is certain.

## DEFINITIONS

**Levy:** a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e laws and/or regulations), other than:

- a) Those outflows of resources that are within the scope of other Standards (e.g. income taxes within the scope of IAS 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.

## CONSENSUS

### OBLIGATING EVENT

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.

E.g. 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 (even though the generation of revenue in the previous period is necessary to calculate the levy, it does not create the present obligation in the current period).
- The following factors do not create (or imply) an obligating event:
- ▶ Preparation of the financial statements under the going concern principle
  - ▶ Economic compulsion of the entity.



## IFRIC 21 Levies

### RECOGNITION

The recognition of a levy liability occurs progressively so long as the obligating event itself occurs over a period of time.

### LEVY WITH A MINIMUM THRESHOLD

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.

### INTERIM FINANCIAL STATEMENTS

The interpretation applies equally to interim financial statements.

### ILLUSTRATIVE EXAMPLES

#### 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).

#### iii. A levy is triggered in full if the entity operates as a bank [or other specified activity] at a specified date

The levy is only ever recognised on the specified date, and is only ever 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).

#### ii. 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).

#### iv. 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).



# Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

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