NZ IFRIC Interpretation 21 (Diff Rep)

Levies (NZ IFRIC 21 (Diff Rep))

Issued June 2013

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Interpretation is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

ISBN 978-1-927238-71-4

CONTENTS

NZ IFRIC INTERPRETATION 21 (DIFF REP) *LEVIES* (NZ IFRIC 21 (DIFF REP))

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRIC 21(Diff Rep) *Levies*

This table lists the pronouncements establishing and substantially amending NZ IFRIC 21 (Diff Rep).

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ IFRIC 21 (Diff Rep)*Levies*	June 2013	Early application permitted	1 Jan 2014

NZ IFRIC Interpretation 21 (Diff Rep) *Levies* (NZ IFRIC 21 (Diff Rep)) is set out in paragraphs 1–14 and Appendix A. NZ IFRIC 21 (Diff Rep) is accompanied by IFRIC Illustrative Examples and an IFRIC Basis for Conclusions.

Any material additional to that in IFRIC Interpretation 21 *Levies* is shown with grey shading and the paragraphs are denoted with “NZ”.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ IFRIC 21 (Diff Rep).

NZ IFRIC Interpretation 21 (Diff Rep)

Levies (NZ IFRIC 21 (Diff Rep))

References

- NZ IAS 1 (Diff Rep) *Presentation of Financial Statements*
- NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 12 (Diff Rep) *Income Taxes*
- NZ IAS 20 (Diff Rep) *Accounting for Government Grants and Disclosure of Government Assistance*
- NZ IAS 24 (Diff Rep) *Related Party Disclosures*
- NZ IAS 34 (Diff Rep) *Interim Financial Reporting*
- NZ IAS 37 (Diff Rep) *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IFRIC 6 (Diff Rep) *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

Background

1 A government may impose a levy on an entity. The IFRS Interpretations Committee received requests for guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The question relates to when to recognise a liability to pay a levy that is accounted for in accordance with NZ IAS 37 (Diff Rep) *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

NZ 1.1 This Interpretation applies only to Tier 3 for-profit entities that elect to apply the requirements.

2 This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of NZ IAS 37 (Diff Rep). It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

3 This Interpretation does not address the accounting for the costs that arise from recognising a liability to pay a levy. Entities should apply other Standards to

decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

4 For the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:

(a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of NZ IAS 12 (Diff Rep) *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.

5 A payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy.

6 An entity is not required to apply this Interpretation to liabilities that arise from emissions trading schemes.

Issues

7 To clarify the accounting for a liability to pay a levy, this Interpretation addresses the following issues:

(a) what is the obligating event that gives rise to the recognition of a liability to pay a levy?

(b) 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?

(c) 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?

(d) 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?

(e) 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?

(f) are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

Consensus

8 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. For example, 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. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

9 An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

10 The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

11 The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.

12 If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs 8–14 of this Interpretation (in particular, paragraphs 8 and 11). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognised when that minimum activity threshold is reached.

13 An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements. As a result, in the interim financial report, a liability to pay a levy:

(a) shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period; and

(b) shall be recognised if a present obligation to pay the levy exists at the end of the interim reporting period.

14 An entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Appendix A

Effective date and transition

This appendix is an integral part of the Interpretation and has the same authority as the other parts of the Interpretation.

A1 A Tier 3 entity may elect to apply this Interpretation for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

A2 Changes in accounting policies resulting from the initial application of this Interpretation shall be accounted for retrospectively in accordance with NZ IAS 8 (Diff Rep) *Accounting Policies, Changes in Accounting Estimates and Errors*.

Consequential Amendments to XRB A1 *Accounting Standards Framework (For-profit Entities Update)* and XRB A1 *Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities Update)*

APPENDIX C

ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 3 FOR-PROFIT ENTITIES

...

This appendix lists the NZ IFRS and other New Zealand standards and pronouncement that have authoritative support within New Zealand for Tier 3 for-profit entities.

Standards

NZ IFRS 1 (Diff Rep)	*First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*
...	
NZ IFRIC 20 (Diff Rep)	*Stripping Costs in the Production Phase of a Surface Mine* (Optional application)
NZ IFRIC 21 (Diff Rep)	*Levies* (Optional application)
NZ SIC-7 (Diff Rep)	*Introduction of the Euro*

…