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# PS 3510 Tax Revenue

MNP LLP

## SCOPE

PS 3510 establishes recognition, measurement and disclosure standards on accounting for and reporting tax revenue transactions in government financial statements.

This Section does not apply to:

- Fines or penalties (e.g. charged for breaches of tax law).
- Interest earned on tax receivables.
- Exchange transactions (e.g. user fees, licenses, permits, etc.).
- Voluntary transfers to the government or entities charged with tax collection for the government (e.g. donations, contributions, etc.).
- Revenue recognition of developer charges (recognized in accordance with PS 3100 *Restricted Assets and Revenues*).
- Revenue recognition of resource royalties.

## DEFINITIONS

A **taxable event** is an event that the government, legislature, council or other authority has determined will be subject to taxation.

**Tax concessions** (often referred to as "tax expenditures") are preferential provisions of the tax law that are only available to taxpayers and can include exemptions, deductions, deferrals and credits that affect the level and distribution of tax. They may include special tax rates. They provide tax relief of taxes previously paid or currently owing and are seen as "foregone revenue".

**Transfers made through a tax system** are financial benefits provided or determined through a tax system that are made for a purpose other than the relieving of taxes previously paid or currently owing.

## TAXES

- Taxes are economic resources compulsorily paid or payable to governments in accordance with laws and/or regulations normally established to provide revenue for public purposes to the government.
- Tax transactions are non-exchange transactions. Taxpayers generally provide resources to government without directly receiving equivalent value in return. Taxpayers benefit from a range of social policies and programs established by the government.
- Taxes are a major source of revenue for governments and tax laws establish a government's right to collect tax, identify the basis on which tax is calculated, and establish procedures to administer the tax such as those to calculate the tax receivable and ensure payment is received.

## RECOGNITION

- Taxes should be recognized as assets and revenue when:
  - They meet the definition of an asset as set out in PS 1000 *Financial Statement Concepts*;
  - They are authorized as described in PS 3510.17; and
  - The taxable event occurs.
- A government would only recognize tax revenue that it expects to collect in accordance with PS 1000.55.

### Attribution of Tax Revenue

A government is considered to have imposed a tax and would recognize tax revenue if the government directly levies the tax by exercising its own taxing authority or in accordance with the taxing authority granted to it in the legislation of another level of government.

*Taxes imposed on behalf of others:*

- A government may impose a tax on behalf of another government pursuant to an existing agreement or legislation in place at the financial statement date that is purely a flow-through arrangement.
- Evidence that such a flow-through arrangement exists would require:
  - Details in the terms of the agreement or relevant legislation mandating that the proceeds of the tax be passed directly from the government imposing the tax on behalf of others to the other government or public sector entity named in the agreement or legislation; and
  - That the government imposing the tax on behalf of others acts merely as an intermediary to impose the tax on behalf of another government or public sector entity and has no existing ability to make decisions regarding the use of funds or unilaterally cease the flow through.
- In such flow-through arrangements, the government imposing the tax on behalf of others would not recognize tax revenue.

*Taxes collected on behalf of others:*

- A government may collect taxes imposed by another government to create efficiency and simplicity in the tax collection system.
- A government acting as an agent (i.e. government collecting tax funds on behalf of another government) would not recognize the tax revenue. The agent would collect the funds, but would not receive the benefit of the taxes collected. The government imposing the tax would recognize the tax revenue and asset when the tax is imposed.

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## Taxes Received in Advance

- Taxes collected prior to the recognition criteria being met would be recognized as an asset and a liability given that the taxable event giving rise to the government's control over the assets has not yet occurred. The liability is discharged and revenue is recognized when the recognition criteria are met.
- If the taxable event does not occur, the government has an obligation to refund the taxes paid in advance to the taxpayer or apply them against other taxes payable of the taxpayer.

## MEASUREMENT

### Initial Measurement

- An asset acquired through a tax transaction should be measured initially at its realizable value (the amount of cash or its equivalent into which an asset is expected to be converted in the due course of operations) at the date of acquisition.
- Any adjustments to tax revenue resulting from a change in estimate are accounted for in accordance with PS 2120 *Accounting Changes*. Disclosure of the measurement uncertainty related to the estimation of tax assets and revenue would be made in accordance with PS 2130 *Measurement Uncertainty*.
- If a government receives other types of assets to settle outstanding taxes receivable, these assets are measured at their fair value as at the date of acquisition by the government to determine whether they settle the entire tax receivable or whether a balance remains or a refund is owed.
- Administrative costs or other expenses related to tax revenue transactions incurred by the government are recognized separately from tax revenue as an expense.

### Subsequent Measurement

- A government must evaluate the likelihood of having to repay taxes collected and recognize a liability when required in accordance with PS 3200 *Liabilities* at each financial statement date.
- Related refunds must be accounted for as a change in estimate in accordance with PS 2120 *Accounting Changes*.
- At each financial statement date, a government would evaluate the extent to which its tax receivables are ultimately collectible and use valuation allowances to reflect tax receivables at their net recoverable amount.

## TRANSFERS MADE THROUGH A TAX SYSTEM AND TAX CONCESSIONS

- In determining whether to classify a payment or reduction in taxes payable as a transfer made through a tax system or as a tax concession, professional judgment must be applied.

### Transfers Made Through a Tax System

- Transfers made through a tax system do not change the amount of the tax liability of the taxpayer. They:
  - May be available to individuals or entities that are not taxpayers;
  - Provide a financial benefit that is other than a relief of taxes previously paid or currently owing to the government providing the transfer, to designated beneficiaries that may include taxpayers but are not restricted to taxpayers;
  - Can relate to taxes that are not a revenue source of the government providing the transfer; and
  - Have the potential to result in outflows of resources from the taxing government, in particular if not all potential beneficiaries are taxpayers.
- Transfers made through a tax system should be recognized in expenses and not as a reduction of tax revenue.

### Tax Concessions

- Tax concessions affect the amount of a taxpayer's current tax liability or taxes previously paid. They:
  - Are forgone revenue for the taxing government;
  - Are only provided to taxpayers or the only direct beneficiaries are taxpayers;
  - Are only provided through the tax system;
  - Reduce taxes otherwise owing by a taxpayer (i.e. they provide relief to taxpayers from taxes previously paid or currently owing); and
  - Can only relate to the relief of taxes that are a revenue source to the government providing the tax concession.
- Tax concessions are recognized as a reduction of tax revenue (i.e. tax revenue should not be grossed up for the amount of tax concessions).

## PRESENTATION AND DISCLOSURE

- The financial statements should disclose:
  - The accounting policies adopted for the recognition of tax revenue;
  - The accounting policies adopted for the recognition and valuation of tax receivables if they are different from those for other receivables; and
  - The total tax revenue recognized in the accounting period and in each of the major categories of tax.
- Disclosure related to transfers made through a tax system should be consistent with that for other transfers in accordance with PS 3410 *Government Transfers*.
- PS 3510 applies to fiscal years beginning on or after April 1, 2012.