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HKFRS / IFRS UPDATE 2013/13

LEVIES

Overview

Recently HKICPA issued a new interpretation, HK(IFRIC)-Interpretation 21 *Levies*. This Interpretation is a textual copy of IFRIC Interpretation 21 issued by the International Accounting Standards Board in May 2013. The Interpretation provides guidance on when to recognise a liability for a government imposed levy's that:

- Are accounted for in accordance with HKAS 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.

HK(IFRIC)-Int 21 does not supersede HK(IFRIC)-Interpretation 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 HKAS 8 *Accounting Policies, Changes in Estimates and Errors*. Early adoption is permitted.

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 HKAS 37 *Provisions*, *Contingent Liabilities and Contingent Assets*

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 HKAS 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?

Scope

HK(IFRIC)-Int 21 addresses the accounting for levy liability that is within the scope of HKAS 37.

The following are not within the scope of HK(IFRIC)-Int 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 (ie laws and/or regulations), except for:

a) Outflows of resources within the scope of other HKFRSs (ie income taxes under HKAS 12 *Income Taxes*)

b) Fines or other penalties relating to breaches of the legislation.

Consensus

HK(IFRIC)-Int 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 (ie 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 (ie 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 HKAS 8 *Accounting Policies, Changes in Estimates and Errors*. Early adoption is permitted.

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