

## **The costs and benefits of implementing IFRIC Interpretation 21 Levies**

### **Introduction**

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of the IFRIC Interpretation 21 *Levies* (IFRIC 21).
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the IFRIC 21, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. The results of the consultations that EFRAG has carried out seem to confirm this. Therefore, as explained more fully in the main sections of this report, the approach that EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the IFRIC 21 in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

### *EFRAG's endorsement advice*

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

## **A SUMMARY OF THE IFRIC 21**

### **Background**

- 4 The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify what the obligating event is that gives rise to the recognition of a liability for levies. In particular, the Interpretations Committee was asked to clarify how an entity should account for levies whose calculation is based on financial data relating to a period before the period containing the activity that triggers the payment of the levy.

- 5 The Interpretations Committee was informed that there was diversity in practice in the timing of recognition of the liability to pay a levy.

**What does IFRIC 21 say?**

- 6 The Interpretation addresses the accounting for a liability to pay a levy, which is defined as an outflow of resources embodying economic benefits imposed by governments on entities in accordance with legislation. It does not address the accounting for outflows such as fines, penalties, emission trading schemes and those within the scope of other standards (such as income taxes within the scope of IAS 12 *Income Taxes*). Also, 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.
- 7 The Interpretation clarifies that the obligating event that gives rise to a liability is the activity that triggers the payment of the levy, as identified by legislation. In addition it clarifies that:
- (a) 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 being economically compelled to continue to operate in that future period; and
  - (b) 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.
- 8 If the obligating event occurs over a period of time, the liability is recognised progressively over time. If the obligating event occurs at a point in time (such as a requirement to be in business at a certain date), the liability is recognised at a point in time.
- 9 An obligation to pay a levy that is triggered when a minimum threshold is reached shall be accounted consistently with the principles established in the Interpretation. For example, if a levy is triggered when an amount of revenue reaches a minimum threshold, the liability is recognised when the threshold is reached.
- 10 An entity shall apply the same recognition principles in the annual and interim financial statements.

**When does IFRIC 21 become effective?**

- 11 IFRIC 21 becomes effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies the Interpretation for an earlier period, it shall disclose that fact.
- 12 Changes in accounting policies resulting from the initial application of the Interpretation shall be accounted for retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

**EFRAG's initial analysis of the costs and benefits of the IFRIC 21**

- 13 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the IFRIC 21, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows:

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- (a) *Costs* – EFRAG’s initial assessment was that there was no significant cost for the adoption of IFRIC 21 and that its benefit outweighs its cost.
  - (b) *Benefits* – EFRAG’s initial assessment was that users are likely to benefit from IFRIC 21, as it is likely to reduce the diversity of accounting in practice thus enhancing comparability and consistency of the information provided to all stakeholders.
- 14 EFRAG published its initial assessment and supporting analysis on 19 July 2013. It invited comments on the material by 2 September 2013. Five respondents agreed with EFRAG’s initial assessment of the benefits of implementing the IFRIC 21 and the associated costs involved for users and preparers. One respondent accepted that if IFRIC 21 were not to be withdrawn, it should be endorsed. Two respondents, both originating from the same Member State, disagreed with the endorsement of IFRIC 21.

### **EFRAG’s final analysis of the costs and benefits of the IFRIC 21**

- 15 Based on its initial analysis and stakeholders’ views on that analysis, EFRAG’s detailed final analysis of the costs and benefits of the IFRIC 21 is presented in the paragraphs below.

#### *Cost for preparers*

- 16 EFRAG has carried out an assessment of the cost implications for preparers resulting from IFRIC 21.
- 17 EFRAG notes that the guidance in IFRIC 21 does not require capturing or tracking new information as entities already collect this information for current accounting purposes. Similarly, EFRAG believes that there will be no need to implement significant new systems to allow them to account for levies in accordance with IFRIC 21. However, entities will incur in insignificant one-off costs in applying IFRIC 21 retrospectively. Those costs will depend on the extent to which their current accounting practices differ from requirements under IFRIC 21.
- 18 Overall, EFRAG’s assessment is that IFRIC 21 will result in insignificant costs to preparers.

#### *Costs for users*

- 19 EFRAG has carried out an assessment of the cost implications for users resulting from IFRIC 21 and it is not aware of any aspect of IFRIC 21 that will increase the costs users will incur in analysing the financial statements as a result of its adoption.

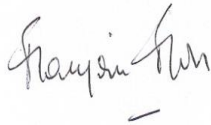
#### *Benefits for preparers and users*

- 20 EFRAG has carried out an assessment of the benefits for users and preparers resulting from IFRIC 21.
- 21 Overall, EFRAG’s assessment is that users are likely to benefit from IFRIC 21, as the information resulting from it will remove diversity in practice and increase comparability on the accounting for the liability between entities subject to the same levy and therefore will enhance their analysis.

*The costs and benefits of implementing the IFRIC Interpretation 21 Levies*

*Conclusion*

- 22 For the reasons set out above, EFRAG's initial assessment is there is no significant cost for the adoption of the IFRIC 21 and that its benefit outweighs its cost.



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