



European Financial Reporting Advisory Group ■

Levies charged by public authorities on entities that operate in a specific market

Feedback statement from comment letters

27 September 2012

Introduction and summary of contents

Objective of the feedback statement

EFRAG finalised its final comment letter to the IASB on the IFRS Interpretations Committee Draft Interpretation “Levies Charged by Public Authorities on Entities that Operate in a Specific Market” on 10 September 2012. This feedback statement describes the main comments that it received and describes how those comments were considered by EFRAG during its technical discussions.

Background

On 31 May 2012, the IFRS Interpretations Committee issued the Draft Interpretation open for public comment until 5 September 2012.

Specifically, the Draft Interpretation addressed the issue of when should an entity recognise the liability for a levy, and what is the obligating event that gives rise to the liability. The proposed guidance clarified 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".

In July 2012, EFRAG issued its draft comment letter with a comment period of 36 days and received a total of 11 comment letters.

Information to be considered together with this document

To view information related to this project please access EFRAG’s project webpage on Levies Charged by Public Authorities on Entities that Operate in a Specific Market [here](#).

Comment letters received

The comment letters received came from national standard-setters, business associations, professional organisations and EU authorities.

Comment letters are available on EFRAG’s project webpage on Levies Charged by Public Authorities on Entities that Operate in a Specific Market.

Summary of contents

1. Consensus (page 3 and 4)

- a) *Legal form and underlying substance of the levy*
- b) *Issuing interpretation guidance or amendments to reduce current diversity*

Feedback received

1. Consensus

Respondents' comments

Legal form and underlying substance of the levy

In the draft comment letter EFRAG acknowledged that the consensus was consistent with the principles of related IFRS requirements and decided to ask constituents whether the Draft Interpretation resulted in decision-useful financial information.

Most respondents agreed with EFRAG that consensus was consistent with related IFRS requirements. However, a majority considered this draft interpretation a theoretical approach which did not always lead to useful information for users and that attention was needed to be given to the underlying substance of the levy and not merely its legal form. Particularly, levies charged on a recurring basis (e.g. annually) were considered related to a period of time and, consequently, a progressive recognition of an expense would be better understood by users. Respondents provided, however, mixed views on how to solve the accounting issue. Some considered the liability should be accounted for in full at the start of the period with a corresponding asset amortised over this period, relating the levy to the entity's future activities or an exchange transaction. Others believed the liability, and related expense, should be accrued progressively, relating the levy to the entity's past activities. Various arguments were provided to support such views: an entity had no realistic possibility of avoiding the obligation; levy was considered as a right to operate or prepayment; the matching concept should be applied.

It should be noted that a number of respondents agreed with the consensus as it would provide decision useful information.

Our response

Legal form and underlying substance of the levy

EFRAG during its discussions concurred with the arguments provided by those who considered the consensus reached by the IFRS Interpretations Committee, when applied, would not always reflect the underlying substance of the transaction and result in information aligned with users' needs, particularly in interim financial statements. EFRAG was concerned that accounting for levies in accordance with this draft Interpretation could lead to counterintuitive information presented to users at the interim date (e.g. when a levy was charged at the start of the year, an entity would have to recognise always the full liability and expense at a point in time, even when it was a recurring charge). Consequently, EFRAG was concerned about how the financial performance would be reported.

On the different views provided by respondents on how to solve the accounting issue, first EFRAG considered it difficult to assess whether the levies should be related to entities' future or past activities as often legislation does not provide elements to help understand which of the views is predominant. Second, although it was understood that levies are non-exchange transactions, it was found difficult to judge whether certain payments were in fact a non-exchange transaction (e.g. when certain benefits were granted). Therefore, EFRAG decided to encourage the IFRS interpretations Committee to assist the IASB in addressing the accounting for payments to public authorities in a comprehensive way by taking into account the specific characteristics of such payments and the current requirements in IAS 12.

Feedback received

1. Consensus

Respondents' comments

Issuing interpretation guidance or amendments to reduce current diversity

In its draft comment letter EFRAG acknowledged that there were requests for guidance on accounting for levies and that subsequent outreach activities identified that there was diversity in practice and the issue was widespread. Therefore, EFRAG thought that specific guidance in this case would contribute to consistency in accounting for levies.

Many respondents did not agree with the Draft Interpretation and believed it should not be finalised as it did not provide decision-useful financial information to users in all circumstances.

However, these respondents provided mixed views on how the IFRS Interpretations Committee should address this issue. Some suggested that a more comprehensive project on levies, covering all forms of taxes charged by public authorities, should be taken to the IASB. Others considered that IAS 34 should be amended to allow an exception to its main principle. There was as well the view that the underlying principle in IAS 37 should be referred to the IASB for review. Finally, some considered the IASB could incorporate this issue into a broader review of IAS 12 Income Taxes.

Contrary to that view, a number of respondents agreed with the Draft Interpretation as it would provide decision useful information and specific guidance in this case contributed to consistency in accounting for levies. However, one considered this a temporary solution as further consideration was needed.

Our response

Issuing interpretation guidance or amendments to reduce current diversity

EFRAG during its discussions considered that although divergence in practice exists, further consideration is needed to ensure that relevant information is provided to users.

EFRAG analysed each of the approaches provided by respondents on how the IFRS Interpretations Committee should address the issue of levies charged by public authorities. While doing that, it considered the different views provided by respondent on how to solve the accounting issue and related IFRS guidance, namely Conceptual Framework, IAS 1, IAS 34 and IAS 37. Still, EFRAG did not support introducing a specific requirement in IAS 34 applicable only to levies as it would not be according to the main principle and it could lead to an application by analogy to other recurring operating expenses (e.g. major planned periodic maintenance). EFRAG also considered that referring IAS 37 to the IASB for review, would not on its own, solve the accounting issue in general. Finally, EFRAG was concerned that a comprehensive project would delay significantly the issuance of guidance when consistency in accounting is needed.

Therefore, EFRAG concluded that the accounting for payments to public authorities should be considered in a comprehensive way and the outcome should assist the decision on how to amend existing IFRS in order to provide more useful information to users, particularly in interim financial reports.