

AASB staff issues paper: Draft ED on Income from Transactions of Not-for-Profit Entities – issues for consideration in approving ED

Introduction

- 1 This paper discusses significant issues arising in the staff's drafting of the AASB ED on Income from Transactions of Not-for-Profit Entities (the latest draft of the ED is attached as Agenda Paper 6.3).
- 2 This paper is organised as follows:
 - (a) Scope and structure of the ED (see paragraphs 4 – 12);
 - (b) Whether the ED should repeat, for information, the text of AASB 15 (see paragraphs 13 – 16);
 - (c) Using fair value to measure 'cost' (see paragraphs 17 – 25);
 - (d) Using judgement in identifying whether a 'sufficiently specific' promise has been made (see paragraphs 26 – 35);
 - (e) Identifying the taxable event giving rise to tax income of taxing entities (see paragraphs 36 – 40);
 - (f) GAAP/GFS harmonisation issues (see paragraphs 41 – 44); and
 - (g) Comment period for the ED and effective date of the Standard (see paragraphs 45 – 46).
- 3 The attachment to this paper is a flowchart setting out a simplified decision tree for applying the draft ED's proposals.

Significant Issues

Issue 1: Scope and structure of the ED

Introduction

- 4 The ED proposes to apply to not-for-profit entities in relation to their:
 - (a) contracts with customers (giving rise to revenue from contracts with customers); and
 - (b) other transactions and taxable events (which give rise to other income such as grants, donations, appropriations, rates, taxes and fines). Some of these other items of income may be revenue (but not revenue from a contract with a customer).
- 5 At its meeting in September 2014, the Board reaffirmed its intention to present the ED as an omnibus draft Standard that applies to all income from transactions (and taxable events) of not-for-profit entities (except transactions within the scope of other Standards). In earlier stages of this project, the Board decided to incorporate the text

of AASB 15 *Revenue from Contracts with Customers* for context, and this is reflected in the structure of the draft ED. The Board intended that readers of the ED could see how AASB 15, including all ‘Aus’ material, would look if the ED’s proposals were included in a revised AASB 15. However, the Board has not yet decided whether the project would lead to an amended/reissued AASB 15 or an entirely separate Standard.

Issue

- 6 Because the scope of the draft ED covers all income from transactions (and taxable events) of not-for-profit entities, it covers two different accounting models affecting income recognition, namely:
- (a) the model in AASB 15 for recognition of revenue in contracts with customers, which is based on transferring promised goods or services to customers; and
 - (b) the model in paragraphs IG33 –IG94 of Appendix E in the draft ED for recognising income from taxable events and transactions other than contracts with customers. Unlike the AASB 15 model, this model starts with the entity obtaining control of an asset¹. If the asset qualifies for recognition and there are no liabilities (such as ‘advance receipts’), income is recognised when the entity obtains control of the asset. Considerable guidance on when control of an asset is obtained is included in Appendix E because numerous not-for-profit-specific issues are encountered in identifying when control of an asset is obtained (e.g. parliamentary appropriations, multi-year public policy agreements and taxes). Much of the guidance on these issues is carried forward from AASB 1004 *Contributions* and AASB ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*².
- 7 Staff are concerned that ultimately presenting two different income recognition models in one Standard would be potentially confusing, and that this problem affects the flow of logic in the draft ED. This problem is magnified by the volume of guidance from AASB 1004 on when control of an asset is obtained, which staff think is necessary to retain in the suite of Australian Accounting Standards.
- 8 An alternative approach would be to present the proposed requirements and implementation guidance for income from other transactions (and taxable events) in a separate Standard. This approach would be similar to the way paragraph 5(a) of AASB 15 indicates that lease contracts are accounted for under AASB 117 *Leases*. Under this alternative approach:
- (a) the draft implementation guidance that clarifies the application of AASB 15 to contracts with customers of not-for-profit entities (set out in paragraphs IG4 – IG32 of Appendix E of the draft ED) would continue to be presented as a

¹ Paragraph 33 of AASB 15 provides guidance on control of an asset. That guidance is included to support the principle in paragraph 31 of AASB 15 that a promised asset is transferred to a customer, and revenue is recognised, when (or as) the customer obtains control of that asset.

² AASB ED 180 was based very closely on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

[proposed] Appendix to AASB 15. This would be similar to Appendix E ‘Australian Implementation Guidance for Not-for-Profit Entities’ in AASB 10 *Consolidated Financial Statements*; and

- (b) the proposed requirements and implementation guidance for income from other transactions (and taxable events) and for contributions by owners in paragraphs Aus129.1 – Aus129.18 of the ED and paragraphs IG33 – IG99 of Appendix E would be presented as a proposed new primary Standard that would complement an amended AASB 15.
- 9 In addition to overcoming the potentially confusing nature of the proposed Standard, this alternative approach would have the advantage that, in relation to income from taxable events and transactions outside contracts with customers, the proposed requirements set out in draft paragraphs Aus129.1 – Aus129.18 and the implementation guidance set out in paragraphs IG33 – IG99 of Appendix E would no longer be interrupted by the implementation guidance on contracts with customers of not-for-profit entities.
- 10 It is possible the alternative (i.e. ‘separate Standards’) approach could be regarded as undermining the Board’s previous objective of moving away from an exchange/non-exchange transaction dichotomy in the treatment of transactions of not-for-profit entities, which has proved costly and difficult to apply in the past (in AASB 1004).
- 11 However, staff think the possible concern described in paragraph 10 is an unconvincing reason to retain the omnibus structure of the draft ED. This is because:
- (a) arguably, the draft ED replaces the subjective exchange/non-exchange transaction dichotomy in AASB 1004 with a subjective ‘sufficiently specific’ promise criterion for determining whether an entity has in substance made a promise to transfer a good or service. This role of judgement in assessing whether a ‘sufficiently specific’ promise has been made is discussed in Issue 4; and
 - (b) there is no impediment to explaining the relationship between AASB 15 and a separate Standard on income from other transactions and taxable events in such a manner that the first question about any transaction of a not-for-profit entity is whether the transaction is within a contract with a customer. This is what the scope paragraph of AASB 15 achieves in relation to other related topics.

Staff recommendation

- 12 On balance, for the reasons in paragraphs 6 – 9, staff recommend that the Board adopts the alternative approach and presents the proposed requirements and implementation guidance for income from other transactions (and taxable events) as a proposed new primary Standard that would complement an amended AASB 15, as described in paragraph 8.

Question for Board members

- Q1** Do you agree with the staff recommendation that the Board structures the ED to indicate that separate Standards would be issued in relation to:
- (a) implementation guidance for not-for-profit entities on contract with customers (within an amended AASB 15); and
 - (b) requirements and implementation guidance for income from taxable events and transactions outside contracts with customers (see paragraphs 8 and 12)?

Issue 2: Whether the ED should repeat the text of AASB 15

- 13 This issue is whether to repeat the text of AASB 15 in the ED, as reflected in the attached draft ED. This issue arises regardless of which approach the Board chooses in relation to Question 1.
- 14 The Board tentatively decided to include the text of AASB 15 in the ED to:
- (a) help readers see the overall effect of the ED's proposals, by presenting the ED as a draft amended AASB 15; and
 - (b) highlight where the requirements of AASB 15 would be modified by not-for-profit entity requirements. The Board's not-for-profit entity modifications of AASB 15 clarify and elaborate on aspects of applying that Standard, without changing its principles, and thus are confined to the draft Implementation Guidance.
- 15 Staff are concerned that repeating the text of AASB 15 in the ED:
- (a) makes the not-for-profit entity requirements for transactions outside contracts with customers (and taxable events), which are presented in paragraphs Aus129.1-Aus129.18, look subordinate to the requirements of AASB 15; and
 - (b) results in an ED having an excessive length.

Staff recommendation

- 16 Staff recommend that, in view of the concerns in paragraph 15, the text of AASB 15 should be deleted from the ED, and aspects of AASB 15 should be highlighted through cross-referencing that Standard.

Question for Board members

- Q2** Do you agree with the staff recommendation that the text of AASB 15 should be deleted from the ED (see paragraph 16)?

Issue 3: Using fair value to measure 'cost'

- 17 This issue is whether paragraph 66 of AASB 15 makes redundant the statement in each of AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* that, when an asset

of a not-for-profit entity is acquired at no cost or for nominal consideration, the asset's 'cost' is to be measured at current value (generally, fair value).

18 Paragraph 66 of AASB 15 states that:

“To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration (or promise of non-cash consideration) at fair value.”

19 On the basis of the corresponding proposed requirement in the IASB's ED/2011/6 *Revenue from Contracts with Customers*, the AASB tentatively decided (at its April 2012 meeting) that:

- (a) non-cash inflows received are to be measured at fair value³; and
- (b) adopting the text ultimately issued as paragraph 66 of AASB 15 would provide an opportunity to consolidate the principle in (a) into one Standard. Presently, AASB 102, AASB 116, AASB 138 and AASB 140 state that when an asset of a not-for-profit entity is acquired at no cost or for nominal consideration, the asset's 'cost' is to be measured at current value (generally, fair value). The Board requested staff to develop an analysis of whether the principle in (a) could be consolidated into one Standard. This issue is discussed in paragraphs 20 – 25.

20 Paragraph 66 of AASB 15 does not apply to the acquisitions referred to in AASB 102, AASB 116, AASB 138 and AASB 140. This is because, if a not-for-profit entity accounts for the acquisition of a non-cash asset received as the customer's consideration in a contract with a customer, and the entity provides more than nil or nominal consideration to the customer in return for the non-cash asset, the transaction would be outside the scope of the above-mentioned 'Aus' paragraphs in AASB 102, AASB 116, AASB 138 and AASB 140. Conversely, if the entity were to provide nil or nominal consideration to the customer in return for its non-cash consideration, it seems likely that the transaction would be a donation and therefore not subject to paragraph 66 of AASB 15.

21 The principle in paragraph 66 of AASB 15 could be required to be applied in analogous circumstances by not-for-profit entities. The issue is whether it would be appropriate to, in effect, extend the scope of paragraph 66 of AASB 15.

³ The Board also decided that, for consistent application of that fair value principle, a proposed consequential amendment to AASB 141 *Agriculture* should be included in the ED, to state that government grants related to biological assets of not-for-profit entities are measured at fair value (rather than fair value less costs to sell) [see paragraph D9 in Appendix D in the attached draft ED]. Similarly, a proposed consequential amendment to AASB 102 in paragraph D4 of Appendix D states that, when inventories of not-for-profit entities are acquired at no cost or for nominal consideration, the cost of those inventories is to be measured at fair value (rather than at current replacement cost). These consequential amendments are not reopened for discussion in this paper, and are noted for information because they are substantial proposed changes to those Standards stemming from the Board's tentative decision to consistently apply the fair value principle when a current value is used.

- 22 Some may consider that extending the scope of paragraph 66 of AASB 15 (by removing the above-mentioned ‘Aus’ paragraphs in AASB 102, AASB 116, AASB 138 and AASB 140) would have the following benefits:
- (a) it would avoid repeating a similar principle in different Standards; and
 - (b) consequently, it would remove the potential for misunderstandings that those ‘Aus’ paragraphs lack transaction neutrality although they result in a similar outcome to paragraph 66 of AASB 15, albeit in a different context.
- 23 Some may disagree with extending the scope of paragraph 66 of AASB 15 to apply to transactions that are not contracts with customers (by removing the above-mentioned ‘Aus’ paragraphs) because they consider it would be inconsistent with the Board’s tentative decision to propose a different accounting model for these transactions than the model in AASB 15 (see paragraph 6).
- 24 Others may disagree because they consider the scope extension would be inconsistent with the general principle that assets are measured in accordance with the requirements of the Standard specifically applying those assets. In this regard, they note that:
- (a) the objective of paragraph 66 of AASB 15 is to measure non-cash consideration received or receivable included in the transaction price that will be recognised as revenue when the promised goods or services are transferred to customers. Paragraph 66 of AASB 15 does not specify how the non-cash asset (such as an item of property, plant and equipment) should be measured. Measurement of the asset in financial statements is based on the requirements of the Standard applying to the type or class of asset (e.g. AASB 116 *Property, Plant and Equipment*);
 - (b) the scope extension would involve a ‘consolidation’ of measurement requirements the IASB chose not to make when it issued IFRS 15 *Revenue from Contracts with Customers*. For example, the IASB did not consequentially amend the wording in paragraph 24 of IAS 16 *Property, Plant and Equipment*, which, as quoted below, includes conditions on using fair value to measure the cost of an item acquired in exchange for a non-monetary asset:

“One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. ... The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. ...”
 - (c) Unlike the ‘fair value measurement rule’ in paragraph 66 of AASB 15, the ‘fair value measurement rule’ for non-cash consideration to measure ‘cost’ under AASB 102, AASB 116, AASB 138 and AASB 140 has a limited scope: that is, it applies to an asset acquired at no cost or for nominal consideration. As illustrated in Illustrative Example 77, the ‘fair value measurement rule’ does not apply when an asset is acquired for greater than nominal

consideration but a substantially lesser amount than the asset's fair value. The scope limitation on measuring 'cost' at fair value caters for:

- (i) concerns that substantial differences between the price paid or payable for an asset and the asset's fair value might simply reflect entity-specific circumstances, such as different bargaining power, and not necessarily that the acquisition of the asset involved a donation; and
 - (ii) cost-benefit considerations, by avoiding the need for not-for-profit entities to investigate whether every material acquisition of an asset might involve a donation; and
- (d) entities initially recognising assets under AASB 102, AASB 116, AASB 138 or AASB 140 might easily overlook that principle if it were located in a Standard dealing with income recognition (because such a location would be counter-intuitive). Legislative drafting principles would require at least a cross-reference from each of those four Standards to the Standard covering income from transactions of not-for-profit entities. Because of this, there would seem little benefit in relocating the primary requirements for the measurement of the 'cost' of assets acquired at no cost or for nominal consideration.

Staff recommendation

- 25 Staff think the arguments in paragraphs 23 and 24 against extending the scope of paragraph 66 of AASB 15 (by removing the above-mentioned 'Aus' paragraphs in AASB 102, AASB 116, AASB 138 and AASB 140) outweigh the arguments in favour of that change set out in paragraph 22. Therefore, staff recommend retaining (and making consistent⁴) the not-for-profit entity requirement in each of AASB 102, AASB 116, AASB 138 and AASB 140 that, when an asset of a not-for-profit entity is acquired at no cost or for nominal consideration, the asset's 'cost' is to be measured at fair value.

Question for Board members

- Q3** Do you agree with the staff recommendation to retain the requirement in each of AASB 102, AASB 116, AASB 138 and AASB 140 that, when an asset of a not-for-profit entity is acquired at no cost or for nominal consideration, the asset's 'cost' is to be measured at fair value?

Issue 4: Using judgement in identifying whether a 'sufficiently specific' promise has been made

- 26 This issue is whether appropriate guidance has been included in the draft ED on whether a promise to transfer a good or service to a customer is 'sufficiently specific' to be identified as a performance obligation. The significance of this issue is that, if a

⁴ The consequential amendments in Appendix D of the draft ED include amendments to those Standards for consistency, in addition to the more substantial amendments to AASB 102 and AASB 141 referred to in the footnote to paragraph 20(a).

not-for-profit entity's promise to transfer a good or service is not 'sufficiently specific':

- (a) the transaction would not be a contract with a customer; and
- (b) recognition of an inflow of an asset related to that promise would give rise to simultaneous recognition of income. The exception to that 'immediate recognition' of income is where another type of liability than one arising in relation to a performance obligation (such as an 'advance receipt') is recognised simultaneously with the initial recognition of the asset.

27 This issue stems in part from the Board's decision that minimum criteria should not be specified for determining whether a promise to transfer a good or service to a customer is 'sufficiently specific' to be identified as a performance obligation. This is discussed in paragraphs 28 – 30.

28 In September 2014, the Board decided to state a principle that, to qualify as a performance obligation, a not-for-profit entity's promise to transfer goods or services must be sufficiently specific to be able to determine when the performance obligation is satisfied. This is because:

- (a) some transfers of assets to not-for-profit entities are provided with no, or minimal, stipulations regarding how the transferred assets must be used, provided that the assets are used for purposes consistent with the entity's service-delivery objectives as set out in its constitution or enabling legislation. Consequently, it can be difficult to distinguish a promised good or service in a contract with a customer from the not-for-profit entity's other outputs; and
- (b) transfers of this nature are much more prevalent in the not-for-profit sector than the for-profit sector.

29 The Board acknowledged that judgement would be necessary in applying the 'sufficiently specific' principle and, accordingly, decided to provide some factors to consider in applying that judgement (see paragraph IG16 of Appendix E in the draft ED). The Board considered whether to identify particular factors (such as those in paragraph IG16(a) – (d) of Appendix E) as minimum criteria for a promise to transfer goods or services to be treated as 'sufficiently specific' (such potential 'minimum criteria' could have been one factor or a combination of factors). Specifying factors as minimum criteria could reduce the need for judgement and potentially enhance the consistency of revenue recognition by not-for-profit entities.

30 The Board concluded that:

- (a) no particular characteristic of a promised good or service would ensure the proposed 'sufficiently specific' principle is met; and
- (b) specifying one or more factors as minimum criteria for identifying a 'sufficiently specific' promise might arbitrarily exclude some performance obligations from being identified as such. In addition, it might lead to a lack of transaction neutrality. That is, specifying minimum criteria could potentially preclude not-for-profit entities from identifying performance

obligations where, in similar circumstances, for-profit entities (which are not constrained by such criteria) would identify performance obligations. For example, paragraph 26(e) of AASB 15 states that promised goods or services in contracts with customers may include “providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis)” despite lacking specific detail of when those updates might be made. Specifying one or more factors as minimum criteria for identifying a ‘sufficiently specific’ promise might exclude a promise to stand ready to provide such software updates.

Time-based stipulations

- 31 In light of comments received during outreach activities and informally from some Board members, staff think that, of the Board’s tentatively-decided guidance on applying the ‘sufficiently specific’ principle, the guidance on time-based stipulations is perhaps the most difficult to explain and could be contentious. Paragraph IG16(d) of Appendix E of the draft ED identifies the period over which promised good or services must be transferred as a factor in assessing whether the promise is ‘sufficiently specific’. For example, a promise to a grantor to provide first-aid training to members of the community on the grantor’s behalf is more specific if the training must occur within a stipulated period, particularly if there are no other stipulations (such as the cost or number of training sessions) attached to the grant. However, paragraph IG17 also states:
- “... a stipulation that a transfer of assets to a not-for-profit entity relates to a particular time period does not, **of itself**, meet the ‘sufficiently specific’ criterion—the nature or type of goods or services to be transferred by that entity over that time period must also be stipulated.”
(emphasis added)
- 32 Paragraph IG17 reflects the Board’s view that a transferor’s stipulation to use transferred funds over a particular time period, without any other stipulations:
- (a) does not involve a promise to transfer a good or service to the transferor; and
 - (b) is, in substance, an indication that the transferor will not make similar future transfers to the entity for a defined period of time.
- 33 To illustrate the point in paragraph 32(a), the recipient of the transferred funds could, for example, use those funds to buy long-lived equipment or repay debt. In either of those cases, the entity’s capacity to provide services in future periods is enhanced (directly or indirectly) without a good or service being transferred to the grantor through the provision of goods or services to beneficiaries during the stipulated time period.
- 34 Considering whether particular stipulations that may accompany a time-based stipulation would (together with the time-based stipulation) cause the ‘sufficiently specific’ criterion to be satisfied requires judgements that are inherently subjective. Illustrative Examples 66A and 66B, and Illustrative Examples 68C and 68D, in the draft ED illustrate the application of judgement to different arrangements involving time-based stipulations. Board members are requested to consider whether, in light of these examples, the Board’s tentative decision regarding time-based stipulations should be reaffirmed.

Staff recommendation

- 35 For the reasons in paragraphs 32 – 33, staff recommend that the Board reaffirms its tentative decision that a stipulation that a transfer of assets to a not-for-profit entity relates to a particular time period does not, of itself, meet the ‘sufficiently specific’ criterion.

Question for Board members

- Q4** Do you agree with the staff recommendation that the Board reaffirms its tentative decision that a stipulation that a transfer of assets to a not-for-profit entity relates to a particular time period does not, of itself, meet the ‘sufficiently specific’ criterion (see paragraph 35)?

Issue 5: Identifying the taxable event giving rise to tax income of taxing entities

- 36 This issue is whether the draft ED is internally consistent in its identification of the taxable event for income tax. As explained in paragraphs 37 – 40 below, there is an apparent inconsistency between indicating that, for income tax:
- (a) tax assets and tax income arise when the taxing entity obtains control of the future economic benefits; and
 - (b) the taxable event giving rise to the tax asset and tax revenue is the earning of taxable income *during* the period.
- 37 Paragraphs IG50 and IG51 of Appendix E of the draft ED state that:
- “A not-for-profit entity obtains an enforceable claim to ... taxes ... when the underlying transaction or other event giving rise to control of future economic benefits occurs. For example, a not-for-profit entity obtains an enforceable claim to taxes when the underlying transaction or event that gives rise to the taxing entity’s right to levy the tax (the ‘taxable event’) occurs” (paragraph IG50)
- “The taxable event for each tax levied is specified in the taxation law. Unless otherwise specified in laws or regulations, it is likely that the taxable event for ... (a) income tax is the earning of taxable income during the taxation period by the taxpayer; ...”. (paragraph IG51)
- 38 These paragraphs are worded in accordance with the Board’s tentative decision in April 2012 to reaffirm the proposed guidance in ED 180 on when control of income taxes arises. The wording in paragraph IG51(a) differs in one respect from paragraph 65(a) of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, on which ED 180 was based. Whereas IPSAS 23 refers to control of income tax arising upon “the earning of assessable income”, ED 180 referred to control of income tax arising upon “the earning of *taxable* income” (emphasis added). The reference to ‘assessable income’ in IPSAS 23 seems inconsistent with the principle in that Standard that the taxable event for income tax occurs when control of the future economic benefits arising from income tax occurs. This is because the income tax is levied on a taxpayer’s taxable income for a taxation period, which is calculated as assessable income earned during the taxation period less allowable deductions arising at any time during that period. Until all the transactions and events included in the determination of a taxpayer’s income tax payable for a taxation period have occurred, control of the tax does not arise. For example, assessable income

earned in the first half of a taxation period might be ‘offset’ by allowable deductions arising in the second half. The reference in ED 180 (retained in paragraph IG51 of the draft ED) to control of income tax arising upon “the earning of *taxable* income” was intended to address that apparent inconsistency in IPSAS 23.

39 However, staff think that:

- (a) there are two inconsistencies between basing the identification of tax assets and tax income on control, and stating that the taxable event for income tax is “the earning of assessable income”, but
- (b) paragraph IG51 has only addressed one of those inconsistencies by replacing ‘assessable’ with ‘taxable’.

Staff recommendation

40 For the reason in paragraph 38, control of income taxes does not arise until the end of the taxation period. Therefore, staff recommend amending paragraph IG51 to include: “it is likely that the taxable event for ... (a) income tax is the end of the taxation period in which taxable income is generated by the taxpayer”. (Staff think ‘generated’ is a more robust term than ‘earned’, because it encompasses tax deductions.)⁵

Question for Board members

Q5 Do you agree with the staff recommendation that paragraph IG51 of the draft ED should be amended to indicate it is likely that the taxable event for income tax is the end of the taxation period in which taxable income is generated by the taxpayer (see paragraph 40)?

⁵ Taken together with the reliable measurement recognition criterion in paragraph IG56(b) of the draft ED, the staff’s recommended amendment of paragraph IG51 would not imply a change of recognition policy for income tax by the Australian Government. The accounting policy adopted for tax revenue in the consolidated financial statements of the Australian Government for the year ended 30 June 2014 includes:

“Taxation revenues are recognised when the Australian Government gains control of and can reliably measure or estimate the future economic benefits that flow from taxes and other statutory charges.”

“Where reliable, taxation revenue is recognised in the reporting period in which the taxpayer earns the income that is subsequently subject to taxation – this is known as the economic transactions method (ETM). ...”

“Where there is an inability to reliably measure taxation revenue on an ETM basis, taxation revenue is recognised at the earlier of when an assessment of a tax liability is made or when cash payment is received by the relevant taxation authority – this is known as the taxation liability method (TLM).”

Consequently, the Australian Government recognises income tax of individuals, companies and superannuation funds, the income tax superannuation surcharge and the minerals resource rent tax on a TLM basis.

Issue 6: GAAP/GFS harmonisation issues

- 41 This issue is whether the Board wishes to retain the proposals in the ED that are likely to cause differences from Government Finance Statistics (GFS), as described in the section of the ED's Preface providing an overview of the ED's potential implications for GAAP/GFS harmonisation. The main potential difference relates to the treatment of time-based stipulations that are not of themselves performance obligations—this issue is discussed in paragraphs 31 – 35.
- 42 The Australian Bureau of Statistics (ABS) is in the process of revising its GFS Manual. The ABS's targeted issue date for its revised GFS Manual is 30 June 2015. The ABS intends to base its revised Manual on the revised International Monetary Fund (IMF) GFS Manual, which has yet to be published. The ABS has identified some differences from the pre-publication draft revised IMF GFS Manual (issued in March 2014), but those differences seem not to affect issues within the scope of the draft AASB ED.
- 43 Because the targeted operative date of the Standard(s) resulting from this draft ED is the first annual period beginning on or after 1 January 2017, and it is expected that the revised ABS GFS Manual will be issued before then, staff have been using the pre-publication draft of the revised IMF GFS Manual to analyse GAAP/GFS harmonisation issues arising from the draft ED.
- 44 Staff conformed the draft Implementation Guidance in the draft ED to the pre-publication draft revised IMF GFS Manual, as far as possible within the bounds of the Board's tentative decisions. This has resulted in substantial editing of the sections of the draft Implementation Guidance on 'measurement and recognition of taxation income' and 'payable tax credits and other tax relief', in paragraphs IG87 – IG94 (while remaining consistent with the Board's tentative decisions, which conform to the relevant principles in IPSAS 23).

Question for Board members

- Q6** Do Board members have any comments on the potential implications of the draft ED for GAAP/GFS harmonisation, as set out in the ED's Preface?

Issue 7: Comment period for the ED and effective date of the Standard

- 45 AASB 15 first applies to annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. In view of this ED proposing amendments to AASB 15 to facilitate its adoption by not-for-profit entities, it is vitally important that the Standard or Standards resulting from this draft ED are issued in time for orderly implementation by not-for-profit entities at the same time as AASB 15. In practice, for most not-for-profit entities, that would mean the Standard(s) resulting from this ED would for initially apply to annual reporting periods beginning on 1 July 2017, with comparative information required for the annual reporting period beginning on 1 July 2016. Consequently, the Standard(s) would need to be issued during the fourth quarter of 2015.
- 46 Based on these timing considerations, staff think the latest Board meeting at which redeliberation of feedback received on the ED could commence is the meeting

scheduled for 8 – 9 July 2015. To facilitate including a feedback summary on the ED in the Board papers for that meeting, a comment deadline in early June 2015 would be necessary. If the Board gives in-principle approval of the ED at this Board meeting, a comment period of approximately 90 days would be expected. Staff plan targeted outreach with constituent groups early in the comment period, focusing particularly on aspects that have proved contentious in previous outreach activities. This should enable the preparation of some papers on constituents' feedback before the comment period ends, and help ensure all key concerns are identified by constituents by the end of the comment period. In addition, roundtables would be held and we would pursue other speaking opportunities through the professional accounting bodies.

Question for Board members

Q7 Do you agree with the staff recommendation that the comment deadline for the ED is in early June 2015, with a comment period of approximately 90 days (see paragraph 46)?

ATTACHMENT—DECISION TREE

