



Australian Government  
Australian Accounting Standards Board

# Memorandum

<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	18 August 2015
<b>From:</b>	<b>David Ji and Mark Shying</b>	<b>Agenda Item:</b>	15.1 (M147)
<b>Subject:</b>	<b>Accounting for income tax of public sector entities</b>	<b>Project Priority</b>	Medium
<b>Project Status:</b>	<b>Initial consideration</b>	<b>Decision-Making:</b>	Medium

## Action for this meeting

To discuss a request to amend AASB 112 *Income Taxes* in relation to income tax accounting of public sector entities and decide what further action to take, if any.

## Attachments

Agenda Paper 15.2 Staff Issues Paper: Accounting for income tax of public sector entities

Agenda Paper 15.3 Submission to the AASB in relation to income tax accounting of public sector entities – Johanna Barker

## Overview

In December 2014, AASB staff received a letter (see Agenda Paper 15.3) from a constituent raising an issue in relation to the imposition of income tax accounting on government-owned for-profit public sector entities. In essence, the constituent questioned whether it is appropriate to include such entities within the scope of AASB 112 *Income Taxes*.

The constituent argues that it is not appropriate to include public sector entities within the scope of AASB 112, on the basis that:

- (a) payments of income tax equivalents under the NTER do not undergo the same process as income taxes, i.e., through the federal collection and appropriation (refer Agenda Paper 15.2 for details), therefore it is not an income tax at law;
- (b) it is unconstitutional for a State/Territory government to be levying an income tax; and
- (c) NTER payments are in the nature of a distribution to owners.

Agenda Paper 15.2 provides staff analysis to each of the arguments raised.

In Agenda Paper 15.2 staff recommend issuing a tentative Agenda Decision on the basis that public sector entities that pay income tax equivalents under their enabling legislation or other authority including NTER instalment payments should not be relieved from the application of AASB 112 to the extent that income tax equivalents reflects the substance of an income tax as defined in AASB 112.

**Agenda Paper 15.2 includes the following question for Board members:**

Do Board members agree with the staff recommendation to issue a tentative Agenda Decision?