AASB Interpretation

Interpretation 21
June 2013

Levies

Australian Government
Australian Accounting Standards Board

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AASB Interpretation 21 *Levies* is set out in paragraphs 1 – Aus14.4 and Appendix A. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation of Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Introduction

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

(a) entities required by the *Corporations Act 2001* to prepare financial reports;

(b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and

(c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition, measurement and presentation requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Main Features of this Interpretation

Application date

This interpretation applies to annual reporting periods beginning on or after 1 January 2014. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2014, provided that this fact is disclosed.

Issues

This Interpretation clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time.

COMPARISON WITH IFRIC 21

AASB Interpretation 21 *Levies* incorporates IFRS Interpretations Committee Interpretation IFRIC 21 *Levies*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of IFRIC 21) are identified with the prefix "Aus", followed by the number of the preceding IFRIC paragraph and decimal numbering.

Entities that comply with AASB Interpretation 21 will simultaneously be in compliance with IFRIC 21.

AASB INTERPRETATION 21

LEVIES

References

- Accounting Standard AASB 101 *Presentation of Financial Statements*
- Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Accounting Standard AASB 112 *Income Taxes*
- Accounting Standard AASB 120 *Accounting for Government Grants and Disclosures of Government Assistance*
- Accounting Standard AASB 124 *Related Party Disclosures*
- Accounting Standard AASB 134 *Interim Financial Reporting*
- Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*
- AASB Interpretation 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

Background

1 A government may impose a levy on an entity. The IFRS Interpretations Committee received requests for guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The question relates to when to recognise a liability to pay a levy that is accounted for in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Scope

2 This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of AASB 137. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

3 This Interpretation does not address the accounting for the costs that arise from recognising a liability to pay a levy. 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.

4 For the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than:

(a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of AASB 112 *Income Taxes*); and

(b) fines or other penalties that are imposed for breaches of the legislation.

'Government' refers to government, government agencies and similar bodies whether local, national or international.

5 A payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy.

6 An entity is not required to apply this Interpretation to liabilities that arise from emissions trading schemes.

Issues

7 To clarify the accounting for a liability to pay a levy, this Interpretation addresses the following issues:

(a) what is the obligating event that gives rise to the recognition of a liability to pay a levy?

(b) 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?

(c) 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?

(d) 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?

(e) 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?

(f) are the principles for recognising in the annual financial statements and in the interim financial report a liability to pay a levy the same?

Consensus

8 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. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. The generation of revenue in the previous period is necessary, but not sufficient, to create a present obligation.

9 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 the entity being economically compelled to continue to operate in that future period.

10 The preparation of financial statements under 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.

11 The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (ie if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time). For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.

12 If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in paragraphs 8–14 of this Interpretation (in particular, paragraphs 8 and 11). For example, if the obligating event is the reaching of a minimum activity threshold (such as a minimum amount of revenue or sales generated or outputs produced), the corresponding liability is recognised when that minimum activity threshold is reached.

13 An entity shall apply the same recognition principles in the interim financial report that it applies in the annual financial statements. As a result, in the interim financial report, a liability to pay a levy:

(a) shall not be recognised if there is no present obligation to pay the levy at the end of the interim reporting period; and

(b) shall be recognised if a present obligation to pay the levy exists at the end of the interim reporting period.

14 An entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Application

Aus14.1 This Interpretation applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

Aus14.2 This Interpretation applies to annual reporting periods beginning on or after 1 January 2014.

Aus14.3 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2014. When an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.

Aus14.4 The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

APPENDIX A

Effective date and transition

This appendix is an integral part of AASB Interpretation 21 and has the same authority as the other parts of the Interpretation.

A1 [Deleted by the AASB – see paragraphs Aus14.2 and Aus14.3]

A2 Changes in accounting policies resulting from the initial application of this Interpretation shall be accounted for retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

ILLUSTRATIVE EXAMPLES

These examples accompany, but are not part of, AASB Interpretation 21.

IE1 The objective of these examples is to illustrate how an entity should account for a liability to pay a levy in its annual financial statements and in its interim financial report.

Example 1—A levy is triggered progressively as the entity generates revenue
Entity A has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered progressively as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X1. In this example, the liability is recognised progressively during 20X1 as Entity A generates revenue, because the obligating event, as identified by the legislation, is the generation of revenue during 20X1. At any point in 20X1, Entity A has a present obligation to pay a levy on revenue generated to date. Entity A has no present obligation to pay a levy that will arise from generating revenue in the future. In the interim financial report (if any), the liability is recognised progressively as Entity A generates revenue. Entity A has a present obligation to pay the levy on revenue generated from 1 January 20X1 to the end of the interim period.

Example 2—A levy is triggered in full as soon as the entity generates revenue
Entity B has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full as soon as an entity generates revenue in 20X1. The amount of the levy is calculated by reference to revenue generated by the entity in 20X0. Entity B generated revenue in 20X0 and in 20X1 starts to generate revenue on 3 January 20X1. In this example, the liability is recognised in full on 3 January 20X1 because the obligating event, as identified by the legislation, is the first generation of revenue in 20X1. The generation of revenue in 20X0 is necessary, but not sufficient, to create a present obligation to pay a levy. Before 3 January 20X1, Entity B has no present obligation to pay a levy. In other words, the activity that triggers the

Example 2—A levy is triggered in full as soon as the entity generates revenue
payment of the levy, as identified by the legislation, is the point at which Entity B first generates revenue in 20X1. The generation of revenue in 20X0 is not the activity that triggers the payment of the levy and the recognition of the liability. The amount of revenue generated in 20X0 only affects the measurement of the liability. In the interim financial report (if any), the liability is recognised in full in the first interim period of 20X1 because the liability is recognised in full on 3 January 20X1.

Example 3—A levy is triggered in full if the entity operates as a bank at a specified date
Entity C is a bank and has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered in full only if an entity operates as a bank at the end of the annual reporting period. The amount of the levy is calculated by reference to the amounts in the statement of financial position of the entity at the end of the annual reporting period. The end of the annual reporting period of Entity C is 31 December 20X1. In this example, the liability is recognised on 31 December 20X1 because the obligating event, as identified by the legislation, is Entity C operating as a bank at the end of the annual reporting period. Before that point, Entity C has no present obligation to pay a levy, even if it is economically compelled to continue to operate as a bank in the future. In other words, the activity that triggers the payment of the levy, as identified by the legislation, is the entity operating as a bank at the end of the annual reporting period, which does not occur until 31 December 20X1. The conclusion would not change even if the amount of the liability is based on the length of the reporting period, because the obligating event is the entity operating as a bank at the end of the annual reporting period. In the interim financial report (if any), the liability is recognised in full in the interim period in which 31 December 20X1 falls because the liability is recognised in full on that date.

Example 4—A levy is triggered if the entity generates revenue above a minimum amount of revenue

Entity D has an annual reporting period that ends on 31 December. In accordance with legislation, a levy is triggered if an entity generates revenue above CU50 million in 20X1[(a)]. The amount of the levy is calculated by reference to revenue generated above CU50 million, with the levy rate at 0 per cent for the first CU50 million revenue generated (below the threshold) and 2 per cent above CU50 million revenue. Entity D's revenue reaches the revenue threshold of CU50 million on 17 July 20X1.

In this example, the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date that exceeds the threshold of CU50 million revenue.

In the interim financial report (if any), the liability is recognised between 17 July 20X1 and 31 December 20X1 as Entity D generates revenue above the threshold.

Variation:

Same fact pattern as above (ie a levy is triggered if Entity D generates revenue above CU50 million in 20X1), except that the amount of the levy is calculated by reference to all revenue generated by Entity D in 20X1 (ie including the first CU50 million revenue generated in 20X1).

In this example, the liability for the payment of the levy related to the first CU50 million revenue is recognised on 17 July 20X1 when the threshold is met, because the obligating event, as identified by the legislation, for the payment of that amount is the reaching of the threshold. The liability for the payment of the levy related to revenue generated above the threshold is recognised between 17 July 20X1 and 31 December 20X1 as the entity generates revenue above the threshold, because the obligating event, as identified by the legislation, is the activity undertaken after the threshold is reached (ie the generation of revenue after the threshold is reached). The amount of the liability is based on the revenue generated to date, including the first CU50 million revenue. The same recognition principles apply in the interim financial report (if any) as in the annual financial statements.

(a) In this interpretation, currency amounts are denominated in 'currency units' (CU).

BASIS FOR CONCLUSIONS ON IFRIC INTERPRETATION 21

This IFRIC Basis for Conclusions accompanies, but is not part of, AASB Interpretation 21. An IFRIC Basis for Conclusions may be amended to reflect any additional requirements in the AASB Interpretation or AASB Accounting Standards.

Introduction

BC1 This Basis for Conclusions summarises the considerations of the IFRS Interpretations Committee (the Interpretations Committee) in reaching its consensus. The Interpretations Committee received a request to clarify whether, under certain circumstances, IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* should be applied by analogy to identify the obligating event that gives rise to the recognition of a liability for other levies imposed by governments on entities. The question relates to when to recognise a liability to pay a levy that is accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

BC2 In particular, the request was for the Interpretations Committee to clarify how an entity should account for levies when the calculation for the levies is based on financial data that relates to a period before the period that contains the activity that triggers the payment of the levy. This is the case if, for example, the activity that triggers the payment of the levy, as identified by the legislation, occurs in 20X1 and the calculation of the levy is based on financial data for 20X0 (see Illustrative Example 2).

BC3 The Interpretations Committee was informed that there was diversity in practice in how entities account for the obligation to pay such a levy.

Scope

BC4 One of the questions that was submitted was how to account for levies whose calculation basis uses data such as the gross amount of revenue, assets or liabilities. The Interpretations Committee noted that those levies do not meet the definition of income taxes provided in IAS 12 *Income Taxes* because they are not based on taxable profit. In two Agenda Decisions (published in March 2006 and May 2009), the Interpretations Committee (then called the IFRIC) noted that the term 'taxable profit' implies a notion of a net rather than a gross amount. In those Agenda Decisions, the Interpretations Committee also observed that any taxes that are not within the scope of other Standards (such as IAS 12) are within the scope of IAS 37. The Interpretations Committee further observed that IAS 37 contains a definition of a liability and that a provision is defined in IAS 37 as a liability of uncertain timing or amount. The Interpretations Committee noted that the same recognition requirements should apply to provisions to pay a levy and to liabilities to pay a levy whose timing and amount is certain. Consequently, this Interpretation also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

BC5 The Interpretations Committee noted that IAS 37 does not apply to executory contracts unless they are onerous, so the Interpretations Committee decided that this Interpretation should therefore not apply to executory contracts unless they are onerous.

BC6 The Interpretations Committee decided that, for the purposes of this Interpretation, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (ie laws and/or regulations), other than those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of IAS 12). Amounts that are collected by entities on behalf of governments (such as value added taxes) and remitted to governments are not outflows of resources embodying economic benefits for the entities that collect and remit those amounts. The Interpretations Committee decided to use the definition of the term 'government' provided in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 24 *Related Party Disclosures*.

BC7 The Interpretations Committee noted that a payment made by an entity for the acquisition of an asset, or for the rendering of services under a contractual agreement with a government, does not meet the definition of a levy. For the purposes of this Interpretation, levies are imposed by governments and therefore do not arise from contractual agreements. Similarly, the Interpretations Committee noted that this Interpretation does not apply to the accounting for trade discounts and volume rebates agreed between a seller and a purchaser under a contractual agreement.

BC8 The Interpretations Committee decided that this Interpretation should not address the accounting for fines and other penalties. Fines and penalties are paid as a consequence of the breach of laws and/or regulations, whereas levies are paid as a consequence of complying with laws and/or regulations.

BC9 The Interpretations Committee decided that an entity should not be required to apply this Interpretation to liabilities that arise from emissions trading schemes. The IASB decided in 2011 to add a project on this topic to its research agenda. The Interpretations Committee thinks that it would be better to address the accounting for liabilities that arise from emissions trading schemes in a comprehensive project on all recognition and measurement issues related to emissions trading schemes.

BC10 The Interpretations Committee decided not to withdraw IFRIC 6 because it provides useful information on the accounting for liabilities within its scope. The Interpretations Committee noted that the consensus in IFRIC 6 is consistent with the consensus in this Interpretation, and concluded that a scope exclusion for liabilities for waste management within the scope of IFRIC 6 is not necessary.

BC11 The Interpretations Committee decided that this Interpretation should provide guidance on applying IAS 37 to a liability to pay a levy and should not address the accounting for the costs arising from recognising the liability to pay a levy. The Interpretations Committee observed that other Standards would determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

What is the obligating event that gives rise to the recognition of a liability to pay a levy?

BC12 According to the definition in paragraph 10 of IAS 37, an obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling the obligation. According to paragraph 14(a) of IAS 37, a provision should be recognised only when an entity has a present obligation as a result of a past event. The Interpretations Committee noted that the main consequence of these requirements is that there can be only one single obligating event. The Interpretations Committee acknowledged that, in some circumstances, an obligating event can occur only if other events have occurred previously. For example, for some levies, the entity paying the levy must have undertaken an activity both in the previous and in the current periods in order to be obliged to pay the levy. The Interpretations Committee noted that the activity undertaken in the previous period is necessary, but not sufficient, to create a present obligation.

BC13 Consequently, the Interpretations Committee concluded 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 other words, the liability to pay a levy is recognised when the activity that triggers the payment of the levy occurs, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in 20X1 and the calculation of that levy is based on the revenue generated in 20X0, the obligating event for that levy is the generation of revenue in 20X1 (see Illustrative Example 2). The date on which the levy is paid does not affect the timing of recognition of the liability to pay a levy, because the obligating event is the activity that triggers the payment of the levy (and not the payment of the levy itself).

BC14 The Interpretations Committee noted that some respondents to the draft Interpretation think that the result of the proposed accounting does not provide a fair representation of the economic effects of recurring levies when the liability is recognised at a point in time and gives rise to an expense, although these respondents acknowledged that the proposed accounting in the draft Interpretation is a technically correct interpretation of the requirements in IAS 37. Those respondents think that the substance of a recurring levy is that it is an expense associated with a specific period (and not an expense triggered on a specific date). The Interpretations Committee concluded that this Interpretation is needed to address the diversity in practice and that it provides consistent information about an entity's obligations to pay levies. The Interpretations Committee also observed that this Interpretation does not address the accounting for the costs arising from recognising a liability to pay a levy and that other Standards would determine whether the recognition of the liability to pay a levy gives rise to an asset or an expense. Some respondents to the draft Interpretation asked the Interpretations Committee to consider the effect of economic compulsion to continue to operate in a future period and of going concern assumption on the accounting for levies. The Interpretations Committee's conclusions are set out below.

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?

BC15 The Interpretations Committee considered an argument that, if it would be necessary for an entity to take unrealistic action in order to avoid an obligation to pay a levy that would otherwise be triggered by operating in the future, then a constructive obligation to pay the levy exists and a liability should be recognised. For example, if the activity that triggers the payment of the levy occurs in 20X1 and the calculation of the levy is based on financial data for 20X0 (as in Illustrative Example 2), some argue that a liability should be recognised in 20X0. Supporters of this argument point to the definition of a constructive obligation in paragraph 10 of IAS 37 and conclude that an entity might have no realistic alternative other than to continue to operate in the next period (ie 20X1). For example, they note that an entity may operate in a regulated market and may not be able to stop operating without a long period of run-off.

BC16 The Interpretations Committee rejected this argument, noting that if this rationale were applied, many types of future expenditure within the scope of IAS 37 would be recognised as liabilities. Indeed, in many cases, entities have no realistic alternative but to pay expenditures to be incurred in the future. The Interpretations Committee noted that, in accordance with paragraphs 18–19 of IAS 37:

(a) no provision is recognised for costs that need to be incurred to operate in the future; and

(b) it is only those obligations arising from past events existing independently of an entity's future conduct of its business that are recognised as provisions.

BC17 As a result, the Interpretations Committee concluded that, when an entity is economically compelled to incur operating costs that relate to the future conduct of the business, that compulsion does not create a constructive obligation and thus does not lead to the entity recognising a liability. This point is illustrated in the examples accompanying IAS 37.

BC18 The Interpretations Committee noted that a levy is triggered as a result of undertaking an activity in a specified period, as identified by the legislation. As a result, the Interpretations Committee concluded that there is no constructive obligation to pay a levy that relates to the future conduct of the business, even if:

(a) it is economically unrealistic for the entity to avoid the levy if it has the intention of continuing in business;

(b) there is a legal requirement to incur the levy if the entity does continue in business;

(c) it would be necessary for an entity to take unrealistic action to avoid paying the levy, such as to sell, or stop operating, property, plant and equipment;

(d) the entity made a statement of intent (and has the ability) to operate in the future period(s); or

(e) the entity has a legal, regulatory or contractual requirement to operate in the future period(s).

BC19 Consequently, the Interpretations Committee concluded that an entity does not have a constructive obligation at a reporting date to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate 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?

BC20 The Interpretations Committee noted that this issue is related to the basis of preparation of financial statements. Some question whether the going concern assumption affects the timing of the recognition of the liability to pay a levy.

BC21 The Interpretations Committee observed that IAS 1 *Presentation of Financial Statements* sets out general features for the financial statements, including the accrual basis of accounting and the going concern assumption. The Interpretations Committee noted that, when an entity prepares financial statements on a going concern basis, it shall also comply with all the recognition and measurement requirements of IFRS. Consequently, the Interpretations Committee concluded that the going concern assumption cannot lead to the recognition of a liability that does not meet the definitions and recognition criteria set out in IAS 37.

BC22 Specifically, the Interpretations Committee concluded that the preparation of financial statements under 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. Paragraphs 18–19 of IAS 37 specify that no provision is recognised in that case.

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?

BC23 The Interpretations Committee observed that most of the liabilities in IAS 37 and in the Illustrative Examples accompanying IAS 37 are recognised at a point in time, that is, when the obligating event occurs. Nevertheless, they noted that, in one example accompanying IAS 37, the liability is recognised progressively over time.

BC24 In Illustrative Example 3 accompanying IAS 37, an entity operates an offshore oilfield and is required to restore the seabed because of damage caused by the extraction of oil. According to this example, the restoration costs that arise through the extraction of oil are recognised as a liability when the oil is extracted. The Interpretations Committee noted that in this example, the damage is directly caused by the extraction of oil, and that more damage occurs when more oil is extracted. Thus, the outcome is that the liability for damage caused over time is recognised progressively over time as the entity extracts oil and causes damage to the environment.

BC25 The Interpretations Committee discussed whether this outcome is linked to a recognition issue or to a measurement issue and concluded that this is a recognition issue, because the obligating event (ie the damage caused by the extraction of oil) occurs progressively over a period of time. In accordance with paragraph 19 of IAS 37, the Interpretations Committee noted that a present obligation exists only to the extent of the damage caused to date to the environment, because the entity has no present obligation to rectify the damage that will result from the extraction of oil in the future (ie the future conduct of its business).

BC26 Consequently, the Interpretations Committee concluded that the liability to pay a levy is recognised progressively if the obligating event (ie the activity that triggers the payment of the levy, as identified by the legislation) occurs over a period of time. For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue (see Illustrative Example 1).

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?

BC27 The draft Interpretation did not address the accounting for levies that are triggered if a minimum revenue threshold is reached. However, many respondents to the draft Interpretation emphasised the importance of providing guidance on this issue. The Interpretations Committee agreed with the respondents' comments and concluded that this Interpretation should provide guidance on the accounting for levies with minimum thresholds. The Interpretations Committee decided that the accounting for the liability to pay such levies should be consistent with the principles established in paragraphs 8 and 11 of this Interpretation.

BC28 For example, if a levy is triggered when a minimum activity threshold is reached (such as a minimum amount of revenue or sales generated or outputs produced), the obligating event is the reaching of that activity threshold. If a levy is triggered as the entity undertakes an activity above a minimum level of activity (such as revenue or sales generated or outputs produced in excess of the minimum amount specified in the legislation), the obligating event is the activity that is undertaken after the threshold is reached (see Illustrative Example 4). If a levy is triggered if an entity operates on a specified date, as identified by the legislation, provided that a minimum threshold is reached in a previous period (such as a minimum amount of revenue, a minimum number of employees, or a minimum amount of assets and liabilities), the obligating event is the entity operating on the specified date as identified by the legislation after having reached the threshold in the previous period. In that case, the reaching of the threshold in the previous period is necessary, but not sufficient, to create a present obligation.

Are the principles for recognising a liability to pay a levy in the annual financial statements and in the interim financial report the same?

BC29 IAS 34 *Interim Financial Reporting* (paragraph 29) states that the same recognition principles should be applied in the annual financial statements and in the interim financial report. By applying the requirements of IAS 34 (paragraphs 31–32 and 39, as illustrated by paragraphs B2, B4 and B11 of the Illustrative Examples accompanying IAS 34), no liability would be recognised at the end of an interim reporting period if the obligating event has not yet occurred. For example, an entity does not have an obligation at the end of an interim reporting period if the present obligation arises only at the end of the annual reporting period. Similarly, if a present obligation to pay a levy exists at the end of an interim reporting period, the liability should be recognised.

BC30 The Interpretations Committee observed that paragraph 16A of IAS 34 requires the disclosure of explanatory comments about the nature and amount of items affecting liabilities that are unusual because of their nature, size or incidence and about the events after the interim period that have not been reflected in the financial statements for the interim period. If necessary, an entity would therefore provide disclosures about levies that are recognised in the interim financial report or that will be recognised in future interim financial reports.

DELETED IFRIC 21 TEXT

Deleted IFRIC Interpretation 21text is not part of AASB Interpretation 21

A1 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.