

Ms Kris Peach
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Australian Bureau of Statistics (ABS) comments on Exposure draft 283: Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors.

Dear Ms Peach,

1. Thank you for providing an opportunity to provide comments on *Exposure draft 283: Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors*. We appreciate the need to maximise harmonisation between Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP). These comments are based on our knowledge of GFS concepts and issues, and viewing the exposure draft through this lens. The current standards used to compile GFS in Australia are the Australian System of Government Finances Statistics: Concepts, Sources and Methods, Australia (AGFS 15) and is available online [here](#). AGFS15 sits under the international standards used to compile System of National Accounts, the latest version of these standards can be found [here](#).

2. Paragraph G3-G6 of ED 283 establishes a new set of criteria for distinction between taxes and other government revenue. The ABS is concerned that the criteria outlined in these paragraphs may lead to different classification of revenue in GAAP and GFS. Some of our specific concerns are:

- ED 283 distinguishes between taxation revenue and revenue from a licence. Within macroeconomic statistics the distinction is made between taxation revenue and administrative fees, and a licence may be created through a payment which is classified as a tax. Given this, there may be payments that could be classified as a payment for a licence in GAAP, but are considered a tax in GFS.
- ED 283 outlines that payments are considered to be a payment for a licence (service fee) if the payment has a dual purpose of granting a licence and imposing a tax. The only case where this would not occur is if there is a proportion of the fee refundable, with the refundable component classified as a payment of a licence and the remainder classified as a tax. GFS considers a licence or permit to undertake a specific activity to be a payment for service unless it is clearly out of all proportion to the cost of providing the service.

Some of the factors when considering if the fee is out of proportion include:

- a. Is the fee structure designed to recover the cost of providing the regulatory service (service fee) or to raise revenue to fund other activities (tax)?
- b. Does issuing the permit/licence involve little or no work on the part of government, ie. is it granted automatically on payment? (Yes is more likely tax, no is more likely to be service fee)
- c. Is the fee paid regardless of whether the permit/license is granted, ie. payment does not guarantee permit/licence will be granted? (Note that payment is for the assessment service, not for the licence itself, therefore yes is more likely a proper regulatory function (assessment service) is undertaken, If the answer is "no" the payment is more likely a tax as little/no assessment is undertaken.)
- d. Is the agency's funding affected by changes to the level of revenue generated by these payments? (If the answer is "yes" the payment is more likely a service fee, and if "no" it is more likely a tax.)

3. Two specific examples where the GFS and proposed GAAP classifications would not align are casino licences and taxi permits. Example 8 in ED 283 outlines an example of a casino licence. Based on the information provided the ABS would classify the casino licence as a tax because it is a compulsory fee to legally run a casino, and the fee (\$100 million) is out of all proportion to the costs of administration (\$100,000). The ED proposes to classify the payment as a licence fee. This example concerns us as it is our understanding that all casino licences across Australia are currently classified as a tax. Taxi licences are also considered taxes in GFS on the basis that the fees are out of proportion to the cost of administration. However, taxi licences create a right for the licensee that is tradeable and is considered an asset for the licensee. Our interpretation of the principles outlined in the ED suggests that this payment would be classified as a licence fee under GAAP.

4. We also highlight that chapter 13, Part H of the AGFS 15 manual provides guidance on the treatment of contracts, leases and licences in GFS. Some of the key points from that chapter are:

- Licences exist to provide a regulatory function for common activities undertaken by the general population. Permits to undertake specific activities are treated in a similar way to licences.
- Licences are recognised on the balance sheet when the licensee can realise the value of the licence through resale. When recognised on the balance sheet the assets are classified as intangible non-produced assets.
- Revenue from licences are recorded as administrative fees as part of sales of goods and services unless they are clearly disproportionate to the costs of providing the services. Licences that involve little or no work for the government are recorded as taxation revenue.

- For natural resources, sometimes it can be difficult to determine whether a payment to use a natural resource is considered an asset sale or a rental payment for use of a natural resource. Some of the criteria that are used to determine whether a licence represents an asset sale or rental payment include (Box 13.4):
 - Costs and benefits assumed by the licensee;
 - Up-front payment or instalment
 - Length of licence
 - transferability
 - Cancellation possibility
 - Conception in accounting standards

Additional guidance on the classification of licences can be found in Chapter 17, Part 5 of SNA 08.

5. We view the ED 283 as an important guidance because it establishes a boundary between taxation revenue and other government revenue. The distinction between tax and other types of revenue (including revenue for licences) is important in macroeconomic statistics because it impacts on how the transactions are recorded in the National Accounts. Revenue from taxes are recorded in the income account of government. Revenue from the provision of services by government is included as an offset to outlays in the calculation of government final consumption expenditure, which contributes to Gross Domestic Product measured on an expenditure basis. Given the potential harmonisation differences between GFS and GAAP on the classification of taxes, we would strongly urge the AASB to consider similar principles to those used in macroeconomic statistics when distinguishing between tax and regulatory services.

6. Please contact Jonathon Khoo (email: j.khoo@abs.gov.au, ph: 07 3222 6142) if you would like to discuss this response further.

Kind regards,



Jonathon Khoo
for

Branko Vitas

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