

FEEDBACK STATEMENT – ED 153 PROPOSED INTERPRETATION OF THE STANDARDS OF GRAP ON *LIABILITIES TO PAY LEVIES*

<p>This Feedback Statement outlines feedback received on the Interpretation to the Standards of GRAP on <i>Liabilities to Pay Levies</i></p>	Overview	<p>This Feedback Statement outlines decisions taken by the Board prior to approving the Interpretation of the Standards of GRAP on <i>Liabilities to Pay Levies</i> (IGRAP 19) and outlines the key principles in IGRAP 19.</p>
	Consultation process	<p>The ASB undertook a public consultation, which included users of the financial statements, preparers, auditors, and other interested parties.</p>
	Supporting material	<p>The Board’s analysis of both the written and verbal comments received on ED 153 along with its responses thereto.</p> <p>The final Interpretation of the Standards of GRAP on <i>Liabilities to Pay Levies</i>.</p> <p>These materials can be accessed on the ASB’s website.</p>
	Next steps	<p>IGRAP 19 becomes effective for financial periods commencing on or after 1 April 2019. Entities can, however, apply the principles in the Interpretation earlier.</p>



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What we heard	
General support expressed for the principles proposed	<p>Respondents generally supported the guidance on the accounting for levies and clarification on when liabilities arise for levies that are accounted for in accordance with the Standard of GRAP on <i>Provisions, Contingent Liabilities and Contingent Assets</i> (GRAP 19).</p>
The scope of IGRAP 19 and statutory non-exchange expenses	<p>Respondents questioned the types of transactions included in the scope of ED 153. In particular, it was noted that ED 153 seems to cover all statutory non-exchange expenses, including appropriations and transfers between public sector entities that are paid in accordance with legislation. The Board agreed that appropriations and transfers could be interpreted as meeting the definition of levy in ED 153 as they are non-exchange outflows that are imposed by legislation. The Board also observed that these non-exchange outflows are often payable to entities to respond to government's social policy objective and could also be interpreted to be social benefits as described in GRAP 19.</p> <p>The objective of ED 153 is to provide guidance on the recognition of a liability to pay a levy that is accounted for in accordance with GRAP 19. GRAP 19 excludes from its scope social benefits arising from non-exchange transaction. Consequently, the Board agreed that appropriations or transfers between public sector entities that are paid in terms of legislation are outside the scope of the proposed IGRAP.</p> <p>In finalising the proposed IGRAP, the Board agreed to clarify this scope exclusion in the basis for conclusions.</p>
The scope of IGRAP in relation to VAT payments	<p>In ED 153, the Board proposed that VAT payments by registered vendors are not in the scope of the proposed IGRAP as the transaction between the government and the collecting or remitting entity is not a levy for purpose of the proposed IGRAP. Respondents generally agreed with the rationale for the scope exclusion.</p> <p>Some respondents questioned this rationale for VAT payments by non-registered vendors. In their view, VAT payments by non-registered vendors are levies and should be in the scope of ED 153.</p>

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What we heard

The scope of IGRAP in relation to VAT payments

The Board agreed that VAT payments by non-registered VAT vendors meet the definition of a levy. However, the Board observed that, for certain transactions, as there may be different obligating events for the recognition of VAT and the other outflows within a single transaction. In particular, the Board discussed the potential implications for non-current provisions recognised in accordance with GRAP 19. Applying ED 153 to provisions may mean that there are different obligating events that give rise to the recognition of the provision and the recognition of the VAT. The activity that triggers the payment of VAT is the supply of the goods and services while provisions are recognised using the requirements of GRAP 19. The Board agreed that accounting for a single transaction using two obligating events does not achieve fair presentation. As a result the Board agreed that, although VAT paid meets the definition of a levy, VAT paid by non-registered vendors should not be dealt with in the proposed IGRAP.

In finalising the proposed IGRAP, the Board agreed to clarify this scope exclusion in the basis for conclusions.

Summary of key principles

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- The IGRAP clarifies the recognition of a liability to pay a levy if that liability is within the scope of GRAP 19. It clarifies that:
 - An entity recognises a liability to pay a levy when the activity that triggers payment, as identified by the legislation, occurs.
 - A liability to pay a levy can only be accrued progressively if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation.
 - In the case of a levy that is triggered upon reaching a minimum threshold, the IGRAP clarifies that no liability is recognised before the specified minimum threshold is reached.

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- IGRAP 19 defines a levy as a non-exchange transaction resulting in an outflow of resources embodying economic benefits or service potential that is imposed by government on entities in accordance with legislation or similar means.
- The scope of IGRAP 19 is broad and includes various obligations imposed by government in accordance with legislation or similar means which are not always described as 'levies'. For example, taxes (including non-refundable purchase taxes), fees (including licence fees), concessions, tolls, duties, royalties, tariffs, payments, charges, etc. could meet the definition of a levy. Therefore, entities need to consider the nature of the payment carefully when determining if the payment is in the scope IGRAP 19.
- The following are not considered levies:
 - Payments within the scope other Standards of GRAP, for example income taxes and employee-related expenses.
 - Payments made in exchange for assets, the right to use an asset or resource, or the right to undertake a certain activity, or provision of goods or services in an exchange transaction.
 - Payments imposed for breaches of legislation or similar means.
 - Payments arising from emission trading schemes.
- IGRAP 19 does not address the accounting for the debit side (i.e. asset or expense) of the transaction that arises from recognising a liability to pay a levy. Entities should consider the relevant Standard of GRAP to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

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Transitional provisions and effective date

Transitional provisions	The IGRAP should be applied in accordance with the requirements of the Standards of GRAP on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .
Effective date	The IGRAP becomes effective for annual financial statements covering periods beginning on or after 1 April 2019. Earlier application is permitted.

How to access information

Access information on the ASB and its work programme online	Visit our website on www.asb.co.za
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