

# IGRAP 19

## *Liabilities to Pay Levies*



Accounting Standards Board





# Overview

- Background and purpose
- Definition of a levy
- Scope
- Issues and consensus
- Other considerations
- Effective date and transitional provisions



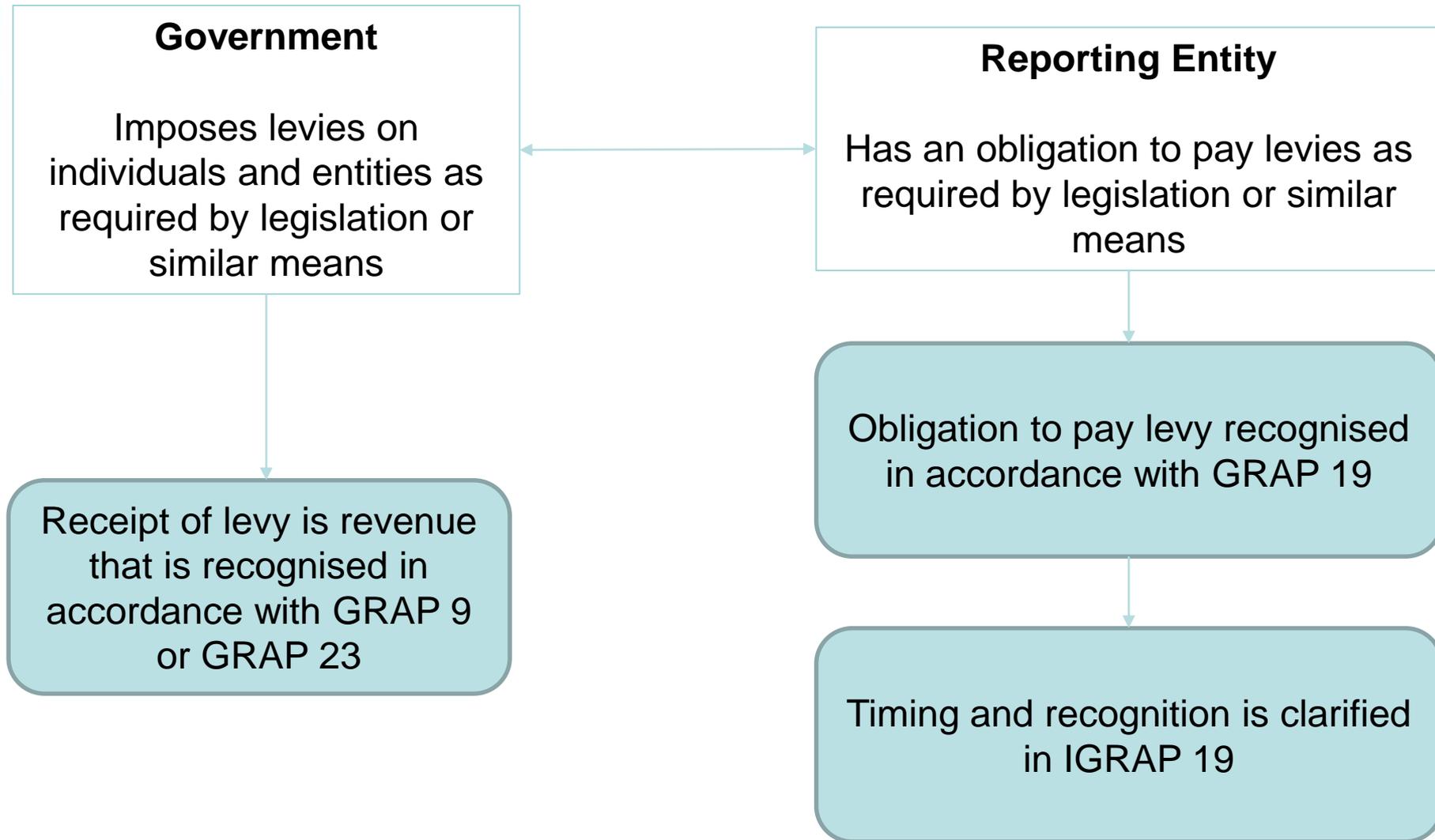
# Background and purpose



# Why IGRAP 19 was developed?

- Project added when Board questioned inclusion of IASB's IFRIC 21, *Levies* in GRAP Reporting Framework.
- Initial stage of project:
  - assess applicability of IFRIC 21 in public sector
  - Board agreed in June 2016 that an equivalent IGRAP should be developed
- IGRAP 19 developed based on IFRIC 21 but modified for RSA environment.

# What is the purpose of the IGRAP?





# What is the purpose of the IGRAP?

- Timing and recognition of liabilities to pay levies is not clear in GRAP 19.
- IGRAP provides guidance on when to recognise a liability to pay a levy in AFS of entity that is paying the levy.



# Definition of a levy



# What is a levy?

A levy is defined as:

- a non-exchange transaction;
- resulting in an outflow of resources (i.e. future economic benefits or service potential); and
- imposed by government on entities as per legislation or similar means.

Assess whether there has been a direct exchange of approximately equal value.

*Is the outflow a non-exchange transaction?*

- Exchange transactions (i.e. entity receives an asset or is provided goods/services) are scoped out i.e. no levy.

*Is the outflow a  
levy?*

Determining whether an item is a levy that is within the scope of IGRAP 19 may be challenging.

- Some levies may be referred to by other terms in legislation.
- Consider the substance of the outflow rather than use of term “levy”.

# Examples of levies

Levies

Taxes

- Non-refundable purchase taxes
- Property taxes

Fees

- Licence fees

Concessions

Tolls

Duties

- Customs duties
- Import duties

Royalties

Tariffs

Payments

Charges

*Is the outflow  
imposed by  
government?*

Legislation may require an entity to collect levies on behalf of government.

- IGRAP 19 does not apply to the transaction between the collecting agent and the government.
- IGRAP 19 will apply to the entity that has the obligation to pay the levy if it meets the requirements of IGRAP 19.



# What is a levy?

A levy is not:

- The outflow from resources covered by other Standards.
  - income taxes → IAS 12
  - Employee-related expenses → GRAP 25
- Fines or other penalties.
  - Imposed for breaches of legislation etc.
- Emissions trading schemes.



# Scope



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# Which transactions are covered in IGRAP 19?

- IGRAP 19 is an Interpretation of GRAP 19
  - This means that only those liabilities to pay a levy within the scope of GRAP 19 are included.
  - It also covers those liabilities with certain timing and amount.
- It clarifies the “when” these liabilities should be recognised.

# Which transactions are not covered in IGRAP 19?

- It does not deal with the debit side of transaction i.e. whether an expense or asset should be recognised.
- It does not address the measurement of these liabilities.



# Issues and consensus



# What issues does IGRAP 19 address?

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

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 a future period?

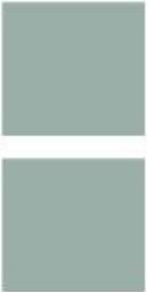
Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

Does the recognition of a liability to pay a levy arise at a point in time or does it arise progressively over time?

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?

*What is the obligating event giving rise to the recognition of the liability to pay a levy?*

The obligating event is the activity that triggers the payment of the levy, as identified in legislation or similar means.



# Example 1

## Background

Legislation requires a regulator to impose a levy on distributors of electricity.

Entity A is a licenced electricity distributor. In accordance with legislation, the levy is determined based on the electricity distributed during the current period.

# Example 1

## Analysis

- The activity that triggers the payment of the levy is the distribution of electricity throughout the current period.
- The obligating event is the distribution of electricity in the current period.
- At any point in the current period, Entity A has a present obligation to pay a levy on the electricity distributed to date.

*Does economic compulsion to continue operating in a future period create a constructive obligation?*

The fact that an entity is economically compelled to continue operating in a future period does not create an obligation to pay a levy that will arise from operating in the future.



# Example 2

## Background

Assuming the same fact pattern as Example 1.

## Analysis

- Entity A has no present obligation to pay a levy on the electricity to be distributed in the future.

*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?*

Similarly, the fact that an entity prepares its financial statements under the going concern principle, does not create an obligation to pay a levy that will arise from operating in the future.

A liability to pay a levy is recognised when the obligating event occurs.

This might arise at a point in time or progressively over time.

*Does the recognition of a liability to pay a levy arise at a point in time or does it arise progressively over time?*

# Example 3

## Background

Property taxes are levied annually and payable at varying times throughout the year. Entity B is obligated to pay property tax to a municipality in accordance with legislation or similar means.

The property tax is levied at 1 % of the assessed value of property on 1 July each year, payable in 12 equal instalments. The entity's reporting period is 1 April 20X1 to 31 March 20X2.

# Example 3

## Analysis

- The liability is recognised in full on 1 July 20X1 as the obligating event is the ownership of property on a specified date (i.e. assessment date).
- Any payments made by the entity between 1 July 20X1 and 31 March 20X2 will reduce the entity's obligation to the municipality.
- Any payments made before the obligating event will be recognised as a prepayment.

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?

IGRAP 19 is explicit that the same principles should be applied for obligations with a minimum threshold.

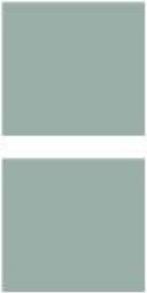
This means that a liability is recognised when the minimum threshold is reached.

# Example 4

## Background

Entity D has a reporting period that ends on 31 Mar 20X1. In accordance with legislation or similar means, a levy is triggered if an entity generates revenue above R50 million in 20X1.

The amount of the levy is calculated by reference to revenue generated above R50 million, with the levy rate at 0% for the first R50 million revenue generated (below the threshold) and 2% above R50 million revenue.



# Example 4

- Entity D's revenue reaches the revenue threshold of R50 million on 17 Jan 20X1.



# Example 4

## Analysis

- The liability is recognised between 17 Jan 20X1 and 31 Mar 20X1 as Entity D generates revenue above the threshold because the obligating event, is the activity undertaken after the threshold is reached (i.e. 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 R50 million revenue.



# Other considerations

*How should an entity account for a levy that it has prepaid?*

An entity should recognise an asset if it has paid a levy before the obligating event but does not yet have a present obligation to pay that levy.

## Registered vendors:

- Entities act as an agent in collecting and remitting VAT to the government.
- The transaction between the government and the collecting or remitting entity is not considered a levy for purposes of IGRAP 19.

*Is VAT within the scope of IGRAP 19?*

## Non-registered vendors:

- The VAT paid is a non-refundable purchase tax which meets the definition of a levy in accordance with IGRAP 19.
- 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 IGRAP 19.

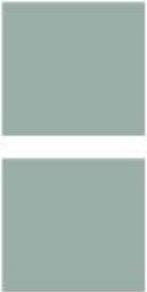
*Is VAT within the scope of IGRAP 19?*



# Effective date and transitional provisions

# When should entities apply IGRAP 19?

- An entity should apply IGRAP 19 for reporting periods beginning on or after 1 April 2019.
- Earlier application is permitted.
  - If an entity applies the interpretation for an earlier period, it should disclose that fact.



# When should entities apply IGRAP 19?

- Changes in accounting policies resulting from the initial application of IGRAP 19 should be accounted for in accordance with GRAP 3.



**THANK YOU**





# Stakeholder outreach and communication



# Outreach activities

- Continuous promotion of GRAP by improving outreach to stakeholders (workshops, meetings, seminars, SAICA webinars)
- Stakeholders should liaise with ASB when requiring any engagements
- Newsletters & Meeting Highlights
- Social media
- Handbook (order form available on website or on request)

# Translation

- Standards translated into isiZulu, Sesotho and Afrikaans
- The official version is the English language version
- Available on website

# Website

- Overview of changes made to Standards with effect from 1 April 2019
- Three set of Standards:
  - Those entities with a December year-end
  - The Standards applicable for the current year
  - The Standards applicable for the next financial year
- Please register on website if you want to be advised of changes:

<http://www.asb.co.za/GRAP/Subscribe-to-email-alerts>



# Submitting comments

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on these Exposure Drafts

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Submit your comments to

[info@asb.co.za](mailto:info@asb.co.za)



# Contact details

Tel: (011) 697-0660

Fax: (011) 697-0666

Email: [info@asb.co.za](mailto:info@asb.co.za)

Website: [www.asb.co.za](http://www.asb.co.za)

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