IFRIC 21
Levies

REFERENCES

IAS 1	Presentation of Financial Statements
IAS 8	Accounting Policies, changes in Accounting Estimates and Errors
IAS 12	Income Taxes
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 24	Related Party Disclosures
IAS 34	Interim Financial Reporting
IAS 37	Provisions, Contingent Liabilities and Contingent assets
IFRIC 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment

ISSUE

This standard explains how to account for taxes and levies payable to a public authority based on the period of recognition in the financial statements, maturity dates or crossing of thresholds.

POSITION ADOPTED

The obligation to pay a tax, and therefore the related liabilities are related to the exercise of the activity causing the chargeability of the tax, according to the law.

Although payment of tax is conditional on an entity currently exercising an activity, the related liability recognised for the current accounting period may be an amount that is based on tax figures for a previously closed financial year.

Conversely, annual taxes owed as a going-concern by entities in the beginning of the year must be recognised in full at the beginning of the period.

If the tax is related to the progressive realization of an activity (or depends on crossing a threshold), the related liability is recognized at the same rate as its dependant income (or at the time the threshold is crossed).

These provisions also apply to interim financial reporting.

Exemple 1 : Company S does business in a country where corporate income tax is at the rate of 20% up to 50,000, and at an annual rate of 30% beyond this threshold.
The Company issues annual financial statements as at 31st December of each year and also performs interim reporting at the end of each calendar quarter.
The interim statements with the amount of the income tax assessment would be presented as follows.

	Recognised	Taxable	Applicable tax rate	Tax expense	Net income
As at 31 March N	35,000	37,000	20%	7,400	27,600
As at 30 June N	48,000	49,000	20%	9,800	38,200
As at 30 September N	60,000	50,000	20%	10,000	
		12,000	30%	3,600	46,400

If the Company intends to apply IAS 34, it is able to compute its tax expense using an estimated average annual income tax rate (as an assumption, 22.5%). In this case, the statements would be presented as follows.

	Recognised	Taxable	Estimated tax rate	Tax expense	Net income
As at 31 March N	35,000	NCN	22.50%	7,875	27,125
As at 30 June N	48,000	NCN	22.50%	10,800	37,200
As at 30 September N	60,000	NCN	22.50%	13,500	46,500

NCN: Not Considered Necessary

Example 2: Company S is also liable for the payment of value added tax generated throughout the entire year at the rate of 1%.

	Added Value Produced	Applicable Tax Rate	Tax expense
As at 31 March N	72,000	1%	720
As at 30 June N	98,000	1%	980
As at 30 September N	123,000	1%	1,230

Example 3: This same Company S is also liable for payment of a turnover or business tax for revenues generated in Year N. This tax must be paid on the 15th of May in Year N+1 by all companies operating on the 1st of January in Year N+1.

In this case, the Company does not recognise an expense for the Year N on account of this tax, and it will only be recognised in full on 1st January of Year N+1.

Example 4: In addition, the Company must pay a flat-rate, annual property tax on the 15th of October of each year in the amount of 5,000. This tax must be paid by all companies operating on the 1st of January of each year.
The entity must recognise the amount of 5,000 as an expense without spreading the tax out prorata temporis.
Therefore, the amount of this expense would show up in its interim statement as shown below.

	Flat-rate property tax
As at 31 March N	5,000
As at 30 June N	5,000
As at 30 September N	5,000