



PSAB AT A GLANCE

Section PS 3510 - Tax Revenue

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Effective Date
Fiscal periods beginning on or after April 1, 2012

SCOPE

Applies to:

- Accounting for and reporting tax revenue in government financial statements.

Does not apply to:

- Revenue recognition of developer charges, which is addressed in PS 3100, *Restricted Assets and Revenues*;
- Revenue recognition of resource royalties;
- Fines or penalties, such as those imposed for breaches of tax law;
- Interest earned on tax receivables;
- Transactions that are more in the nature of exchange transactions, such as user fees, license or permit fees; or
- Non-compulsory transfers to the government or entities charged with tax collection for the government, such as donations, contributions and the payment of fees.

TAXES

- Economic resources compulsorily paid or payable to governments in accordance with laws and / or regulations normally established to provide revenue for public purposes to the government.
- Tax transactions are non-exchange transactions.
- A major source of revenue for governments.

RECOGNITION

- Taxes must be recognized as assets and revenues when:
 - They meet the definition of an asset set out in PS 1000, *Financial Statement Concepts*;
 - They are authorized as described in paragraph PS 3510.17; and
 - The taxable event occurs.
- A government only recognizes tax revenue it expects to collect in accordance with the general recognition criteria set out in paragraph PS 1000.55.

ATTRIBUTION OF TAX REVENUE

- A government is considered to have imposed a tax and would recognize tax revenue if the government directly levies the tax:
 - By exercising the taxing authority provided in its own legislation, regulations or by-laws (for example, income taxes); or
 - In accordance with the taxing authority granted to it in the legislation of another level of government (for example, municipalities granted taxing authority under provincial legislation).

TAXES IMPOSED / COLLECTED ON BEHALF OF OTHERS

- Pursuant to an existing agreement / legislation in place at the financial statement date that is purely a flow-through arrangement; a government may impose a tax on behalf of another government or other public sector entity.
- When amounts are collected by an agent of the government / other third party these amounts do not increase the net assets or revenue of the agent.
- The government imposing / collecting the tax on behalf of others does not recognize tax revenue.

AUTHORIZATION

- For revenue recognition purposes a tax is considered authorized by a legislature / council when the effective date of the tax has passed and the earlier of the following has occurred:
 - The legislature / council has approved the related legislation, regulations or by-laws; or
 - Through legislative convention the ability to assess and collect tax has been provided.
 - Refer to paragraph PS 3510.19 for more information on legislative convention.

THE TAXABLE EVENT

- The event that the government, legislature, council or other authority has determined will be subject to taxation.
- To determine what the taxable event is for the various taxes levied for the purposes of paragraph PS 3510.08, a government examines the tax law in its own jurisdiction.
 - Refer to paragraph PS 3510.20 for examples of taxable events.

TAXES RECEIVED IN ADVANCE

- If taxes are received in advance of the recognition criteria set out in paragraph PS 3510.08 being met, they are recognized as a liability until the recognition criteria are met, which is normally as the taxable event occurs.

MEASUREMENT

INITIAL MEASUREMENT

- An asset that is acquired through a tax transaction must be initially measured at its realizable value at the date of acquisition.
 - Realizable value is the amount of cash or cash equivalents that an asset is expected to be converted into in the due course of operations.
- Any adjustments to tax revenue resulting from a change in estimate are accounted for in accordance with Section PS 2120, *Accounting Changes*.
- If a government receives other types of assets to settle outstanding taxes receivable, these assets are measured at their fair value as at the date of acquisition by the government to determine whether they settle the entire tax receivable or whether a balance receivable remains or a refund is owed.
- Administrative costs or other expenses related to tax revenue transactions are recognized separate from tax revenue as an expense related to the transaction.

SUBSEQUENT MEASUREMENT

- A government must evaluate the likelihood of having to repay taxes collected under tax measures deemed to be authorized using the concept of legislative convention set out in paragraph PS 3510.17(b) and recognize a liability when required by Section PS 3200, *Liabilities*, at each financial statement date.
- Related refunds must be accounted for as a change in estimate in accordance with PS 2120, *Accounting Changes*.

TRANSFERS MADE THROUGH A TAX SYSTEM AND TAX CONCESSIONS

- Transfers made through a tax system must be recognized as an expense, not as a reduction of tax revenue.
- Tax revenue cannot be grossed up for the amount of tax concessions.
- In determining whether to classify a payment or reduction in taxes payable as a transfer made through a tax system or as a tax concession professional judgment must be applied. The following would be considered by a government when classifying an item:
 - The definitions of tax concessions and transfers made through a tax system set out in paragraph PS 3510.07;
 - The criteria set out in paragraphs PS 3510.37-.44; and
 - The decision tree provided in Appendix A to PS 3510.

TRANSFERS MADE THROUGH A TAX SYSTEM

- Financial benefits provided or determined through a tax system that are made for a purpose other than the relieving of taxes previously paid or currently owing.
- Refer to paragraphs PS 3510.37-.41 for additional guidance.


TAX CONCESSIONS

- Referential provisions of the tax law that are only available to taxpayers and can include exemptions, deductions, deferrals and credits that affect the level and distribution of tax.
- May include special tax rates.
- Provide tax relief of taxes previously paid or currently owing and are seen as "foregone revenue".
- Often referred to as "tax expenditures".
- Refer to paragraphs PS 3510.42-.44 for additional guidance.



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