

# ASPE

## At a Glance

Section 3800 and 3805:  
Government Assistance &  
Investment Tax Credits

# Government Assistance & Investment Tax Credits<sup>1</sup>

Effective Date  
Fiscal years beginning on or after January 1, 2011

## Scope

### Does not apply to:

- Loans having normal commercial characteristics from governments and their agencies.
- Accelerated tax write-offs or tax rate reductions such as small businesses or manufacturing and processing businesses.
- Assistance received from a government that holds an equity position in an enterprise.

## Government Assistance

Governmental actions that provide specific assistance to an individual enterprise in order to influence business decisions on matters such as investment, hiring, plant location, etc.

## Investment Tax Credits

- A type of government assistance related to specific qualifying expenditures that are prescribed by tax legislation.
- The credits may be received as a reduction in income taxes otherwise payable or they may be received by other means.

## Recognition

### Government Assistance Related to Non-Capital Items

#### Current expenses and revenues

- Include in the determination of net income for the period.

#### Expenses of future periods<sup>2</sup>

- Defer and amortize to income as related expenses are incurred.

### Government Assistance Related to Capital Items

#### Acquisition of fixed assets

- Alternatives:
  - Deduct the amount of the assistance from the related fixed assets with any depreciation calculated on the net amount; or
  - Defer and amortize the amount of the assistance to income on the same basis as the related depreciable fixed assets are depreciated.

#### Remission of excise or sales taxes

- Recognize as a fixed asset cost reduction.

### Forgivable Loans

- A type of government assistance drawn up in the form as a loan that is forgiven on condition that the borrower continues to meet certain requirements specified at the time it was granted.
- Recognize in the same manner as a grant at the time the entity becomes entitled to receive the loan.

## Repayment of Government Assistance

- Recognize the liability to repay government assistance in the period when conditions arise that cause the assistance to be repayable as follows:
  - When the original receipt of government assistance was applied to reduce expenses or increase revenues, recognize the repayment in the current income statement.
  - When the original receipt of government assistance was related to expenses of future periods and was treated as a deferred credit, adjust the unamortized balance of the deferred credit by the repayment. Base the future amortization on the resulting balance when the deferred credit has not been eliminated. Recognize any excess of repayment over the unamortized balance in the current income statement.
  - When the cost of fixed assets was reduced by the original receipt of the assistance, increase the cost of the assets by the applicable repayment. The effect on depreciation shall be accounted for prospectively.
  - When the original receipt of government assistance relating to fixed assets was treated as a deferred credit, adjust the unamortized balance of the deferred credit by the applicable repayment. Base the future amortization on the resulting balance.

<sup>1</sup> Includes Section 3800 - Government Assistance and Section 3805 - Investment Tax Credits.

<sup>2</sup> Does not apply to investment tax credits.



## Accrual of Assistance

### Government Assistance

- Accrue an estimate of the total amount to be received as long as there is reasonable assurance that the entity has complied with and will continue to comply with all of the conditions of the assistance.

### Investment Tax Credits

- Accrue when the enterprise has made the qualifying expenditures, provided there is reasonable assurance that the credits will be realized.
- If the investment tax credits are not accrued because there is no reasonable assurance that the credits will be realized, such credits are accrued in the subsequent year in which reasonable assurance of realization is first obtained and are accounted for as a change in accounting estimate, as set out in Section 1506, *Accounting Changes*.
- When circumstances arise that indicate that the company will not be able to claim the investment tax credits previously accrued, the effects are accounted for prospectively in a manner similar to the repayment of government assistance (see 3800.28-.29).

## Unanticipated Government Assistance

- Example: assistance received as compensation for flood damage when legislation is enacted in a subsequent period.
- When unanticipated assistance relates to expenditures made or losses incurred in prior periods, recognize the assistance in the period when the estimate is first made.

## Presentation

- Alternatives available for presentation of government assistance related to current expenses and revenue are to:
  - Show expenses net of assistance; or
  - Show the assistance as a deduction from aggregate expenses or as revenue.

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