



HM TREASURY

Financial Reporting Advisory Board Paper

Exposure Draft – Revenue from Non-Exchange Transactions

Issue:	International Federation of Accountants (IFAC) International Public Sector Accounting Standard (IPSAS) Exposure Draft (ED) – Revenue from Non-exchange Transactions (Comprising Taxes and Transfers).
Impact on guidance:	N/A
UK GAAP adaptation?	N/A
IAS/IFRS compliant?	N/A
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Recommendation:	That the Board notes that the IFAC have issued the ED and that the principles that it sets out with to regard non-exchange transactions which, other than the exceptions detailed In this paper, are in line with the taxation and other accounting policies already adopted.
Timing:	Not Yet Known

DETAIL

Background

1. The objective of the standard being exposed is to prescribe the financial reporting of revenue arising from non-exchange transactions for the Public Sector. It provides guidance on recognition and measurement of revenue from non-exchange transactions including the identification of contributions from owners. The ED is due to be published in late January/early February.

2. The ED follows the Invitation to Comment (ITC) issued by the IFAC Public Sector Committee (PSC) in January 2004. FRAB (66)7C provided an overview of issues raised in the ITC while FRAB (67)8 provided details of the UK Government response to the ITC. The FRAB responded directly to IFAC on the ITC on the 28 May 2004.

3. This paper provides an overview of the coverage and approach of the ED with a comparison of the accounting policies adopted by the UK Central Government sector.

ED Coverage

4. Non-exchange transactions are categorised as follows;

- Taxation
- Contributions from Owners
- Transfers of Assets to the Public Sector

5. Taxation is recognised as being the major source of revenue for Government. Taxes are defined as economic benefit compulsorily paid or payable to public sector entities in accordance with law or regulation established to provide revenue to the government. Fines payable in respect of breaches of tax legislation are deemed to be transfers rather than tax.

6. Contributions from owners are defined as future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the assets/equity of the entity.

7. Transfers encompass: debt forgiveness, bequests, gifts, donations, in-kind goods and services, and pledges.

ED Approach

8. The ED proposes an asset and liability approach to the recognition of revenue and that revenue should be recognised to the extent that:

- An inflow gives rise to an item that meets the definition of an asset;
- The inflow satisfies the criteria for recognition as an asset; and
- The entity has satisfied all present obligations relating to the inflow

9. The ED proposes that taxation receipts are accounted for on an accruals basis.

10. The ED distinguishes between tax expenses and tax expenditure. Tax expenses are payments to citizens regardless as to whether or not the recipient is a taxpayer. Tax expenditure relates to reductions in a taxpayers liability and thus is only available to taxpayers and only to the point that their liability is reduced to zero. The ED takes the view that tax expenses are an expense to government and as such should be accounted for gross (not netted off tax revenue). Tax expenditure is deemed foregone tax revenue and as such netted off tax revenues.

11. The ED proposes that revenue be recognised regardless of the asset recognised. As such, revenue will be recognised even where tangible fixed assets are donated to government.

12. The ED provides guidance on the treatment of non-exchange transactions that are subject to a stipulation. Stipulations can be either conditions or restrictions. Conditions require that the recipient either consumes the assets as specified or returns the unconsumed element. Restrictions are similar except that they do not require that any unconsumed element of the asset be returned. Where a condition exists the recipient of the asset should recognise a liability at (except in the case of transfers of land and non-depreciable assets) its fair value which is released to revenue as the condition is met. Restrictions need only be disclosed.

13. Where a condition exists on the transfer of land and non-depreciable assets no liability should be created. The rationale being that an entity will have to consume the asset transferred to fulfil the condition. As the asset is consumed so the liability is reduced – the potential asset returnable to the transferor is only that element the transferee has yet to consume. Non-consumable assets can be returned to the transferor in the same state as at transfer.

Comparison with Current UK approach

14. The Inland Revenue and HM Customs and Excise have published audited accruals based Trust Statements for 2004/05. Updates on tax accounting policies were provided in FRAB (45)1 and FRAB (60)4c.

15. The UK does not differentiate between tax expenses and tax expenditure: both are netted off taxation revenue in the financial statements.

16. Where assets are provided to the public sector under a non-exchange transaction (other than in relation to a tax debt) the asset is treated as donated. The credit entry is taken to reserves (donated asset reserve) rather than revenue (income). The result being that the benefit from donated assets is taken straight to reserves without passing through the performance statement as envisaged by the ED.

17. The FReM dictates that any restriction imposed by the donor when donating assets to the public sector should be disclosed in the financial statements. There is no guidance as to the treatment of conditions. However if the condition were such that it met the definition of a FRS 12 provision a liability would need to be recognised.

Parliamentary Supply

18. The ED would appear to treat Parliamentary Supply as transfers. This approach would result in the inflow being recognised as revenue with the creation of an asset and potentially a liability. In the UK Parliamentary Supply is treated as a Contribution from Owners recognising that assets and liabilities are ultimately those of Government and not a specific Department. This approach also allows users to focus on the cost of Government rather than a spurious profit or loss of individual Departments. We believe that this approach is consistent with the ED given the definition of Contributions from Owners (as detailed in this paper).

Capital Grants

19. Under the requirements of the ED the full value of a Capital Grant would be treated as revenue when receivable (except where a condition is in place). This treatment is the same as that proposed

in the Statement of Principles for Public Benefit Entities. This treatment differs to that applied by SSAP 4 which requires capital grants to either be deducted from the asset value or taken to the performance statement over the asset life (the FReM only allows for the latter treatment).

Summary and recommendation

20. The Board is invited to note the imminent publication of the IPSAS ED *Revenue From Non-Exchange Transactions (Comprising Taxes and Transfers)*. While the principles it lays out are largely in line with the accounting policies for such transaction in the UK there are some differences which are detailed in this paper. Mike Hathorn (UK member and Vice Chairman of the International Public Sector Accounting Standards Board) will be attending the Board meeting to give a presentation on the ED.

HM Treasury

7 February 2006