

IFRIC 21 – Levies (March 2014)

Identification of a present obligation to pay a levy that is subject to a pro rate activity threshold as well as an annual threshold

In May 2013, the IASB issued IFRIC 21 *Levies*, which is effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. IFRIC 21 provides an interpretation of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of liabilities for obligations to pay levies that are within the scope of IFRIC 21. The Interpretations Committee received a request to clarify how the requirements in paragraph 8 of IFRIC 21 should be interpreted in identifying an obligating event for a levy. The Interpretations Committee discussed regimes in which an obligation to pay a levy arises as a result of activity during a period but is not payable until a minimum activity threshold, as identified by the legislation, is reached. The threshold is set as an annual threshold, but this threshold is reduced, pro rata to the number of days in the year that the entity participated in the relevant activity, if its participation in the activity started or stopped during the course of the year. The request asks for clarification on how the thresholds stated in the legislation should be taken into consideration when deciding “the activity that triggers the payment of the levy” in paragraph 8 of IFRIC 21.

The Interpretations Committee noted that in the circumstance described above, the payment of the levy is triggered by the reaching of the annual threshold as identified by the legislation. The Interpretations Committee also noted that the entity would be subject to a threshold that is lower than the threshold that applies at the end of the annual assessment period if, and only if, the entity stops the relevant activity before the end of the annual assessment period. Accordingly, the Interpretations Committee observed that in the light of the guidance in paragraph 12 of IFRIC 21, the obligating event for the levy is the reaching of the threshold that applies at the end of the annual assessment period. The Interpretations Committee noted that there is a distinction between a levy with an annual threshold that is reduced pro rata when a specified condition is met and a levy for which an obligating event occurs progressively over a period of time as described in paragraph 11 of IFRIC 21; until the specified condition is met, the pro rata reduction in the threshold does not apply. On the basis of the discussions above, the Interpretations Committee thought that the guidance in IFRIC 21 and IAS 37 is sufficient and noted that it is unlikely that significant diversity in interpretation on this issue will emerge. Accordingly, the Interpretations Committee decided not to add this issue to its agenda.