Levies raised on production property, plant and equipment

The Interpretations Committee received two submissions relating to levies raised on production property, plant and equipment (PPE). Paragraph 3 of IFRIC 21 Levies states that the Interpretation does not provide guidance on accounting for the costs arising from recognising a levy. The Interpretation notes that entities should apply other Standards to decide whether the recognition of an obligation for a levy gives rise to an asset or to an expense. The submitters, both service providers, asked whether the cost of a levy on productive assets is: (a) an administrative cost to be recognised as an expense as it is incurred; or (b) a fixed production overhead to be recognised as part of the cost of the entity’s inventory in accordance with IAS 2 Inventories.

The Interpretations Committee noted that when IFRIC 21 was being developed it had discussed the accounting for costs that arise from recognising the liability for a levy. At that time it had considered whether such costs would be recognised as an expense, a prepaid expense or as an asset recognised in accordance with IAS 2, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets. The Interpretations Committee decided not to provide guidance on this matter; entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or to an expense. The Interpretations Committee also noted that IFRIC 21 is an Interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and that paragraph 8 of IAS 37 states that IAS 37 does not deal with the recognition of either the asset or expense associated with a liability. It also noted that it would not be efficient to give case-by-case guidance based on the fact patterns of individual levies. Consequently, the Interpretations Committee decided not to add this issue to its agenda.