

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.