<u>Local Improverment Tax ("LIP") Accounting</u>

For your information I have outlined the respective PSAB sections below that would require LIP tax revenue to be recognized fully in the year authorized with comments on how each PSAB requirement is met. Following I then comment on how specifically to record the asset and revenue initially, and as collected. I am not an expert in LIP tax as done in Alberta but in reading the *Municipal Gov't Act* sections it is very similar to how done in BC (and the same with respect to the factors considered in applying PS3510) so it is very likely the interpretation is correct, however, you need to review this issue with your Auditors as my/Bill's opinions are our opinions only (although I believe what we are suggesting is now, or is becoming, generally accepted -- ie GAAP).

<u>WHY Recognize LIP Revenue Upfront?</u>

PS3510 Tax Revenue – RECOGNITION requirements

.08 *Taxes should be recognized as assets and revenue when:*

- *(a) they meet the definition of an asset set out in FINANCIAL STATEMENT CONCEPTS, Section* <u>PS 1000</u>*;*
- *(b) they are authorized as described in paragraph* <u>PS 3510.17</u>*; and*
- *(c) the taxable event occurs.* [APRIL 2012]

(a) <u>Definition of an Asset (PS1000)</u>

Assets are economic resources <u>controlled</u> by a government as <u>a result of past transactions or events</u> and <u>from which future economic benefits</u> are expected to be obtained.

.36 Assets have three essential characteristics:

(a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;

(b) the government can control access to the benefit; and

(c) the transaction or event giving rise to the government's control of the benefit has already occurred.

Once the local government Gov't passes the LIP Bylaw (see section 397 of the Municipal Gov't Act) the LIP tax is authorized and the Gov't now has a <u>right to future economic benefits</u> (ie the tax cash). The notice to the taxpayers and the passing of the Bylaw are <u>the past transaction or event</u>. <u>Control</u> is demonstrated by fact that the Gov't is the only party who can get the future economic benefits and they are the only ones who could change that access (ie they have exclusive control).

(b) <u>Authorization</u>

.17 *A tax is considered authorized by a legislature or council for revenue recognition purposes when the effective date of the tax has passed and the earlier of the following has occurred:*

- *(a) the related legislation, regulations or by-laws have been approved by the legislature or council; or*
- *(b) the ability to assess and collect tax has been provided through legislative convention.* [APRIL 2012]

Authorization is met with the passing of the LIP Bylaw as nothing else needs to be done to authorize charging this tax. The fact that receipt of the cash occurs over a number of years is simply a matter of collection.

(c) The taxable event has occured

.20 *Similar types of taxes are levied in many jurisdictions. A government would examine the tax law in its own jurisdiction to determine what the taxable event is for the various taxes levied for the purposes of paragraph PS 3510.08. For example, the taxable event for:*

- *(a) income tax is the earning of taxable income during the taxation period by the taxpayer;*
- *(b) property tax is the period for which the tax is levied because the tax is levied on a periodic basis;*
- *(c) value-added or sales tax is the purchase or sale of taxable goods and services during the taxation period; and*
- *(d) customs duty is the movement of dutiable goods or services across the customs boundary.*

The taxable event is the period the related works are completed over. Thus IF the other criteria was met then should recognize in proportion to the related capital works it funds.
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HOW Recognize LIP Revenue Upfront?

Simply said Dr A/R for the LIP amount receivable and Credit Revenue and then Dr Cash and Cr A/R as it is collected in future years. In addition, given the long-term nature of the A/R you would need to consider the time-value of money (ie interest) when setting up the A/R and recognizing the revenue, with these amounts equalling the present value amount at the point of recognition with interest revenue then being recognized over the collection period.

APPLICATION of Standard

PS3510 can be applied retroactively or prospectively.

Prospectively means that IF you have existing LIP tax revenue being collected you must revise the accounting treatment as described above AND you must account for NEW LIP's as described above as well.