

13 Revenue from taxes and duties

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13.1 Introduction

13.1.1 This chapter applies to HM Revenue and Customs and to the Driver and Vehicle Licensing Agency. It sets out the principles for accounting for revenues from taxes and duties. This chapter does not apply to the Non-Domestic Rates Accounts, which continue to be prepared on a cash basis. Detailed information about the recognition points for, and the accounting treatment of, individual taxes are available on this Manual's dedicated web site.

13.2 Definitions

Taxes and duties

13.2.1 Taxes and duties are economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulations¹.

13.3 Recognition and Measurement

13.3.1 In applying the taxation accounting policies set out in this chapter HM Revenue and Customs and the Driver and Vehicle Licensing Agency shall have regard to the concepts set out in the *Framework for the Preparation and Presentation of Financial Statements*. In particular, these tax authorities shall have regard to the concept of prudence (paragraph 37 of the *Framework*) – the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that gains and assets are not overstated and losses and liabilities are not understated.

13.3.2 In preparing their financial statements, the tax authorities will not recognise or measure the 'tax gap'. The 'tax gap' is defined as the difference between the hypothetical amount of revenues due, based on data on economic activity, and revenues receivable. Revenues receivable include both the tax yield from compliant taxpayers and estimates of amounts due from non-compliant, but known taxpayers. A statement should be made in the accounting policies note that the 'tax gap' is not recognised in the financial statements.

Taxes and Duties Recognised on an Accruals Basis

13.3.3 Where taxes and duties are recognised on an accruals basis, they will be measured at the fair value of the consideration received or receivable net of repayments. Revenue is recognised when: a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied.

13.3.4 Revenues are deemed to accrue evenly over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties due. The term 'probable' means that the flow of revenue should be more likely than not to occur. Revenue should be accrued net of amounts not expected to be collected, which might be determined by reference to past trends in write-offs and remissions, the emerging position in-year, historic debt collection performance, a combination of the foregoing, or by other appropriate means.

¹ Per IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Taxes and Duties Recognised on a Cash Basis

13.3.5 Where taxes and duties are recognised on a cash basis, they will be recognised in the accounting period in which the tax receipt is received and are measured at the cash amount received.

Tax Expenses

13.3.6 In the UK the main form of tax expenses are tax credits. Tax credits should be presented as expenditure in the financial statements. To enable alternative presentations in other publications, that part of tax credits scored against recipients' tax liabilities, and that part paid as Payments of Entitlements, can be analysed separately in the notes to the accounts.

13.4 Presentation

13.4.1 Entities shall prepare a set of financial statements containing details of the material components of tax income, expenditure, assets, liabilities or cash flows detailed in a Statement of Revenue and Expenditure, Statement of Financial Position and Statement of Cash Flows (together with supporting notes to those primary statements) to give a true and fair view of the state of affairs relating to the collection and allocation of taxes, duties and any other revenues and related expenditures.

13.5 Disclosures

13.5.1 An entity shall disclose:

- a) in the notes to the financial statements, the main accounting policies, estimates and judgments used to assess tax income, expenditure, assets and liabilities, including any provision created in respect of tax deemed uncollectable;
- b) in the notes to the financial statements, a statement of those taxes reported on an accruals basis and those on a cash basis; and
- c) any additional supporting information to aid the understanding of users of the accounts. This may include, but will not be limited to, details on fraud, evasion and error, and accounting estimates of accrued tax revenue.