

13 Accounting for consolidated fund revenue

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13.1 Introduction

13.1.1 This chapter deals with revenue (and some associated expenditure) collected by entities on behalf of the Consolidated Fund. Although the Consolidated Fund is the source of most government funding and is the destination for unspent funds, this chapter does not cover the generality of those funding flows. It is more specifically about the collection of revenues which by statute or convention are due to the Consolidated Fund and where the entity undertaking the collection is consequently acting as agent rather than principal. This chapter does not cover accounting by the Consolidated Fund for the revenues received.

13.1.2 The majority of the revenue sources covered by this chapter are either taxation or fines and penalties.

13.2 Definitions

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

13.2.2 Fines and penalties: fines and penalties are economic benefits paid or payable to government for breaches of laws or regulations where there is a statutory obligation to pay.

13.3 Recognition and Measurement

13.3.1 In applying the accounting policies set out in this chapter reporting entities shall have regard to the concepts set out in the *Framework for the Preparation and Presentation of Financial Statements*. In particular these entities 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, entities 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 included in the accounting policies note that the “tax gap” is not recognised in the financial statements.

Taxes and duties

13.3.3 Where taxes and duties are recognised on an accrual 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 Tax revenues are deemed to accrue equally over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes 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.
- 13.3.5 Where, exceptionally and with the consent of HM Treasury, taxes and duties are recognised on a cash basis, they will be recognised in the accounting period in which the tax is received by the entity and are measured at the cash amount received.

Fines and penalties

- 13.3.6 Fines and penalties are recognised at the time that the fine or penalty is imposed and becomes receivable by the entity. Where, on appeal, or for other legal reasons, the penalty is cancelled, the amount receivable is derecognised at the date of the successful appeal.
- 13.3.7 Where fines and penalties are uncollectible or, for policy reasons, the entity decides that it is inappropriate to pursue collection, the amounts not collected are recorded as an expense. The amounts not collectible are estimated from the most appropriate data available to the entity.

Tax expenses

- 13.3.8 In the UK the main form of tax expense is tax credits. Tax credits are recorded as expenditure in the financial statements. To provide full information, that part of tax credits offset against recipients’ tax liabilities and that part paid as Payments of Entitlement are to be disclosed separately in the notes to the accounts.

13.4 Reporting

- 13.4.1 HMRC and certain other receivers of money which is by law payable into the Consolidated Fund are required to prepare accounts in a form to be directed by the Treasury and which are to be examined and reported on by the Comptroller and Auditor General.
- 13.4.2 The intention of the underlying legislation¹ is to require those entities collecting revenue on behalf of the Consolidated Fund to prepare separate statements (“Trust Statements”), from those for the entity and to include in Trust Statements details of the collection and allocation of that revenue.
- 13.4.3 The Treasury (or, where appropriate, sponsor department) will issue an accounts direction to each entity producing a Trust Statement; the format will be defined in the accounts direction. It will usually follow the principles set out in Chapter 5 “Form and Content of the Annual Report and Accounts” and must be published as part of the Annual Report and Accounts except where the Treasury or sponsor department directs otherwise. The requirement will be based on the underlying legislation for those entities within the scope of 13.4.1 above, and based on s7 of the Government Resources and Accounts Act for other entities.

¹ As required by the Exchequer and Audit Departments Act 1921

Trust Statements

13.4.4 Trust Statements shall include the following revenue:

- a) all income classified as taxation by the Office for National Statistics except where by statute the entity is permitted to keep that income;
- b) all amounts which, by statute, are to be surrendered or paid into the Consolidated Fund (either by the entity directly or by passing the collected funds to a third party who then pays over the amounts collected) or to another third party within Government;
- c) all fines and penalties levied except where the entity is permitted by statute to retain the penalties imposed.

13.4.5 Trust Statements shall also include the following expenditure:

- a) the costs of collection and administration where there is express statutory provision for those costs to be deducted from the revenue collected;
- a) the costs of compensating those from whom taxes or penalties have been incorrectly collected;
- b) any provision for uncollectible amounts measured in accordance with IAS 39.

13.4.6 Where legislation requires or permits part of the revenue collected to be surrendered and part to be retained by the entity, the full amount shall be included in the Trust Statement, and the amount to be retained shall be recorded as an expense in the Trust Statement (and, equally, as revenue in the Statement of Comprehensive Net Expenditure).

Presentation

13.4.7 Where revenue from taxes, duties fines and penalties is material to the entity, it shall prepare a trust statement containing details of the material income, expenditure, assets, liabilities and cash flows detailed in a statement of Revenue, Other Income and Expenditure, a Statement of Financial Position and a Statement of Cash Flows, together with supporting notes to those primary statements, to give a true and fair view of the statement of affairs relating to the collection and allocation of taxes, duties fines and penalties and any other revenues and related expenditure.

13.4.8 Where revenue from taxes, duties, fines and penalties is not material to the entity, it need not prepare the trust statement set out in the preceding paragraph, but may do so if it provides a clearer interpretation of the state of affairs. Where the entity does not produce the statements in the preceding paragraph, it shall set out in a note to the Statement of Financial Position details of the amounts collected and surrendered or otherwise expended (but shall not include them in its statement of income and expenditure) and of the amounts receivable and payable at the end of the reporting period.

Disclosures

13.4.9 An entity shall disclose:

- a) in the notes to the trust statements, the main accounting policies, estimates and judgements used to assess tax income, expenditure, assets and liabilities, including any provision created in respect of tax, fines or penalties deemed uncollectible;
- b) in the notes to the trust statements, a statement of those taxes reported on an accruals basis and those on a cash basis; and

- c) any additional supporting information which might aid the understanding of users of the accounts. This may include, but will not be limited to, details of fraud, evasion and error and accounting estimates of accrued tax revenue.