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June 28, 2004

Mr. Jerry Gutu,  
The Technical Director  
Public Sector Committee  
International Federal of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor,  
New York. New York 10017

Dear Mr. Gutu:

Thank you for the opportunity to provide a response to the Exposure Draft, "Revenue from Non-Exchange Transactions". The Steering Committee should be complemented for its excellent work and we trust that our response will add to further deliberations.

Our overall comment on the document is a concern that the Steering Committee may, in some cases, be seeking levels of precision that are unrealistic relative to materiality while, in at least one other instance (that of tax expenditures), not be giving due consideration to nature and materiality of the transactions. The document comments that *in distinguishing between exchange and non-exchange transactions, substance rather than the form of the transaction should be considered*. Distinguishing between the two is a question of judgement that, in the dynamics of the political milieu and the crucible that is public policy, are all too often driven by the perspective of the beholder. As well, whether or not one receives value may be a matter of great debate, particularly in the context of services.

### **Matters for Comment**

1. *Do you agree with the "assets and liabilities" approach to the recognition of revenue from non-exchange transactions, i.e. do you agree that revenue should be recognized when a public sector entity recognizes an increase in net assets/equity that does not arise from a contribution from owners?*

Yes, we agree with the assets and liabilities approach to the recognition of revenue from non-exchange transactions.

2. *Do you agree that public sector entities should be permitted to designate a transfer to a wholly-owned controlled entity as a contribution from owners as outlined in paragraph 2.7?*

We concur where the entity relationship to the contributor is structured such that it operates at arms length (such as some form of corporate structure; independent reporting relationship embodied in legislation).

With respect to government departments, we have a concern with the term "owners." "Owners" may misrepresent the nature of the relationship between the department, the government, and the legislature (particularly with a Westminster model of government), implying a relationship and/or accountability that does not exist. In those situations "contributions from controlling entities" would more reflect the true nature of the relationships.

3. *Do you believe that there are circumstances in which "contributions from owners," as defined, may be non-exchange transactions?*

Yes, noting the concerns expressed above.

4. *The Steering committee proposes that some components of non-exchange transactions be accounted for in the same manner as exchange transactions. Do you agree with this treatment?*

Our agreement would be qualified: any guidance in this regard should emphasize the matter of materiality in determining the accounting treatment.

5. *Do you agree that some non-exchange transactions can consist of an exchange component and a non-exchange component?*

Yes, recognizing that the line between the two may be difficult to draw. The Invitation to Comment notes that when differentiating between exchange and non-exchange, the “substance rather than the form of the transaction should be considered.” This will often prove problematic; perhaps further guidance and examples could be provided.

6. *Do you agree that the taxable event for property taxes is the passing of the date on which taxes are levied; or the period for which the tax is levied, if the tax is on a periodic basis?*

We agree that the taxable event for the property taxes is the passing of the date on which taxes are levied.

7. *Do you agree with the proposal that disclosures about the “tax gap” should be made in the notes to the general purpose financial report when they can be reasonably estimated?*

In light of comments of the Committee, disclosure by way of notes, including the establishment of guidance with regards to content of the notes and what constitutes "reasonably estimated," would be an interim position. At the same time, governments should be encouraged to effect disclosure in statements where amounts are estimated with sufficient precision:

1. The tax gap is a cost of government; the information is of significant value and often a key factor in policy analysis and debate because:

- in a jurisdiction which relies on voluntary reporting, the tax gap provides evidence of public perception of fairness and equity in the taxing regime
- it provides evidence of the overall effectiveness of the governments taxing efforts (for example, tax departments argue for increased resources on the basis of returns on investment in audit and collection activities, which goes beyond fraud and error; governments undertake substantive promotion/outreach activities);
- it provides evidence of changes in the economy and the impact of aggregate tax burden on the taxpayer (particularly where multiple jurisdictions are taxing)
- it allows policy debate to focus on marginal return (spending capacity) of tax initiatives versus inherent political costs
- for markets and analysts expenditure obligations versus tax room/capacity are key determinants in assessing ratings of government debt

2. The activities of government can substantially influence compliance in voluntary tax reporting regimes, and compliance is an issue with taxpayers. This would argue for the reporting of revenue and tax gap as a cost.

8. *Do you agree with the Steering Committee View that “expenses paid through the tax system” should be recognized up in the statement of financial performance and that tax revenue should be grossed in respect of expenses paid through the tax system.*

*(See “other matters” below regarding tax expenditures where there is disagreement with the Committee’s viewpoint).*

Agree.

9. *Do you agree that, where physical assets are transferred to a reporting entity subject to conditions that they be consumed in the provision of goods and services, revenue should be recognized in respect of the transfer as the physical asset is consumed?*

Agree, noting that that the term “conditions” is being read per this Invitation to Comment (i.e. gives rise to liabilities).

10. *Do you agree with the Steering Committee’s conclusions regarding stipulations?*

Yes, with a slight qualification: to the extent that conditions apply and a liability is recognized, logic would seem to indicate that the transaction is an exchange transaction until such time as the conditions are satisfied (receivable by the donor and a liability by the recipient). In this regard, we would comment that “time requirement” is just another condition and question whether it needs separate consideration.

11. *Do you agree with the proposition in paragraph 4.38 that liabilities should be reduced and revenue recognized when the conditions have been satisfied?*

Agree.

12. *Do you agree with the Steering Committee view that voluntary services should not be recognized as assets and revenue in the general purpose financial statements?*

Agreed, noting that this is a difficult issue. If someone donates cash in lieu of providing a voluntary effort with conditions that it be used to “buy” the service, it is recognized, but if he or she provides the same service on a voluntary basis, it is not. There are many instances where services could not be provided in the absence of the contribution of time and effort by volunteers as they are unaffordable, particularly at lower levels of government.

13. *Do you agree with the Steering Committee view that the PSC should develop one IPSAS on revenue that includes both exchange and non-exchange transactions within its scope?*

Disagree. The accounting framework for non-exchange revenue transactions should be considered work in progress and may yet evolve quite significantly, whereas that for exchange transactions is, for lack of a better term, “mature” with general acceptance.

14. *Do you believe that the IPSAS on revenue should require separate disclosure of revenue from exchange transactions and revenue from non-exchange transaction?*

Yes.

## **Other comments**

### **Tax expenditures, Steering Committee View 9, page 39**

The Committee seems to have adopted a very narrow focus when it comes to tax expenditures: by deciding that tax expenditures are “foregone revenues” and not be shown as revenue, a major financial vehicle for the delivery of public policy is removed from the scope of financial reporting.

The very complexity of the tax system is driven by its use as a vehicle for implementing public policy. For example, tax expenditures in support of economic development may be far more economically significant than program spending, yet they are not approved, captured, and reported with the same level of rigour as direct program expenditures.

The following is an excerpt from the Government of Canada's report on tax expenditures, issued by the Department of Finance:

*"... tax system is also an instrument of policy that serves to advance a wide range of economic, social, environmental, cultural, and other public policy objectives. Tax measures that reflect such objectives include exemptions, deductions, rebates, deferrals and credits, and are typically referred to as "tax expenditures."*

The extent to which tax expenditures are used as an instrument of policy by the Canadian Government is demonstrated by corporate income tax, with collections of approximately \$25B; "tax expenditures" are estimated at some \$20B and, by contrast, direct expenditures on business subsidies amount to less than \$3B.

Similarly, with respect to social policy (and one of the more vexing issues for the Government of Canada) is the failure of Canadians to accept tax expenditures, particularly in respect of transfers of tax room to the provinces for health care, as a legitimate form of federal spending.

It recognized that the issue is fraught with measurement difficulties and other complexities (for example, reported tax expenditures do not necessarily translate into a one for one impact on revenues). Notwithstanding, it is suggested that the matter of tax expenditures be deferred for further consideration/study rather than simply excluded from the equation. We would agree with issuing an Exposure Draft addressing Revenue from Non-Exchange Transactions, subject to noting that tax expenditures will be dealt with in a separate ITC (incorporated into the Committee's work-plan, with the appropriate milestones), and that for the purpose of this exposure draft, are being treated as foregone revenue. This would permit the Committee to move forward with the Exposure Draft in a timely manner, while providing a framework for addressing the difficult area of tax expenditures.

**Appropriations, paragraph 4.2 and 4.3, page 41.**

There is some concern as to whether appropriations are appropriate for inclusion in this context, as appropriations are the legislative authority (law) which authorizes an entity to incur expenditures. Within the context of legislative authorities, "central authorities/agencies" may apply additional restrictions and controls, further circumscribing the authority granted by Parliament or even withholding that authority until particular conditions are met or events occur. Additionally, program legislation may in itself authorize expenditures.

Appropriations are not the transfer of assets, per se; rather, they are the granting of commitment and spending authority.

In this regard, it may be appropriate to engage one or more legislative council or others with expertise in the area of the granting of business of supply.

We hope that you find our input useful in your deliberations.

Regards,

[Original signed by Anthony Ariganello.]

Anthony Ariganello, B.Comm, CGA  
President and CEO