



RATES DEBTORS AND FINANCIAL INSTRUMENTS

THE PROBLEM

AASB 132.AG12 states as follows:

"Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets. Accounting for income taxes is dealt with in AASB 112 Income Taxes. Similarly, constructive obligations, as defined in AASB 137 Provisions, Contingent Liabilities and Contingent Assets, do not arise from contracts and are not financial liabilities."

Council rates are a tax levied pursuant to the various Local Government Acts around Australia - certainly, they are not contractual.

Accordingly, they would appear to be excluded from the definition of a financial asset. Yet they can be "factored" - although very few Councils do, because it can impair their ability to sell the land for non-payment of rates.

ACTION SO FAR...

We forwarded an email query to the Technical Service of the Institute of Chartered Accountants on 25 February 2005, and received an acknowledgement on 1 March 2005. Since then we have received no further information, and have forwarded a follow up on 9 May 2005.

We will keep you posted.

THE SCOPE OF THE PROBLEM

This interpretation would affect *all* amounts due arising from a statutory process, including:

- *ad valorem* rates, whether minimum, base amounts or rate in the dollar
- "annual" charges, based on the availability of a service (e.g. domestic waste, etc)
- "service" charges, based on the actual usage of a service (e.g. trade waste, excess water)
- poll taxes (as applied in the Northern Territory)
- penalties for late or non-payment, whether described as fines, interest or otherwise
- unpaid contributions by developers
- co-payments or moieties for (e.g.) kerb & gutter, etc

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They may not represent the best practice for your Council, which should be determined by consultation between the Council's officers and Auditor.

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