



ACCOUNTING FOR CROWN REVENUE

As part of the process of introducing accrual accounting to the Budget Sector, a separate reporting entity known as the "Crown" has been created. This is referred to in the Budget Papers and also in the Treasury draft Technical Paper "Financial Management for Inner Budget Sector Entities" which was issued in March 1991.

Under the new Budget Sector reporting framework, the financial statements of the individual agencies only reflect the resources and transactions that are subject to their control and for which they are directly accountable.

All other financial resources not attributable to a particular agency but are the overall responsibility of the Government are to be reported by the Crown. Included in these other resources is a substantial proportion of the State's revenue collections which include all taxes, fines and regulatory fees as well as revenues derived from Crown assets and Crown commercial activities.

The creation of the Crown as a separate reporting entity requires the establishment of specific policies and procedures for the accounting and reporting of Crown revenue by those agencies which are responsible for its collection. Those policies and procedures are set out in the attached document and have been developed in consultation with the relevant agencies.

The broad revenue recognition policy adopted by the Treasury in respect of taxes, fines and regulatory fees is as follows:

- Government-assessed revenues are to be recognised at the time the assessments are issued.
- Taxpayer-assessed revenues are to be recognised when the funds are received by the Crown revenue collecting agency.

Other forms of Crown revenue are to be accrued when earned if the monetary amounts can be determined reliably. Otherwise, they are to be accounted for on a cash receipts basis.

The above policies are consistent with the revenue recognition criteria as stipulated in Statement of Accounting Concepts SAC4 "Definition and Recognition of the Elements of Financial Statements" including the reliable measurement test.

To provide an indication of the result of compliance or administrative effort, revenue collecting agencies are required to disclose, in the notes to their annual statutory financial statements, details of all Crown revenues collected on behalf of the Government.

The existing procedures for the monthly reporting of actual and projected Consolidated Fund cash receipts and departmental own source revenues (eg user charges) to the Budget Division of the Treasury are to continue until further notice by the Treasury.

Any requests for additional funding as a result of the implementation of the new policies and procedures should be directed to Treasury's budget officer responsible for your organisation.

All enquiries on the accounting for Crown revenue may be directed to Mark Pellowe of the Accounting Policy Branch on 9228-5349.

P Allan
Secretary

ACCOUNTING FOR CROWN REVENUE

1. DESCRIPTION AND RECOGNITION OF CROWN REVENUE

Description of Crown Revenue

- ◆ Under Statement of Accounting Concepts No. 4 "Definition and Recognition of the Elements of Financial Statements" (SAC4), "revenues" are defined as inflows or other enhancements, or savings in outflows, of service potential or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.
- ◆ Within the New South Wales public sector, the Crown revenues can be summarised into the following categories:
 - taxes, fines and regulatory fees
 - dividends and tax equivalent payments
 - Commonwealth payments to the State
 - income from Crown assets
 - asset sale proceeds
 - returns to vote of prior year
 - proceeds from winding up of government agencies
 - other minor Crown revenues
- ◆ Taxes, fines and regulatory fees are compulsory levies imposed to raise general revenue for the Government as a whole and do not relate to the provision of specific goods and services. Accordingly, such revenues should be reflected in the financial statements of the Crown and not the collecting agency. While the collecting agency can influence at the margin the level of revenue collected by the extent and quality of its compliance effort, the actual level of revenue is largely outside the agency's control and reflects principally the Government's decision on the tax base and tax rates.
- ◆ Dividends and tax equivalent payments received from State Owned Corporations, statutory bodies and other entities are Crown revenues. The administration of these revenues is the responsibility of the Treasury and therefore the recognition and recording of these revenues are covered in the internal procedures of the Treasury and are outside the scope of this Circular.
- ◆ All payments included in Commonwealth Budget Paper No. 4, "Commonwealth Financial Relations with Other Levels of Government", whether specific or general purpose, are Crown revenues administered by the Treasury except for payments which are not transferred to other agencies via a corresponding Consolidated Fund allocation. Examples of these exceptions are payments to Non-State schools and Universities and Local Government Financial Assistance Grants. The Commonwealth views the State as merely acting as its agent in the cases noted as exceptions. Any Commonwealth monies other than user charges directly received by agencies are to be returned to the Crown.

- ◆ Income is derived from a range of Crown assets. This type of income includes:
 - Interest derived from surplus funds invested with the NSW Treasury Corporation and the contracting banks and from working capital advances to departments and other agencies.
 - Income from loans advanced through the Rural Assistance Authority and other agencies on behalf of the Crown.
 - Any increment/decrement arising from the monthly revaluation of the Crown's pool of invested funds as determined by the Treasury Corporation.
 - Rental income from lease agreements for use of Crown land and buildings.
 - Mining royalties received from the exploitation of Crown owned minerals.
- ◆ Asset sale proceeds are derived from a share of an agency's asset sale proceeds and from the sale of Crown assets.
 - Treasurer's Directions 469.01 to 469.10 require the net proceeds from the sale of assets by budget sector agencies to be shared equally between the selling agency and the Crown. In addition, some special requirements are to apply to sales by non-budget sector agencies.
 - The sale of Crown land by the Department of Conservation and Land Management (other than the Land Development Working Fund).
 - The sale of other Crown controlled assets eg multi-occupancy buildings.
- ◆ Revenue derived from the commercial activities of the Crown which currently include -
 - The Crown Lands Homesites Program administered on behalf of the Crown by the Department of Housing.
 - The Land Development Working Fund administered on behalf of the Crown by the Department of Conservation and Land Management.
 - Structured financing activities arranged by the Treasury Corporation on behalf of the Crown.
 - Property Services Group property management/development activities.
 - Insurance Ministerial Corporation.
 - Off-budget long service leave pool.
- ◆ Returns to vote are Crown revenue. Separate Treasury Circular will be issued advising agencies of the treatment of returns to vote.

Criteria for Recognition of Revenues

- ◆ A Crown revenue shall be recognised in the operating statement of the Crown, in the determination of the result for the reporting period, when and only when:
 - it is probable that the inflow or other enhancement or saving in outflows of service potential or future economic benefits will eventuate; and

- the inflow or other enhancement or saving in outflows of service potential or future economic benefits can be measured reliably.

The above policy is consistent with the revenue recognition criteria set out in SAC4, "Definition and Recognition of the Elements of Financial Statements".

2. SPECIFIC REVENUE RECOGNITION POLICIES

The following specific revenue recognition policies for Crown revenues are based upon the principles established in SAC4.

Taxes, Fines and Regulatory Fees

- ◆ The requirement of SAC4 that revenue be recognised when it is probable that the inflow or other enhancement or saving in outflows of service potential or future economic benefits will eventuate means that theoretically it is acceptable to recognise a tax, fine or regulatory fee at the point in time at which the economic or other activity, upon which the charge is based, occurs. For example all land tax revenue could be brought to account at midnight on 31 December since land tax is based on land holdings at that time. Similarly, it is conceptually supportable to bring to account a speeding fine at the time the ticket is issued by a police officer to a motorist.
- ◆ However, it is generally not appropriate to recognise taxes, fines and regulatory fees at the point in time at which the economic or other activity takes place because SAC4 requires that the inflow etc be capable of being measured reliably. There is a certain degree of subjectivity in determining what "measured reliably" means. The specific recognition policies for Crown revenue are determined on the basis of both reliable measurement and practicality. To take the example of land tax, it could be argued that most or all of the potential land tax collections can be brought to account as revenue in the Crown's accounting system immediately after the 31 December midnight assessment date by estimating collections based on prior years' collections and current year's economic conditions. However, the more reliable approach is to bring to account land tax at the time the land tax assessment is issued to the taxpayer. The use of estimations for Crown revenue measurement is generally not favoured by the Treasury.

- ◆ Land tax is collected through the issue of an assessment ie it is a government-assessed tax. Some of the other types of taxes, fines and regulatory fees are self-assessed by the taxpayer with compliance being effected by the collecting agency through audit. In the case of taxpayer-assessed taxes, it is considered that the revenue can only be measured reliably upon receipt of the cash from the taxpayer.

In summary, the appropriate revenue recognition policy for taxes, fines and regulatory fees is as follows:

- **Government-assessed taxes, fines and regulatory fees are to be recognised at the time the assessments are issued**
- **Taxpayer-assessed taxes and regulatory fees are to be recognised when the funds are received by the Crown revenue collecting agency.**
- ◆ Fines and/or penalties are often imposed as part of the strategy to maximize the collection of the primary tax. For a number of taxes, the Chief Commissioner (or equivalent) is empowered by legislation to waive partially or wholly a fine or penalty previously imposed. Where such a waiver, often referred to as a remission, occurs, the appropriate accounting treatment is to debit the amount waived to the relevant revenue account and not to treat it as a bad debt write off.

Income from Crown Assets

- ◆ Interest income from Crown investments.
Interest income is recognised on an accrual basis.
- ◆ Income from Crown land and buildings

Revenue should only be brought to account at the time when the Crown has a valid claim against the tenant for the use of the property. The claim will generally arise progressively as the tenant uses the property.

Share of Agencies' Asset Sale Proceeds

- ◆ The share of an agency's asset sale proceeds should be brought to account as revenue by the Crown at the time it receives the proceeds or notification from the agency that a valid claim has been established against the purchaser (eg execution of a contract), whichever first occurs.

3. **APPLICATION OF SPECIFIC REVENUE RECOGNITION POLICIES**

Listed below are descriptions of a sample of significant Crown revenues and details of the application of the specific revenue recognition policies outlined above.

◆ Payroll tax

Employers subject to payroll tax in New South Wales are required to submit to the Office of State Revenue the tax due for a particular month by the seventh day of the following month. A final assessment is issued after 30 June each year and the final payment for the financial year is due on 21 July. If a monthly payment is not received on time, an assessment notice is issued. These assessments are incorporated into the debtors' administration system which ages debtors and provides the medium for credit control.

- The revenue is brought to account as and when cash is received.
- Additional revenue is recognised in respect of assessments issued after the seventh day following the end of the previous month with a corresponding amount being recorded as a debtor.
- An estimate is made, based on prior experience, of the assessments issued for which there is no underlying liability to pay tax eg the assessed did not trade during the assessment period.
- Based on the above estimate, a provision for doubtful debts is created.

◆ Land tax

Land tax is due on all taxable properties held at midnight on 31 December. It is a government-assessed tax.

- Revenue is recognised at the time an assessment is issued.
- A provision for doubtful debts is created and reviewed on a regular basis.

◆ Stamp duty

Stamp duty is a taxpayer-assessed tax and in practice it is very difficult to estimate stamp duty revenue for a particular month.

- Revenue is recognised on a cash receipts basis.
- Assessments issued for additional duty following a subsequent review of the application forms or returns should be brought to account as revenue at the time the assessment is issued.

◆ Liquor licence fees

Liquor licence fees are assessed annually based on purchases made by licensed premises and registered clubs from licensed wholesalers, brewers and vignerons. Liquor assessment instalment notices are issued in December each year, with the amount to be paid in two equal instalments by 15 January and 15 May each year.

- Revenue is recognised at the time an assessment is issued.
- A provision for doubtful debts is probably not necessary because of a very low incidence of default.

◆ Poker machine tax

Poker machine tax is a taxpayer-assessed tax paid quarterly by registered clubs. The tax is based on the profit generated by each poker machine.

- Revenue is recognised on a cash receipts basis.
- An assessment issued as a result of a review of the taxpayer-assessed return should be brought to account as revenue at the time the assessment is issued.

◆ Amusement device licence fee

Approved amusement device fee is a taxpayer-assessed tax similar to poker machine tax except that it is based on turnover rather than profit.

- Revenue is recognised on a cash receipts basis.
- An assessment issued as a result of a review of the taxpayer-assessed return should be brought to account as revenue at the time the assessment is issued.

◆ Fees on motor vehicle ownership and operation

The major fees in this category are weight tax, drivers' licence fees and vehicle registration and transfer fees. These fees are collected primarily by the Roads and Traffic Authority through the generation of advices which act as a reminder to renew. The existing accounting system of RTA is not designed in such a way to enable the recognition of revenue on an accrual basis. As the difference between recognition on an accrual and cash basis is not material, the following policy is to be adopted.

- Revenue is recognised on a cash receipts basis.

◆ Fines - motor traffic

Traffic fine notices are raised by police officers and processed on behalf of the NSW Police Service by the Infringement Processing Bureau. The offender has a standard period in which to pay. If the fine is not paid in the standard time, the debt is passed on to the Department of Courts Administration for collection or the Roads and Traffic Authority for possible licence cancellation.

The appropriate accounting treatment, under the general principles established for the recognition of Crown revenue, is to bring to account motor traffic fines as revenue at the time the infringement notice is issued. In determining the amount of revenue to be recognised, an allowance should be made for a small percentage of the notices which are expected to be waived based on past experience.

However, for the Infringement Processing Bureau to account for revenue in this way would require substantial changes to its current administration system. Therefore, as an interim measure, motor traffic fines can be recorded on a cash basis until the requirements of accrual accounting are incorporated into the Bureau's future system updates, after which time the fines should be brought to account as revenue at the time the infringement notice is issued.

- Revenue is recognised on a cash receipts basis as an interim measure.

◆ Fines - local courts

A defendant normally has 28 days in which to pay a fine imposed by the Court. The appropriate accounting treatment under accrual accounting is to bring to account as revenue the fine at the time it is imposed. However, this cannot be done under the current accounting system.

The Department of Courts Administration is presently reviewing the computerization of the Courthouse accounting systems. One of the user specifications of the new system is to record revenue from fines at the time the fine is imposed. Therefore, local court fines are to be recorded on a cash basis until the new system is in place, after which time local court fines should be brought to account as revenue at the time the fine is imposed by the Court.

- Revenue is recognised on a cash receipts basis.

◆ Crown land - lease income

The Department of Conservation and Land Management collects, on behalf of the Crown, rental from a range of different types of leases issued over the use of Crown land. Invoices are raised for annual rental charges on all lease agreements on a cyclical billing system. Three month credit terms are generally provided from the due date. Lease rentals are due and payable once an invoice is raised. However, the amounts to be received should only be brought to account as revenue at a time when the Crown has a valid claim against the tenant for rent in respect of the property. This claim will arise with the elapse of time as the tenant uses the rental property. In practice, this means that rental income should be brought to account in equal amounts over the accounting period covered by the rental charge.

- At the time the invoice is issued, a debtor should be created and a credit entry should be made to a deferred revenue account.

- The amount in the deferred revenue account is to be progressively recognised as revenue over the term of the lease.

◆ Mining and mineral royalties

Mining royalties relating to coal mining activities are due 21 days after the end of the month in which the relevant coal sales took place. The mining company submits a return detailing coal sales and remits the appropriate funds with the return. If the funds are not received a debit note is issued. Regular audits are performed of the returns which may result in an assessment for further royalty payments. A similar system exists for mineral royalties except that, because of the much lower volumes involved, a single annual return and payment is due on 28 July for the previous 12 months. The system is very similar to payroll tax and therefore similar revenue recognition policies should be adopted.

- Revenue is recognised as and when cash is received.
- Additional revenue, in respect of assessments issued for further royalties as a result of an audit, is to be brought to account at the time the assessment is issued.
- A provision for doubtful debts is to be created and reviewed on a regular basis.

4. **CROWN REVENUE REPORTING PROCEDURES**

◆ Introduction

Crown revenue is collected by agencies on behalf of the Crown. The collecting agency has full responsibility for the efficient administration and collection of Crown revenue. The Treasury is responsible for aggregating the financial information maintained by these collecting agencies on behalf of the Crown. Under a cash accounting regime, the aggregation of such information is relatively simple. The voucher accompanying the remittance of collections to the Treasury acts as the posting medium to the general ledger since the definition of revenue under a cash reporting regime is cash collections.

Under accrual accounting, it is not appropriate to maintain such a simple reporting structure for Crown revenue. This is because cash management requirements are such that cash needs to be remitted to the Treasury on a regular basis and the frequency of such remittance will not change under an accrual accounting regime. However, it is neither practical nor desirable for a collecting agency to send in, and the Treasury to post to the Crown general ledger, accrual information with the same frequency as the remittance of cash. Therefore, a new reporting system is required.

◆ Reporting of Crown Revenues to Treasury - New System

Agencies collecting Crown revenue will continue to remit funds to the Treasury at the same frequency as at present. As outlined in the draft Treasury Technical Paper, "Cash Management and Banking Systems," (November 1991) the funds collected will be deposited into the Treasurer's Bank Account.

It will continue to be a requirement that a "Statement of Collections" be sent to Treasury to coincide with a deposit to the Treasurer's bank account. However, for those agencies which collect major Crown revenues which are accounted for on an accrual accounting basis, they will also be required to supply the Treasury with monthly journals for posting to the Crown general ledger.

There are cases within the budget sector where Crown revenue is collected by one agency on behalf of another agency. Such revenues are to be reported on by the principal agency on a gross basis together with details of the costs deducted by the collecting agency (see Treasury Circular G1 992121 "Collection Arrangements for Crown Revenue").

The new system can best be illustrated by an example. Assume that agency X collects a tax on behalf of the Crown by issuing assessments on the 15th day of each month and the taxpayer has until the 7th day of the following month to pay. The facts on collections for a particular month are as follows:

- the balance of the previous month's assessments unpaid at the beginning of the month is \$400,000.
- the value of assessments issued on the 15th day of the month is \$1,000,000.
- Cash receipts during the month are \$1,050,000 of which \$150,000 is the Crown's share of asset sales and \$900,000 is tax collections.

The flow of documents to the Treasury as a result of these transactions is as follows:

- During the month a series of regular "Statement of Collections" is sent to Treasury as funds are deposited to the Treasurer's bank account. Under the previous reporting structure these would be coded with the revenue type. Under the new reporting structure the following is posted

Dr	Treasurer's Bank Account	1,050,000	
Cr	Agency X - Crown revenue		900,000
	Suspense Account		
Cr	Revenue - asset sales		150,000

- 2 working days after the end of the month, the collecting agency sends to the Treasury the following journal;

Dr	Debtors - balance at end of month	500,000	
Dr	Remittances to Treasury	900,000	
Cr	Debtors - balance at beginning of month		400,000
Cr	Tax revenue		<u>1,000,000</u>
		<u>1,400,000</u>	<u>1,400,000</u>

The "Remittances to Treasury" amount should be equal and opposite to the "Agency X - Crown revenue suspense account". The agency will be required to check that that is the case before submitting the journal to the Treasury. The posting of this journal by the Treasury to the Crown ledger will result in the clearing of the suspense account built up during the month and the recording of accrual based information.

The example above is a very simple one and in practice the journal may consist of more accounts eg write-offs and unearned income. The exact format of the reporting journal is to be designed by the relevant collecting agency in consultation with the Treasury. Appendix A shows the journal agreed with the Office of State Revenue for reporting payroll tax.

The system of month. end journals is for those major Crown revenue heads which are to be accounted for on an accrual basis only. The revenue heads which fall into this category are listed below:

<u>Collecting Agency</u>	<u>Revenue Head</u>
<ul style="list-style-type: none"> • Office of State Revenue 	Payroll tax Land tax Stamp duty - First home purchase - Contracts and conveyances - Insurance policies - Loan securities - Share transfers - Vehicle registrations - Financial institutions duty - Hiring arrangements - Leases - Adhesive stamps - Deeds arrangements - Other
<ul style="list-style-type: none"> • Chief Secretary's Department • Department of Conservation and Land Management • Department of Mineral Resources 	Liquor licence fees Rentals from Crown leasehold estate Mining royalties

Since 1 July 1992, the Treasury has been trialling the reporting of payroll tax, land tax and first home purchase on the basis described above. The remaining taxes will be brought into the new system on a progressive basis during the current year.

In addition, the following two major Crown revenue heads will report on the new basis once the possible changes to the current administration systems have taken place:

<u>Collecting Agency</u>	<u>Revenue Head</u>
NSW Police Service	Fines - Motor traffic
Department of Courts Administration	Fines - Local courts

The Office of State Revenue will report each of the stamp duty revenue heads. Given the revenue recognition policies established for Crown revenue and the concept of materiality, not all of the individual revenue heads will be accounted for on an accrual basis.

The Treasury will only open one suspense account for each agency. This suspense account will record all the collections from revenue which is to be accounted for on an accrual basis. For example, there will be one OSR suspense account which will record all collections of stamp duty, payroll tax and land tax. Therefore, the suspense account will be cleared by a large number of journals. Other Crown revenue collected by OSR, which is accounted for on a cash basis, will not be coded to the suspense account but will be coded directly to the appropriate revenue account.

Consideration has been given as to whether all Crown revenue should be accounted for on the basis of posting to a suspense account. The argument for adopting this approach is that it reduces the volume of journals which have to be posted during the month. However, it has been decided that for all Crown revenue heads, which are not specifically noted above, the processing of revenue information will continue as before ie the "Statement of Collections" will be used as the medium for posting revenue information. The reasons for rejecting the month end journal/suspense account approach for all agencies are firstly that the benefits of reducing the volume of processing during the month will be offset by the risks inherent in having a large number of suspense accounts to clear a month end and secondly, that the agencies which will be reporting under the month end journal/suspense account format are responsible for the collection of a substantial proportion of Crown revenues and therefore there will be a reduction in processing anyway.

◆ Hypothecation

In some cases, Crown revenue collections are hypothecated to a particular agency. The two major examples of this are weight tax collected by the Roads and Traffic Authority and fire brigade levies collected by NSW Fire Brigade. Special accounting arrangements exist with both agencies for reporting these revenues to the Crown.

5. RESPONSIBILITY FOR THE ADMINISTRATION OF CROWN REVENUE

The Treasury is responsible for the aggregation of Crown revenue information maintained by individual collecting agencies. The collecting agencies will continue to be fully responsible for the administration and control of Crown revenues even though such revenues will not be brought to account as their own in the financial statements.

Accounting policies and procedures for the Crown Lands Homesites Program and the Land Development Working Fund have been determined with the Department of Housing and the Department of Conservation and Land Management. Arrangements for the reporting of other Crown commercial activities are currently being finalized with the other agencies concerned.

For some agencies, the collection of Crown revenues is a significant part of the operations. Where Crown revenue is material in relation to the operations of an agency, the financial statements of that agency should include in the notes to the annual statutory financial statements details of the amount of revenue collected on behalf of the Crown during the financial year for each major class of revenue so as to provide an indication of its compliance or administrative effort. With respect to taxes, fines and regulatory fees, details of all remissions and write-offs should also be disclosed.

APPENDIX A - SAMPLE STATEMENT OF CROWN REVENUE

STATEMENT OF CROWN REVENUE

DEPARTMENT: Office of State Revenue
 REVENUE HEAD: Payroll Tax
 PERIOD: July 1992

Description	Account	Month		Year to Date	
		Dr	Cr	Dr	Cr
Remittances to Treasurer's bank account		X			
Debtors at period end		X			
Debtors at period start			X		
Write offs: tax (expense)		X		X	
Write offs: penalties (expense)		X		X	
Write backs (revenue)		X		X	
Tax revenue			X		X
Penalties (revenue)		-	X		X
		<u>X</u>	<u>X</u>		