

3010 Taxation Revenue

A. Overview

Taxes are economic resources compulsorily paid or payable to government in accordance with laws and/or regulations normally established to provide revenue for public purposes to the government. Tax transactions are non-exchange transactions in that the government receives taxes without giving anything in exchange.

B. Accountability

Ministries are responsible for maintaining source documents, working papers and files supporting taxation revenue for internal and external audit and review.

Ministries are required to:

- establish and maintain accounting systems to collect, record and report information on their tax revenue;
- establish and maintain adequate internal control systems to ensure the accuracy and reliability of tax revenue information and reports; and
- record transactions promptly and accurately.

C. Procedures

Taxes should be recognized as assets and revenue when they meet the definition of an asset ([Section 1000 Assets](#)), are authorized and the taxable event occurs.

A tax is considered authorized when the effective date of the tax has passed and the related legislation, regulations or by-laws have been approved by the legislature.

It is possible for taxes to be considered authorized through legislative convention in advance of approval of the tax by the legislature. Legislative convention comprises a well-established practice that clearly establishes the legislature's acceptance of the practice and government's right to levy and collect a tax. Further guidance on legislative convention is outlined in the Public Sector Accounting Handbook PS 3510 Taxation Revenue. An example of legislative convention is the practice of changing the Provincial Sales Tax rate on the date of announcement (e.g. Budget Speech), in advance of the legislation changes being approved by the legislature.

Examples of taxable events:

- Income tax - the earning of taxable income during the taxation period by the taxpayer.
- Property tax - the period for which the tax is levied because the tax is levied on a periodic basis.

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C. Procedures *(continued)*

- Sales or commodity tax - the purchase or sale of taxable goods or services during the taxation period.

Taxation revenues are recorded on the accrual basis when there is an appropriate basis of measurement and a reasonable estimate can be made of the amount involved.

For corporate and personal income taxes, cash received from the federal government, adjusted for assessment data from the federal government when it provides a more reliable estimate, is used as the basis for recording the tax revenue.

If the government expects that the tax is unlikely to be collected at the time that it is imposed, the tax revenue is not recorded.

Penalties and interest collected on taxes are recorded as revenue separate from tax revenue.

Costs and commissions paid to administer or collect a tax are recognized separately as an expense and not as a reduction to the tax revenue.

Professional judgment is applied in determining whether a payment or reduction in taxes payable is classified as a transfer through the tax system or tax concession.

Transfers through the tax system are financial benefits provided or determined through a tax system that are made for a purpose other than the relieving of taxes previously paid or currently owing. Transfers made through the tax system are recorded as expenses and not as a reduction in tax revenue.

Tax concessions are preferential provisions of the tax law that are only available to taxpayers and can include exemptions, deductions, deferrals and credits that affect the level and distribution of tax. Tax concessions are recorded as a reduction of the related tax revenue.

C1. Throughout the Year

For simplicity, taxation revenue is typically recorded as cash is received throughout the year.

Example 1.1

Ministry X receives \$180,000 for liquor tax revenue on August 17.

Debit	100000	General Revenue Fund Bank Account	180,000	
Credit	414300	Liquor Tax		180,000

* journal entry to record bank deposit and liquor tax revenue

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C. Procedures *(continued)*

C2. Quarter end

Record accruals for significant taxation revenue earned, based on the occurrence of taxable events, but not yet received at quarter end. For purposes of quarter-end accruals, significant is defined to be amounts in excess of \$1 million.

Quarterly accruals are recorded to a specific 498xxx range of accounts. Ministries reverse the quarterly accruals in the following month. Refer to [Appendix B - General Revenue Fund Quarter-end Procedures](#) for a list of quarterly accrual natural accounts and for guidance on recording journal entries that reverse in the following month.

Example 2.1

Ministry X earns \$8,200,000 of fuel tax revenue, based on fuel purchases, for which cash has not been received at quarter end.

Debit	107600	Accrued Accounts Receivable – General (Not for Use at Year End)	8,200,000
Credit	498104	Accrued Revenue – Fuel Tax (Not for Use at Year End)	8,200,000

* journal to record quarterly accrual for fuel tax revenue (journal is reversed the following month)

C3. Year end

Record accruals for taxation revenue earned, based on the occurrence of taxable events, but not yet received at March 31.

Example 3.1

Ministry X earns \$190,000 of tobacco tax revenue for which cash has not been received at March 31.

Debit	107000	Accounts Receivable	190,000
Credit	414700	Tobacco Tax	190,000

* journal entry to record year end accrual for tobacco tax revenue

Refer to guidance in [Section 1200 Accounts Receivable](#) for recording accounts receivable and taxation revenue.

Refer to guidance in [Appendix A - General Revenue Fund Year-end Procedures and Schedules](#) for recording valuation allowances for taxation revenue and related accounts receivables that are deemed to be uncollectible.

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D. Definitions

Legislative Convention comprises a well-established practice that clearly establishes the legislature's acceptance of the practice and government's right to levy and collect a tax.

Tax Concessions are preferential provisions of the tax law that are only available to taxpayers and can include exemptions, deductions, deferrals and credits that affect the level and distribution of tax.

The **Taxable Event** is the event that the government or legislature has determined will be subject to taxation.

Transfers Through the Tax System are financial benefits provided or determined through a tax system that are made for a purpose other than the relieving of taxes previously paid or currently owing.

E. References

[1000 Assets](#)

[1200 Accounts Receivable](#)

[Appendix A - General Revenue Fund Year-end Procedures and Schedules](#)

[Appendix B - General Revenue Fund Quarter-end Procedures](#)

Public Sector Accounting Handbook

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