

TREASURER'S DIRECTIONS

ACCOUNTING – INCOME

Section A5.2 : Territory Income

STATEMENT OF INTENT

Information on Territory income enables users of financial statements to identify inflows of Territory financial resources and shows Agency responsibilities in relation to the management of Territory income on behalf of the Government. This Section explains what Territory income is and when it should be recognised.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Territory Income

- Territory income includes revenue and gains that an Agency manages on behalf of the Government as specified in the Territory Budget and in Appendix A.
- Territory income is to be recognised and recorded in the Central Holding Authority.

Territory Taxes

- Territory taxes are to be recognised and recorded as Territory income at the earlier of the receipt of a taxpayer self-assessment, or the issue of an assessment by the collecting Agency.

Regulatory Fees and Fines

- Regulatory fees in the nature of Territory income are to be recognised and recorded as Territory income when control of the regulatory fees is obtained.
- Fines are to be recognised and recorded as Territory income when control over the fine is obtained.

Grants and Subsidies

- Non-reciprocal grants and subsidies in the nature of Territory income are to be recognised and recorded as Territory income when the Government has control of the grant or subsidy.
- Reciprocal grants in the nature of Territory income are to be recognised and recorded as Territory income when payment has not been received in advance and when performance under the grant has occurred.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

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AUTHORITIES

Section 5, Financial Management Act

REFERENCES

AAS 29	Financial Reporting by Government Departments
AASB 118	Revenue
AASB 1004	Contributions
	Framework for the Preparation and Presentation of Financial Statements
	<i>Related Treasurer's Directions:</i>
F2.2	Framework – <i>Working for Outcomes</i> : Central Holding Authority
A2.1	Accounting – Assets : Overview
A2.7	Accounting – Assets : Receivables
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A5.3	Accounting – Income : Agency Income
C3.1	Cash Management – Transaction Management : Receipting
	Part 3, Section 8 – Tax Equivalent Regimes

WHAT IS TERRITORY INCOME ?

A5.2.1	Territory income includes revenue and gains that an Agency manages on behalf of the Government as specified in the Territory Budget and in <u>Appendix A</u> .
A5.2.2	Territory income is to be recognised and recorded in the Central Holding Authority.

- (i) Territory income (revenue and gains) is recognised and recorded in the Central Holding Authority (CHA) and is managed by Agencies on behalf of the Government. In practice, Territory income includes those revenues and gains specified as Territory income in the Territory's Budget (and Appendix A) and includes those items that are not permitted to be paid into Agency Operating Accounts under section 6(2) of the *Financial Management Act*. Instruction and guidance in relation to Agency income is provided in Treasurer's Directions Section A5.3.
- (ii) Examples of Territory income include:
- Territory taxes;
 - regulatory fees;
 - fines;
 - Australian Government grants and subsidies; and
 - royalties.
- (iii) Unlike Agency income, Territory income is recognised and recorded in the CHA as such amounts do not increase an Agency's net assets and are not controlled by the Agency. While Territory income is not reported in the collecting Agency's financial statements, such amounts will be shown by way of note disclosure. Although most Territory income will initially be recorded in the collecting Agency's ledger, these amounts are periodically transferred to the CHA. Treasurer's Directions Section F2.2 provides further instruction and guidance in relation to the CHA, while Appendix B provides an example of the accounting treatment for Territory income.
- (iv) Agencies are responsible for the efficient and effective management of Territory income, and as such, the management of Territory income requires Agencies to undertake similar tasks to those performed for Agency income. For example, Agencies are required to forecast future Territory incomes, raise Territory income, raise debtors, collect cash and manage amounts that are due but not yet paid. Treasurer's Directions Section C3.1 provides further instruction and guidance in relation to the receipting of monies, including Territory income.
- (v) For the purposes of this Treasurer's Directions Section, the term income includes both revenue and gains. While individual categories of Territory income are explained in greater detail in this Treasurer's Directions Section, Treasurer's Directions Sections A5.1 and A5.3 provide further instruction and guidance in relation to high level income concepts and Agency income.

TERRITORY TAXES

A5.2.3

Territory taxes are to be recognised and recorded as Territory income at the earlier of:

- the receipt of a taxpayer self-assessment; or
- the issue of an assessment by the collecting Agency.

- (i) Taxes are compulsory levies imposed by Government that are designed largely to raise income to finance the delivery of public goods and services. There is usually no clear and direct link between the receipt of specific taxes and the provision of associated goods and services. Taxes include any related penalties, such as penalties for late payment.
- (ii) Examples of major types of Territory taxes include:
- payroll tax;
 - stamp duties;
 - gambling taxes; and
 - Tax Equivalent Regime (TER) receipts.
- (iii) The Government, often in legislation, sets parameters for the determination and payment of taxes. Taxes are not income of an Agency, as the Agencies responsible for levying and collecting these taxes do not control the economic benefits that are expected to flow from this income.
- (iv) The timing of the recognition of taxation revenue is dependent on the nature of the tax. For self-assessed (that is, return-based) taxes, revenue is recognised when a taxpayer's self-assessment is received. An example of a self-assessed tax is payroll tax. Where revenue is raised from an assessment issued by the collecting Agency, revenue is recognised when the assessment or amended assessment is issued. An example of an assessment based tax is conveyance duty.
- (v) Revenue arising from Tax Equivalent Regimes (TER) is recognised at the earlier of the receipt of a self-assessment from the taxable entity or the issue of a tax assessment. In practice, the Government has a right to receive TER revenue from taxable entities at the end of the reporting period (that is, 30 June for most entities). Treasurer's Direction Part 3, Section 8 provides further instruction and guidance in relation to the TER entities and associated payments.
- (vi) Revenue from compulsory taxes, including Territory taxes, are not subject to the Goods and Services Tax (GST) and accordingly should be recognised exclusive of GST. Additional instruction and guidance in relation to GST and its application to Territory entities may be found in Treasury GST Circulars.

REGULATORY FEES AND FINES

A5.2.4

Regulatory fees in the nature of Territory income are to be recognised and recorded as Territory income when control of the regulatory fees is obtained.

- (i) Regulatory fees are primarily Territory rather than Agency income and are usually associated with the granting of a permit or privilege, or with the regulation of a specified activity. Regulatory fees in the nature of Territory income are specified in the Territory Budget or Appendix A as such. Treasurer's Directions Section A5.3 provides further instruction and guidance in relation to Agency income and receipts to Agency Operating Accounts.
- (ii) Regulatory fees are instruments of public policy used by the Government to regulate certain activities and are usually determined by legislation and/or regulation. Examples of regulatory fees include: licence charges, permit fees, mining fees and building permit fees.
- (iii) Control of revenue from regulatory fees is normally obtained when the fees are received (that is, receipt of cash). In certain cases, control over a regulatory fee (and the recognition of revenue) may occur prior to the receipt of cash. For example, where a regulatory fee is due and receivable and it is more probable than not that the regulatory fee will be received, revenue and a corresponding receivable (asset) would be raised. Regulatory fees in the nature of Territory income are not subject to GST where determined as such under Division 81 of the GST legislation.
- (iv) Treasurer's Directions Section A2.1 provides further instruction and guidance in relation to the recognition of assets, while Treasurer's Directions Section A2.7 provides instruction and guidance in relation to receivables.

A5.2.5

Fines are to be recognised and recorded as Territory income when control over the fine is obtained.

- (i) Fines are civil and criminal penalties that the Territory imposes on law breakers and are regarded as Territory income. Fines exclude penalties imposed by tax authorities, except where such penalties include a component imposed by the judicial system. Examples of fines are speeding fines, court fines and fines issued by way of an infringement notice.
- (ii) Fines are recognised as revenue when control over the fine is obtained. Where it is more probable than not that a fine will be paid, revenue (and a corresponding receivable) would be recognised when the fine is issued. However, where there is significant uncertainty as to whether a fine will be paid, revenue associated with the fine would not be recognised until a cash payment is received. In practice, analysis of the past payment history for fines would be used to determine an appropriate revenue recognition point.
- (iii) Fines will be measured at the fair value receivable and are GST exempt. In most cases, fair value will be the face value of the fine.

GRANTS AND SUBSIDIES

A5.2.6

Non-reciprocal grants and subsidies in the nature of Territory income are to be recognised and recorded when:

- control of the grant or subsidy, or control of the right to receive the grant or subsidy, is obtained;
- it is probable that the economic benefits of the grant or subsidy will flow to the Government; and
- the grant or subsidy can be measured reliably.

- (i) Although most grants and subsidies in the nature of Territory income are received from the Australian Government, these grants and subsidies may be collected by Agencies on behalf of the Government. Treasurer's Directions Section A5.3 provides instruction and guidance in relation to grants and subsidies in the nature of Agency income.
- (ii) Australian Government grants that are treated as Territory income include:
- Goods and Services Tax (GST) revenue;
 - other general purpose revenue;
 - certain specific purpose revenue (for example, National Disaster Relief Arrangement revenue); and
 - Capital Grants other than those specified as Agency income and those grants relating to non-Government assets.
- (iii) The point of time when grants and subsidies will be recognised as revenue will depend on the nature of the grant or subsidy as either non-reciprocal or reciprocal. Non-reciprocal (or non-exchange) grants and subsidies are contributions received from which the contributor (grant provider) does not directly receive approximately equal value in return for providing the grant. For example, general purpose grants and GST revenue are received in the form of untied, non-reciprocal contributions from the Australian Government.
- (iv) Although the grant or subsidy provider may impose restrictions in respect of the manner and/or timing in which a grant may be used, this does not of itself create an obligation on the Territory to directly provide value in exchange. As such, many grants and subsidies received by the Territory will be non-reciprocal in nature.
- (v) Non-reciprocal contributions, other than contributions by owners, are recognised as revenue when: control over the assets comprising the contributions is obtained; it is probable that the economic benefits associated with the contributions will flow to the Government, and the contributions can be measured reliably. Control is normally obtained on receipt of the grant or subsidy (that is, receipt of cash).
- (vi) In most cases, non-reciprocal grants and subsidies in the nature of Territory income are not subject to GST. However, certain grants and subsidies may be subject to GST where the grant or subsidy is considered to be a supply. Instruction and guidance in relation to GST may be found in Treasury GST Circulars.

A5.2.7

Reciprocal grants in the nature of Territory income are to be recognised and recorded as Territory income when payment has not been received in advance and when performance under the grant has occurred.

- (i) A grant is reciprocal when the Territory is obliged to return similar value in exchange directly to the grant provider. Reciprocal transactions are also known as exchange transactions. A reciprocal transfer occurs where, for example, assets are provided to the Territory on the condition that the Territory renders particular services directly to the provider of the grant, and if the services are not rendered, the grant is required to be repaid to the provider.
- (ii) Reciprocal grants typically have an underlying agreement between the grant recipient and provider that specifies grant terms, conditions and requirements. In particular, reciprocal or exchange transactions are often characterised by a legally enforceable requirement (that is expected to be practically enforced) to repay or return some or all of the grant where performance under the grant agreement does not occur. Grant terms, conditions and requirements will also assist in determining when grant revenue should be recognised.
- (iii) In situations where a grant has not been paid in advance, revenue arising from reciprocal grants will be recognised when performance under the grant has occurred (for example, delivery of goods and/or services has occurred). However, where a reciprocal grant is received in advance of performance, an unearned revenue (liability) equivalent to the unearned portion of the grant will be recognised. When or as performance occurs, the total amount or portion of the unearned revenue that has been earned would be recognised as revenue. In practice, it is recognised that a reliable assessment of the unperformed portion of a grant may be difficult to make and, as such, unearned revenue will only be raised where material and where these amounts can be reliably measured.
- (iv) Performance under a reciprocal grant will depend on individual grant terms, conditions and requirements, and may include:
 - applicable grant eligibility criteria being met;
 - the delivery of specified goods in accordance with grant agreement; or
 - the provision of specified services in accordance with the grant agreement.
- (v) Reciprocal grants and subsidies in the nature of Territory income may or may not be subject to GST. Instruction and guidance in relation to GST may be found in Treasury GST Circulars.

ROYALTIES, RENTS AND DIVIDENDS

A5.2.8 Royalties are to be recognised and recorded as Territory income when due and receivable in accordance with the substance of the relevant agreement.

- (i) Royalties revenue is derived from the Territory's ownership of assets and includes petroleum, mining and wildlife royalties. Royalties are usually subject to agreements that specify the requirements and conditions for royalty payments (for example, the basis of calculation and timing of payments). In practice, royalties are recognised as revenue at the earlier of the receipt of a royalty self-assessment or the issue of an assessment by the relevant Government Agency or entity.
- (ii) Where a royalty agreement covers more than one reporting period, and amounts were considered to be material, revenue would be recognised on a systematic basis over the life of the agreement. In practice, material revenue amounts may be recognised on a straight line basis over the life of the agreement (unless another basis better reflects the revenue earned).

A5.2.9 Rent in the nature of Territory income is to be recognised and recorded as Territory income when due and receivable in accordance with the substance of the relevant rental or lease agreement.

- (i) Rental or lease revenue related to the use of Crown land will be recognised as Territory income. For example, Territory rental revenue would include that earned under Crown leases, Pastoral leases and mining agreements.
- (ii) Rental or lease arrangements will invariably be subject to agreements that specify the requirements and conditions over the use of the leased asset including payment details. Territory rental revenue is recognised when an amount is due or receivable under the relevant rental or lease agreement.
- (iii) Treasurer's Directions Section A3.6 provides further instruction and guidance in relation to leases, while Policy Brief – Assets Issue. 6 provides further instruction and guidance in relation to land arrangements under Part 3 and Part 7 of the *Crown Lands Act* and Part 4 of the *Pastoral Lands Act*.

A5.2.10 Dividends are to be recognised and recorded as Territory income when the Territory's right to receive the dividend is established.

- (i) The Territory holds an ownership interest in various entities, some of which provide a return on investment in the form of dividends (for example, Government Business Divisions and Government Owned Corporations).

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- (ii) In accordance with the Government's dividend policy (Policy Brief - Liabilities Issue 2: Provision for Dividends), the Territory is considered to have a right to receive a dividend from applicable entities calculated at 50% of any 30 June post tax surplus. Territory entities liable to pay dividends have no discretion to avoid the payment of dividends unless the Treasurer determines otherwise under section 36(2) of the *Financial Management Act*.
- (iii) Dividends from Territory Government entities will be recognised in the year to which they relate, and at the point of time when they become payable to the Government. In practice, a Government Business Division would recognise a liability to pay dividends (with the associated income being recognised by the Central Holding Authority) on or before the end of the current reporting period.

INTEREST INCOME

A5.2.11

Interest in the nature of Territory income is to be recognised and recorded as Territory income when earned.

- (i) Territory interest income includes interest revenue and gains. Territory interest revenue includes interest earned on Territory cash balances and Territory investments. In practice, interest revenue is recognised when control over the resulting asset is obtained (for example, the earlier of the receipt of cash or the recognition of a receivable for interest earned).
- (ii) For more complex financial instruments, interest income may also include gains (for example, unrealised gains resulting from movements in the value of certain Territory investments).

OTHER TERRITORY INCOME

A5.2.12

Other income in the nature of Territory income is to be recognised and recorded as Territory income at the earlier of the receipt of cash or the earning of income.

- (i) There may be other categories of income in the nature of Territory income that would not appropriately be classified in the categories of Territory income outlined in this Treasurer's Directions Section.
- (ii) Other income (revenue and gains) in the nature of Territory income will be recognised and recorded when it is probable that the economic benefits associated with the transaction will flow to the Territory and the income can be reliably measured. In practice, this will be the earlier of the receipt of cash or the earning of income.

SCHEDULE OF TERRITORY INCOME

Territory Taxes

- Payroll tax
- Stamp duties including those derived from property conveyances and insurance premiums
- Gambling tax including lotteries tax, bookmaker's betting tax, casino tax, gaming machine tax and wagering tax
- Tax Equivalent Regime (TER) receipts from Government Business Divisions and Government Owned Corporations
- Light vehicle registration and heavy vehicle registration

Regulatory Fees and Fines

- Regulatory fees including motor vehicle and commercial vehicle licences, exploration and pipeline licences, racing and gaming licences, permit fees, marine fees, mining fees and fire alarm monitoring fees
- Fines including speeding fines, court fines and criminal infringement fines

Grants

- GST Revenue from the Australian Government
- Other grants from the Australian Government including grants in lieu of uranium royalties and National Disaster Relief Arrangements
- Capital Specific Purpose Payments from the Australian Government for the construction of Territory Government assets

Royalties, Rents and Dividends

- Royalties including mining and petroleum royalties and wildlife royalties
- Rents including pastoral and Crown land lease and mining and petroleum rents
- Dividends from Government Business Divisions and Government Owned Corporations

Interest Income

- Interest earned on cash balances held by the CHA
- Interest earned on investments of surplus cash balances held by the CHA
- Returns from the Conditions of Service Reserve including unrealised gains resulting from movements in value of the investment

Other Income

- Unclaimed money

ACCOUNTING FOR TERRITORY INCOME – EXAMPLE

An Agency collects and manages fines on behalf of Government. Fines are Territory income as the Agency does not have control of the fines revenue collected. The journal entries to record the collection and management of this Territory income are:

Recording the Revenue

Transactions in the books of the Agency:

The Agency records revenue from fines when the fine is issued. The journal entry to record the revenue when the fine is issued is:

DR	Accounts Receivable - CHA	<i>(Increase in Asset – Balance Sheet)</i>	\$10,000
CR	Fines Revenue	<i>(Increase in Income – Operating Statement)</i>	\$10,000

Territory income is not income of the Agency. However, Territory income is initially recorded in the Agency's ledger to enable the Agency to manage Territory income for which it is accountable. To ensure that the Agency's books are not affected (that is, Agency income does not include Territory income) a liability to the Central Holding Authority is recognised. The journal entry to record this liability is:

DR	Central Holding Authority Transfers	<i>(Increase in Expenses – Operating Statement)</i>	\$10,000
CR	CHA Income Payable	<i>(Increase in Liability – Balance Sheet)</i>	\$10,000

Transaction in the books of the Central Holding Authority:

The journal entry to recognise and record the fines revenue and receivable from the Agency when the fine is issued is:

DR	Accounts Receivable	<i>(Increase in Asset – Balance Sheet)</i>	\$10,000
CR	Fines Revenue	<i>(Increase in Income – Operating Statement)</i>	\$10,000

APPENDIX B (continued)Recording the Receipt

Transactions in the books of the Agency:

As part of managing the collection of fines income on behalf of Government, the Agency receives \$8,000 in receipts for fines that have previously been issued. The journal entry to record these receipts is:

DR	Cash at Bank	<i>(Increase in Asset – Balance Sheet)</i>	\$8,000
CR	Accounts Receivable - CHA	<i>(Decrease in Asset – Balance Sheet)</i>	\$8,000

The amounts received by the Agency on behalf of the Government are transferred periodically to the Central Holding Authority, with only the amounts actually collected being transferred to the Central Holding Authority. The journal entry to record the periodic transfer is:

DR	CHA Income Payable	<i>(Decrease in Liability – Balance Sheet)</i>	\$8,000
CR	Cash at Bank	<i>(Decrease in Asset – Balance Sheet)</i>	\$8,000

Transaction in the books of the Central Holding Authority:

The journal entry to recognise and record the receipt in the Central Holding Authority of \$8,000 collected by the Agency on behalf of the Government is:

DR	Cash at Bank	<i>(Increase in Asset – Balance Sheet)</i>	\$8,000
CR	Accounts Receivable	<i>(Decrease in Asset – Balance Sheet)</i>	\$8,000