

Tangible Capital Assets

Guideline 4: Capitalizing Salaries—Internal Staff

Overview

The purpose of this guideline is to provide clarification regarding the capitalization of salaries, which include related fringe benefits, of internal government staff, as recommended in the TCA Policy Review Report dated March 2004.

This guideline is intended to supplement the Tangible Capital Assets (TCA) Policy and to provide further guidance on its application. It should be noted that this guideline is not all-inclusive and professional judgment must be exercised in applying it to individual circumstances.

When applying this guideline, all internal government staff should be considered.

Definitions

Public Sector Accounting Standard PS 3150.10 states:

“...The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or development activity...”

Section 4.3.6 of the TCA Policy states:

“Salaries will be capitalized as part of the asset cost only if those salaries relate directly to the project.”

Guideline Directives

DIRECTLY ATTRIBUTABLE COSTS (SHOULD BE CAPITALIZED)

Salaries relate directly to the project when the staff’s contribution to the project is directly attributable to the actual construction or development activity, including the design, of the related asset. Salary costs incurred during the construction or development period which are directly attributable to the project should be capitalized to the related asset.

Directly attributable salaries should only be capitalized for those capital projects whose total costs meet the capitalization threshold of the related asset class in the TCA Policy.

MEASUREMENT

Salary costs which are directly attributable should be allocated to the project on a pro rata basis such as actual hours/time worked on the project. For audit purposes, adequate supporting documentation for these salary costs should be maintained by the project.

Fringe benefits would include the employer's cost, as well as vacation pay.

Administration fees relating to salaries should neither be billed nor capitalized under the TCA Policy.

The cost to backfill a staff person's original position in the home organization should not be capitalized since the contribution of the backfill is not directly attributable to the actual construction or development of the related asset.

ANCILLARY COSTS (SHOULD BE EXPENSED AS INCURRED):

The salaries of staff whose contribution to a project is considered ancillary in nature should specifically be excluded from capitalization. The following are some examples of project roles/activities which are considered ancillary in nature:

- pre-project planning and scoping activities (e.g., studies and assessments including environmental and feasibility studies; strategic planning)
- support services (e.g., administrative support; Financial Services; Human Resources)
- a management support role to the project (e.g., Management Steering Committee)
- quality assurance (e.g., project audits)
- an advisory capacity to the project (e.g., attending workshops)
- end-user training (including preparation, delivering, and attendance)
- organizational change management (e.g., business process reengineering activities)
- ongoing support and maintenance

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