

21.3 Tax Revenue

Policy Statement

It is the policy of the Province of Nova Scotia to record tax revenue in accordance with generally accepted accounting principles for the public sector.

Definitions

AUTHORIZATION

A tax is considered authorized by the legislature for revenue recognition purposes when the effective date of the tax has passed and the earlier of the following has occurred:

- a. the related legislation and/or regulations have been approved by the legislature; or
- b. the ability to assess and collect tax has been provided through legislative convention.

TAXABLE EVENT

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

TAX CONCESSIONS

Tax concessions are preferential provisions of the tax law that are only available to taxpayers upon filing a tax return. They include special tax rates, exemptions, deductions, deferrals, and non-refundable tax credits that affect the amount and distribution of taxes owing. They provide relief of taxes previously paid or currently owing and are seen as “foregone revenue” or reduced tax revenues of the Province.

TRANSFERS MADE THROUGH A TAX SYSTEM

Transfers made through a tax system are financial benefits offered to tax filers meeting certain criteria. They are claimed by filing a tax return but are ancillary to the tax liability calculations. For example, a refundable tax credit (RTC) to qualifying volunteer firefighters is a fixed amount that can be applied to taxes otherwise owing until there is no balance payable and any remaining RTC is refunded to the taxpayer.

Policy Objectives

The objective of this policy is to define the criteria for recognizing and adjusting tax revenues.

Application

This policy applies to the Province's departments and public service units contained in the General Revenue Fund that collect tax revenues or have tax revenues collected on their behalf by the federal government. Taxes are compulsorily paid or payable to governments in accordance with laws and/or regulations normally established to provide revenue for public purposes to the government. Tax transactions are non-exchange transactions. Tax revenues are major sources of revenues for the Province and include, but are not limited to, the following:

Collected (and remitted to the Province) by Canada Revenue Agency (CRA)

- Personal Income Tax (PIT)
- Corporate Income Tax (CIT)
- Harmonized Sales Tax (HST)

Collected by the Province

- Tobacco Tax
- Motive Fuel Tax
- Corporation Capital Tax
- Tax Levied on the Private Sale of Used Vehicles
- Tax on Insurance Premiums
- Casino Win Tax
- Tax on Fire Insurance Premiums

Policy Directives

Tax revenues should be accounted for in accordance with generally accepted accounting principles for the public sector, Section 3510 Tax Revenue.

RECOGNITION & MEASUREMENT

General

Taxes are to be recognized as an asset and revenue when they meet the definition of an asset (to be settled with cash and cash equivalents), the taxes are authorized, and the taxable event occurs. Tax revenue transactions are measured initially at their realizable value at the date of acquisition, in the fiscal year when the taxable event occurs. At initial recognition, the revenue recorded reflects assets acquired by the Province in terms of cash or cash equivalents, or taxes receivable that will be settled with cash or cash equivalents. Each tax revenue stream is processed/posted in the applicable accounting system, such as Registry of Motor Vehicles or SAP AR module.

For example, the sale of tobacco and motive fuel are taxable events that trigger the assessment and collection of taxes. The taxable events allow the recognition of tax revenues from these sources since the taxable transactions have occurred and the tax revenues can be measured.

PIT, CIT, and HST

The taxable events for PIT, CIT, and HST are not fully known or fully measurable until future years, so the related tax revenues are based upon forecasts. Economic and revenue forecasting models are used to calculate net realizable value for these more complex revenue sources. Subsequent measurement of estimated tax revenues is made at each financial statement date and revenues are adjusted accordingly. Tracking of these tax revenues is required over extended periods of time until CRA closes the tax years. All PIT, CIT, and HST revenue transactions are tracked in separate SAP AR customer accounts by fiscal year (i.e., for 2017: 2017 PIT, 2017 CIT, 2017 HST; for 2016: 2016 PIT, 2016 CIT, 2016 HST; etc.).

Tax Concessions (See Appendix 21-A)

Tax revenues are recorded net of any adjustments, such as tax concessions and other adjustments made by the Province, that reduce the amount of taxes calculated as owing for the year. In effect, the Province foregoes these revenue amounts as part of its tax policies, meaning the revenues were not really charged.

Tax Expenses (See Appendix 21-A)

Transfers made through the tax system are recognized separately as expenses, not a direct reduction to revenues. Examples such as Volunteer Firefighters and Ground Search & Rescue Tax Credit, Digital Media Tax Credit, Digital Animation Tax Credit, Capital Investment Tax Credit, Film Tax Credit, and the Research and Development Tax Credit are all refundable tax credits recorded as expenses in Business Area 6600. To take advantage of the federal processing structures in place already, they are adjusted to taxpayers' accounts upon filing their income tax returns. In addition, CRA reduces payments to the Province for expenses in relation to tax revenue transactions such as administrative costs paid for tax collection, and these amounts are recognized separately as operating expenses.

COLLECTION

When revenues are not collected on the date of the taxable event, taxes receivable are recorded for future collection. Cut-off is important to ensure revenues are recorded in the correct period, especially at year-end.

For taxes collected by CRA and remitted to the Province, periodic payments are received electronically and credited to a Federal Payments Clearing account (GL #116404). Each payment is accompanied by a payment letter containing details used by Internal Services - AR Division to allocate the funds received among the various receivable accounts.

Taxes receivable are assessed regularly for collectability. A valuation allowance is recorded if needed to reflect taxes receivable at their net recoverable amount. The Province also evaluates the likelihood of having to repay taxes previously collected under authorized tax measures and adjusts the receivables when required.

PRIOR YEARS' ADJUSTMENTS (PYA)

PIT, CIT, and HST revenues are not known with certainty at the point of initial measurement. The economic and revenue forecasting models are subject to revision with the passage of time. As better information becomes available, new data may result in increased or decreased tax revenue for past years. For example, a portion of the revenue is based on actual tax assessments, which are not fully complete due to the timing lag in filing annual returns. The resulting tax revenue adjustments are accounted for as changes in estimates in the current fiscal year and are recorded as Prior Years' Adjustments (PYAs) in their own general ledger accounts separate from current year revenues. These tax revenues are also monitored on a calendar year basis for activity by CRA for as many as 3-6 years and the Province can receive retro-active adjustments (PYAs) from CRA during that time period.

CLOSED YEARS

When CRA closes the calendar year for each PIT, CIT, or HST tax revenue stream, all adjustments cease with the issuance of a Final Update report. At this point, the final revenue is known and any residual taxes receivable are adjusted to zero.

REPORTING

Estimates and Forecasts

An initial estimate of tax revenues for the fiscal year is provided in the annual Estimates tabled in the House of Assembly. Updated forecasts for the fiscal year are provided in September, December, and as part of the next fiscal year's Estimates.

Public Accounts

Tax revenues for taxable events occurring up to the March 31 year-end date are recorded in the Public Accounts for each year. For PIT, CIT, and HST, an additional update to the tax revenue model estimates may be required to ensure that the

most up-to-date information is reflected in the Public Accounts. Government Accounting, with consultation from Economics and Statistics Division and Taxation and Federal Fiscal Relations Division, establishes a cut-off period for updating the revenue models that is satisfactory for audit purposes as well as for the completion of the Public Accounts. Any information received subsequent to final cut-off dates is incorporated in the next fiscal year revenues.

Policy Guidelines

The Minister of Finance and Treasury Board has a legislated obligation to table the Public Accounts in the House of Assembly no later than September 30th following the year-end of the Province¹. To meet the obligation of timely financial reporting, adjustments to tax revenues and all other accounts must be completed well in advance of the deadline to allow time to finalize and publish the Public Accounts. Consistent timing and treatment of the recognition of tax revenues and prior years' adjustments ensures the comparability of revenues in subsequent years.

Accountability

The process of accounting for, estimating, and recording tax revenues is distributed among several different departments and requires the collaboration of the following groups with specific responsibilities as follows:

FINANCE AND TREASURY BOARD – GOVERNMENT ACCOUNTING

Responsible for:

- Providing departments with advice and assistance in accounting for tax revenues in accordance with section PS 3510 Tax Revenue
- Preparing journal entries to record tax revenues by fiscal year based on estimates and forecasts for PIT, CIT, and HST
- Preparing journal entries to write off customer balances for closed taxation years
- Obtaining required approval from Taxation and Federal Fiscal Relations for tax revenue journal entries
- Preparing audit support working papers and any other reporting support as required

¹ *Finance Act*, Section 59(1)

FINANCE AND TREASURY BOARD – TAXATION AND FEDERAL FISCAL RELATIONS

Responsible for:

- Collecting and analyzing information received from the federal government in relation to PIT, CIT, and HST
- Calculating estimate and forecast revenues by calendar year for PIT, CIT, and HST and then providing this information to Government Accounting at each forecast update for the preparation of journal entries to record taxes receivable/payable and revenue
- Receiving monthly payment letters from Finance Canada for federal revenues and forwarding these on to the Internal Services-AR and Government Accounting

FINANCE AND TREASURY BOARD – OTHER DIVISIONS

Responsible for:

- Providing accounting assistance for recording and managing Tax on Insurance Premiums, Casino Win Tax, and Tax on Fire Insurance Premiums

INTERNAL SERVICES – ACCOUNTS RECEIVABLE DIVISION

Responsible for:

- Creating new AR customer accounts and posting opening balances where applicable
- Posting approved journal entries on a timely basis to record tax revenues using the SAP AR Module
- Monitoring the federal transfers clearing account GL# I 16404 for federal payments received and preparing entries to allocate payments from the PIT, CIT, and HST accounts to the appropriate SAP AR customer account for which the payments relate
- Checking AR customer accounts to ensure balances are zero for closed years
- Maintaining a file of all payment letters and ensuring that all amounts included have been recorded
- Creating and maintaining customer files of supporting documentation
- Providing reports on open items for all customers

INTERNAL SERVICES – TRANSACTION SERVICES DIVISION

Responsible for:

- Posting approved journal entries by manual data entry or uploads on a timely basis to record tax revenues using the SAP General Ledger Module

OFFICE OF SERVICE NOVA SCOTIA

Responsible for:

- Providing accounting assistance for Tobacco Tax, Motive Fuel Tax, Corporation Capital Tax, and Private Levy on Used Vehicles

ALL DEPARTMENTS

Responsible for:

- Communicating with Government Accounting about any new or proposed changes to taxes to ensure that they are accounted for appropriately

Monitoring

Government Accounting will monitor the policy's performance and effectiveness.

References

Public Sector Accounting Standards
PS 3510 Tax Revenue

Appendix

Appendix 21-A, Decision Tree – Tax Concession or Transfer Made Through Tax System?

Enquiries

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Appendix 21-A

Decision Tree — Tax Concession or Transfer Made Through Tax System?

A government provides a payment or a reduction in taxes payable.
Is it a tax concession or a transfer made through a tax system?

