INSTITUTE OF CHARTERED ACCOUNTANTS OF BARBADOS

GUIDANCE DOCUMENT 02/2022

Accounting for the Pandemic Contribution Levy by Companies

(Issued August 2022)

This Guidance Document is being issued in response to queries from members of the Institute of Chartered Accountants of Barbados (ICAB) as to the appropriate accounting treatment for the Pandemic Contribution Levy (PCL) by companies.

Preamble: During the 2022 budgetary proposal, the Government of Barbados announced the budgetary measure of a one-off Pandemic Contribution Levy (PCL) of 15% of their 2020 and 2021 net income on companies carrying on domestic business in the telecommunications, bulk and retail sale of petroleum products by dealers, commercial banking (deposit taking and finance houses, excluding credit unions) and general and life insurance. The levy is imposed on such companies with a net income above BBD $5 million in 2020 and 2021. The levy is payable in addition to corporation tax and is not deductible for tax purposes.

This Guidance Document is effective for companies listed above commencing 1 July 2022 and expiring on March 31, 2023 as per the Policy Note issued by the Barbados Revenue Authority (BRA) (Appendix 1) and seeks to outline the relevant accounting treatment for the imposed levy.

Applicable accounting standard: As per the Policy Note, though described as a "levy" which can be initially assessed under IFRIC Interpretation 21 - *Levies*, the tax imposed needs to be accounted for in accordance with IAS 12 – *Income Taxes*.

The definition of an income tax in IAS 12.2 states that it is based on "taxable profits" and in March 2006 the IFRIC discussed what this means as outlined below:

IAS 12 Income Taxes – Scope

The IFRIC considered whether to give guidance on which taxes are within the scope of IAS 12. The IFRIC noted that IAS 12 applies to income taxes, which are defined as taxes that are based on taxable profit. That implies that (i) not all taxes are within the scope of IAS 12 but (ii) because taxable profit is not the same as accounting profit, taxes do not need to be based on a figure that is exactly accounting profit to be within the scope. The latter point is also implied by the requirement in IAS 12 to disclose an explanation of the relationship between tax expense and accounting profit. The IFRIC further noted that the term ‘taxable profit’ implies a notion of a net rather than gross amount. Finally, the IFRIC observed that any taxes that are not in the scope of IAS 12 are in the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

However, the IFRIC also noted the variety of taxes that exist world-wide and the need for judgement in determining whether some taxes are income taxes. The IFRIC therefore believed that guidance beyond the observations noted above could not be developed in a reasonable period of time and decided not to take a project on this issue onto its agenda. Technically, therefore, the PCL will be an "income tax" rather than a "levy" (even if it is administered under a separate statute rather than the Income Tax Act) because it is based on a net income figure (rather than for example gross sales or assets).

As we know, the Policy Note issued by the BRA clarifies that the tax "is calculated on net income recorded in the company’s financial statements as prepared in accordance with IFRS or GAAP".

Timing of accounting: As the PCL will be within the scope of IAS 12, then the change in "tax law" should be accounted for when "substantively enacted". Based on our assessments ICAB has determined the commencement date will be the 1 July 2022, as per the date specified in the Policy Note based on the below considerations:

- Substantive enactment occurs when any future steps in the enactment process will not change the outcome. This underlying principle should be used to determine if a rate is substantively enacted in a particular territory. For example, governments might announce changes in tax rates and laws at or before the balance sheet date, but the formalities are not yet finalised. Management should consider whether the announcement has the effect of substantive enactment. In some tax jurisdictions, such announcements have the effect of substantive enactment; so, the announcement of new tax rates and laws should be reflected in measurement. [IAS 12 para 48]

- There is current legislation entitled the Provisional Collection of Taxes Act, Cap. 85 that grants the Minister responsible for finance the ability to impose a tax or increase the rate of an existing tax and allows the imposition of the tax to be effective as if an enactment had been made or passed imposing the tax. Section 3 of the Act (see Appendix 2) indicates that the "Taxes are to be effective from the date specified by the Minister in the budgetary proposals". As a result, from 1 July 2022, the liability crystallizes and given that it is based on historic amounts and it is not dependent on future taxable income, a full accrual should be recorded and subsequently updated as payments are made.

- As an example, if an entity determines that 15% of its net income for the 2020 and 2021 fiscal years is BBD $1 million, that BBD $1 million should be booked in full as the liability on 1 July 2022 and adjusted as payments are made on the dates included in the BRA Policy Note.

Disclosure: Prior to the 1 July 2022, entities will require relevant disclosure on the impact of the tax when reporting on their financial performance. For entities with a year/period end before the budget date, this impact would be shown as a non-adjusting subsequent event.

Additionally, the PCL should be included in the tax line within the statement of income and/or comprehensive income. Relevant tax disclosures are required in the notes to the financial statements which outlines the current tax charge separate from the PCL.

Appendix 1 – Policy Note Issued by the BRA

The Policy Note issued by the BRA can be found by clicking on the link below.

Pandemic Contribution Levy – Companies

Appendix 2 - Relevant extracts of the legislation. Section 3 specifically states:

3 (1) Subject to this Act, where:

(a) the imposition of a tax; or

(b) an increase in the rate of an existing tax

is contained in any budgetary proposals, then from the date specified by the Minister in such budgetary proposals (hereinafter in this Act referred to as the specified date):

(i) the imposition of such tax shall be as effective as if an enactment had been made or passed imposing such tax and the tax shall be payable as from the specified date;

(ii) the increase in the rate of the existing tax shall be effective from the specified date and the existing tax shall be payable at the increased rate as from that date.

(2) Any tax or increase in the rate of an existing tax which becomes payable pursuant to subsection (1) shall cease to be so payable if the appropriate enactment for the imposition of the tax or for increasing the rate of the existing tax is not made or passed within 4 months of the date on which the budgetary proposals are made to the House of Assembly.

Section 4 further states:

(1) Without prejudice to the generality of section 3, where there is introduced into the House of Assembly any Bill providing for the imposition of a tax or an increase in the rate of an existing tax, then, subject to subsection (2), such tax or increase in the rate of an existing tax shall be payable with effect from the date specified in the Bill or, if no such date is specified, from the date on which the Bill is introduced into the House of Assembly.

(2) Any tax or increase in the rate of an existing tax which becomes payable pursuant to subsection (1) shall cease to be so payable if the Bill

(a) is withdrawn from the House of Assembly; or
(b) is not passed by the House of Assembly within 4 months of the date on which it is introduced therein.