Inland Revenue
Te Tari Taake

External Reporting Board
Level 6 / 154 Featherston Street
Central Wellington 6011

28 November 2025

To: accounting@xrb.govt.nz

Feedback on the proposed accounting standards – ED PBE IPSAS 47 Revenue and ED PBE IPSAS 48 Transfer Expenses

Introduction

Thank you for the opportunity to provide comments on the proposed accounting standard for revenue (ED PBE IPSAS 47 Revenue ("ED 47")) and transfer expenses (ED PBE IPSAS 48 Transfer Expenses ("ED 48")).

Inland Revenue administers tax and certain social policy programmes on behalf of the Government of New Zealand. These transactions are unique in nature and generally fall outside the scope of binding arrangements. This submission focuses on the application of the proposed standards in relation to tax revenue, receivables and social policy and identifies key ambiguities that we consider require further clarification or consideration to ensure consistent The application of the principles, and enable transparent and reliable reporting of tax revenue and social policy expenses.

In general, we support the direction and intention of the proposed standards.

We acknowledge the intent of ED 47 is to provide a comprehensive framework for revenue recognition, however we consider the treatment of tax revenue requires distinct consideration due to its unique nature.

With regards to ED 48, we support a new public sector standard addressing grants and the timing of expenses from the provider's perspective because we believe this is a gap in current standards.

Response in relation to ED 47

Revenue recognition (Section G)

3. Do you agree with the proposed approach to revenue recognition for transactions without binding arrangements? Are there any specific challenges you foresee in applying this approach?

We note that ED 47 requires entities to determine whether revenue transactions are entered into with or without a binding arrangement. While we agree with this principle, we recognise that the binary distinction may be challenging to apply in practice, particularly given the wide range of arrangements in the public sector, where rights and obligations are often implied rather than explicit.

This highlights the importance of practical guidance tailored to the public sector to clarify how concepts such as "binding arrangement" and "enforceability" might apply." Doing so will likely require significant judgement, as well as close collaboration with other public sector agencies, such as the Treasury, to develop centralised application guidance where appropriate.

However, this will take time, given the volume of material and examples that need to be considered. We also acknowledge that issues with the standard may arise that have not yet been identified in this submission. We are keen to engage further on these and the other points raised below.

In the meantime, we have raised specific questions regarding the accounting treatment of tax revenue, which we would appreciate the XRB addressing before the EDs are finalised as mandatory standards.

ED 47 Paragraph 4 - Clarify the meaning of" transaction consideration".

ED 47 introduces the concept of" transaction consideration", defined in paragraph 4 as the 'amount of resources to which an entity expects to be entitled'.

We also note in paragraph 30 that:

> *"an inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied…"*

The definition of "transaction consideration" suggests that in respect of taxes, the Government should report as revenue the amount that it is entitled to legally, which could be interpreted as the face value or nominal value of a tax levied.

However, paragraphs 45 and 46 introduce the concept of expected recoverability and measurement of the best estimate of inflow of resources for measuring the asset at initial recognition. We note that paragraph 45 says:

"…The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets."

The concept of fair value on initial recognition in paragraph 45 is different from what could be implied by the definition of "transaction consideration" in paragraph 4.

As a result, it is unclear which of the following options we should apply to the presentation of tax revenue under ED 47:

Option (a) tax receivables at fair value, tax revenue at the amount of taxes levied (face value), and a day one impairment expense (being the difference between tax revenue and tax receivables) or

Option (b) tax receivables and tax revenue both at fair value.

We currently believe PBE IPSAS 23 requires revenue from non-exchange transactions to be initially recognised at the fair value of the asset. In practice, however, we apply option (a) for the initial recognition of tax revenue and tax receivables, while annually assessing that the face value and fair value of tax revenue are materially aligned. This was also the practice before we adopted PBE IPSAS 23.

It would be beneficial if ED 47 offered greater clarity on how tax revenue and tax receivables should be measured at initial recognition, particularly in light of the new definition of "transaction consideration." This raises an important question: which of the presentation options outlined does the XRB consider most useful for users of public sector financial statements? We are keen to engage further on this.

ED 47 Paragraph 31 *- use of PBE IPSAS 41 Financial Instruments "By analogy"*

We consider that paragraph 31 would require tax receivables to be subsequently measured in accordance with PBE IPSAS 41 "by analogy". We assume this would mean application of PBE IPSAS 41 in full, including all subsequent measurement requirements and disclosures. We also note that ED 47 proposes to update PBE IPSAS 41 to include both the initial recognition and initial measurement of rights and obligations arising from revenue transactions to which ED 47 Revenue applies and any subsequent impairment requirements arising from those rights.

In practice, we have determined that tax receivables (and other sovereign receivables) are currently not in scope of PBE IPSAS 41 because they do not meet the definition of a financial instrument (which is "any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity"). Currently, we report tax receivables initially under PBE IPSAS 23 as they arise from a non-exchange transaction, and we subsequently measure them at their recoverable amount under PBE IPSAS 26.

We do not agree with the view in ED 47 that all of our tax receivables are substantially the same as a contractual financial instrument, and therefore, by analogy, PBE IPSAS 41 is the standard to be applied for subsequent measurement. We are particularly concerned about the application of PBE IPSAS 41 to the significant portion of tax receivables which reflects an estimate of taxes, in contrast to tax receivables based on assessed tax debt.

In accordance with PBE IPSAS 23 (and brought forward in ED 47), Inland Revenue currently recognises revenue when the taxable event occurs. For some of our taxes, including income tax, this requires complex estimation and statistical models to be able to report revenue based on the taxable event. This estimation is necessary because it can be up to two years between a taxable event occurring and taxpayers filing a tax return (that covers the taxable event period). In the intervening time, estimated receivables are continuously reassessed as more estimation information becomes available, until the point when the taxpayer files their final tax return for the relevant tax period. The estimation could be thought of as a projection of what the final tax return (debt) will be, rather than a fixed debt awaiting collection. This means the "contractual" cashflows from tax receivables only crystalise and become due in the way PBE IPSAS 41 envisages at the point the tax return is filed. We are therefore uncertain as to the application and relevance of ED IPSAS 41 to all tax receivables.

Our taxes receivable[1] balance of $29.974 billion reported in our 2025 annual report (Note 3 Receivables, page 144)[2] comprises both assessed and estimated receivables. A high-level summary of the main categories of taxes receivable is provided in Appendix A.

We recommend that the XRB develops explicit guidance on the subsequent measurement of tax receivables, including whether PBE IPSAS 41 can be applied "by analogy" in practice, given that a significant portion of tax receivables are estimates and "contractual cash flows" are not known until tax returns are filed. If PBE IPSAS 41 is considered the appropriate guidance "by analogy", we recommend specific guidance is provided as to the extent to which PBE IPSAS 41 should be applied, including the appropriate valuation methodology under PBE IPSAS 41. In addition, we would like the XRB to provide clarity on when it is more appropriate to apply PBE IPSAS 26, *Impairment of Cash-generating Assets* to the subsequent measurement of tax receivables, rather than PBE IPSAS 41 by analogy.

The current lack of clarity risks divergent practices and may undermine comparability. Lack of clarity will also add implementation costs to preparers (and auditors) when applying the standard. The change from a recoverable amount approach currently under PBE IPSAS 26 to IPSAS 41 by analogy may result in confusion for users of financial statements.

9. Do you have any other comments on the ED

ED 47 Paragraph 34 *Wording in Paragraph 34*

As" transaction consideration" is a newly introduced term in ED 47, we recommend that it be applied consistently throughout the standard. For instance, paragraph 34 currently refers to

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[1] Includes general taxes, Working for Families Tax Credits, COVID-19 debt (excluding the Small Business Cashflow Scheme), and any penalties and interest associated with these activities.
[2] A link to the Inland Revenue's annual report for the year ended 30 June 2025 can be found here: Inland Revenue Annual Report Te Tari Taake Pūrongo ā-Tau 2024-25

"the consideration received or receivable." For clarity and consistency, can this be revised to "the transaction consideration received or receivable."

Response in relation to ED 48

Mandatory date and other comments (Section I)

9. Do you have any other comments on the ED

We acknowledge the introduction of guidance on transfer expenses and note that, conceptually, these are similar in substance to grants, as the expenditure is incurred for the benefit of a third party without the provider receiving goods or services in return.

We welcome the development of a Public Sector standard addressing grants from the provider's perspective.

To enhance clarity and practical application, we recommend providing additional examples of transfer expenses without binding arrangements and ideally including a decision tree within the interpretations section.

We note that the NZASB considered the proposed disclosure requirements under ED 48 relating to social benefit transactions that are in addition to other existing PBE standards or Treasury instructions (BC18 refers). They acknowledged in BC 17 that they are not aware of any concerns with the existing reporting of social benefit transactions (either in terms of presentation or disclosure).

NZASB concluded that the Crown annual financial statements would require additional disclosures for Transfer Expenses both with and without binding arrangements. The additional disclosures required in relation to social benefit transactions, according to para BC19 are:

"additional information on social benefit transactions to be disclosed in the Crown annual financial statements:

- *a)* Para 54 requires *"qualitative and quantitative information on significant transfers arising from transactions with or without a binding arrangement"*
- *b)* Para 60 requires *"disclosure on the purpose of the transfers without a binding arrangement as well as significant payment terms (if any) and the nature of the resources that have been (or will be) allocated."*

NZASB noted that these additional disclosures may lead to lengthy disclosures that may potentially have little value to the user of the financial statements, given the availability of other publicly available resources. As such they considered option 1) exempting preparers from making the disclosures, option 2) permitting cross referencing to other statements or reports that are readily available and option 3) emphasising the application of materiality and professional judgement to the extent and nature of disclosure. They concluded option 3 would be the most appropriate.

Inland Revenue pays a significant number of social benefits which would be considered material and therefore under the proposed ED 48, we would be required to add extensive disclosure around the purpose of the benefit, payment terms and the nature of resources. This is a departure from current standards where disclosure is minimal. Social benefit payments are largely driven by legislation and are covered by appropriations (limited by scope and type). They are currently shown on the face of the financial performance, with no requirement to provide more detail. This information is already publicly available from other sources, and we see limited value in repeating the information in the financial schedules. We therefore request the XRB to reconsider this requirement or provide more clarity on the value expected to be achieved in requiring this disclosure in the financial schedules. We would suggest option 2 is a more practical approach.

Please feel free to reach out to either myself or Rachel Parker (Domain Lead, Finance Services 029 890 2838) if you would like to discuss any of the matters raised in this submission further.

Your sincerely

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Inland Revenue
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Appendix

Appendix A – A breakdown on the different types of receivables reported by Inland Revenue.

Receivable type	Description	Information used to measure revenue/receivable	Revisions to estimates
Estimated revenue	Tax revenue is accrued evenly over the relevant period as the taxable event occurs. If no tax return or provisional assessment is available, revenue is estimated using prior returns, provisional tax, and payment data.	Uses prior tax returns, provisional tax info, and economic growth indicators (e.g. net operating surplus growth).	Estimates are replaced with actuals when returns are filed
Provisional tax assessment (Only applies to income tax)	Taxpayers with residual income tax over $5,000 must pay provisional tax for the next year. Amount due is estimated before the return is filed, usually at 105% of the prior year's tax (standard uplift).	Based on provisional tax assessed when prior year's return is filed; for the purpose of measuring revenue, the uplift may be adjusted for economic conditions.	Finalised when the tax return is filed (up to 18 months after year-end). When return is filed, provisional estimate is replaced by actual assessed tax.
Assessed but not yet due	Tax return filed and revenue finalised, but payment due date has not yet passed. This could be due to early filing by the taxpayer, or the significant gap between assessment due dates and payments under legislation for income tax.	Based on tax assessed in the return.	Tax is finalised; reassessments are possible but unlikely. Full payment is highly probable (however this amount is assessed for impairment at year end).
Assessed and overdue	Tax return filed, revenue finalised, and payment due date has passed. Includes penalties and interest on unpaid balances.	Based on assessed tax plus penalties and interest.	Tax is finalised; reassessments are possible but unlikely. Subsequently tested for impairment.