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Governmental Accounting Standards Series

Interpretation No. 5 of the
Governmental Accounting
Standards Board

**Property Tax Revenue
Recognition in
Governmental Funds**

**an interpretation of NCGA Statement 1 and
an amendment of NCGA Interpretation 3**



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Interpretation amends NCGA Interpretation 3, *Revenue Recognition—Property Taxes*, by modifying the definition of *available* as the term relates to property tax revenue recognition using the modified accrual basis of accounting. The effect of this amendment is to remove the “due” consideration from the definition of *available* established in NCGA Interpretation 3. It does not, however, change the stipulation that the collection period after year-end shall not exceed sixty days.

The provisions of this Interpretation are effective for financial statements for periods beginning after June 15, 2000. Earlier application is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Interpretation.

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Governmental Accounting Standards Board
of the Financial Accounting Foundation
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INTRODUCTION

1. Revenues and expenditures of governmental funds are recognized on the modified accrual basis of accounting. NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, states in paragraph 62 that, under the modified accrual basis, revenues should be “recognized in the accounting period in which they become susceptible to accrual—that is, when they become both *measurable* and *available* to finance expenditures of the fiscal period.” That Statement defines *available* as “collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.”

2. Paragraph 8 of NCGA Interpretation 3, *Revenue Recognition—Property Taxes*, defines *available* as it applies to property taxes as “due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed sixty days.” Since that pronouncement was released, questions have arisen regarding the appropriateness of an Interpretation that requires the use of a demand criterion for only one type of transaction.

INTERPRETATION

Scope and Applicability

3. This Interpretation establishes a definition of *availability* as it relates to property taxes. It applies to all state and local governments that report property tax transactions in governmental funds. It interprets paragraph 64 of NCGA Statement 1 by superseding the second sentence of paragraph 8 of NCGA Interpretation 3. Both of those pronouncements were continued in force by the provisions of GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*.

Recognizing Property Tax Revenues in Governmental Funds

4. The second sentence of paragraph 8 of NCGA Interpretation 3 is superseded by the following:

Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

EFFECTIVE DATE AND TRANSITION

5. The provisions of this Interpretation are effective for financial statements for periods beginning after June 15, 2000. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of this Interpretation should be applied retroactively, if practical, by restating financial statements for all periods presented. If restatement of financial statements for prior periods is not practical, the cumulative effect of applying this Interpretation should be reported as a restatement of beginning fund balance for the earliest period restated. In the period this Interpretation is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

**The provisions of this Interpretation need
not be applied to immaterial items.**

This Interpretation was adopted by the affirmative votes of six members of the Governmental Accounting Standards Board. Ms. Henderson dissented.

Ms. Henderson dissents because she believes that eliminating the due date criterion will impair the accounting discipline that the modified accrual basis of accounting is intended to provide. She believes that the due date criterion helps in applying the meaning of *availability* as it relates to the way resources flow into and out of most tax-levying governments. She also believes that property taxes that are not due to be received until the following year would not be considered by a taxing government to be “available” to pay the expenditures of the current period.

Members of the Governmental Accounting Standards Board:

Tom L. Allen, *Chairman*
Robert J. Freeman
Cynthia B. Green
Barbara A. Henderson
Edward M. Klasny
Edward J. Mazur
Paul R. Reilly

Appendix A

BACKGROUND INFORMATION

6. In 1968, the National Committee on Governmental Accounting issued *Governmental Accounting, Auditing, and Financial Reporting*. That publication generally provided the framework upon which state and local governments based their external financial reports. It stated, “Revenue sources which can and should be recorded on the accrual basis include property taxes . . . where taxpayer liability has been definitely established and is legally enforceable.” It further provided that “the amount of property tax due a government can therefore be billed to taxpayers and recorded on the accounts of the taxing jurisdiction at the time tax statements are rendered in precisely the same manner that accounts receivable are recorded on the books of a private business enterprise” (p. 12).

7. NCGA Statement 1, issued in March 1979, established the “susceptible to accrual” provision that requires revenues and other financing sources in governmental funds to be both “*measurable* and *available* to finance expenditures of the fiscal period” before they could be recognized as revenues under the modified accrual basis of accounting. *Available* was defined as “collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period” (paragraph 62). Therefore, taxes levied for the current year would be recognized as revenues if they were “available.” Various interpretations of *soon enough thereafter*, and thus, *available*, have evolved in practice.

8. NCGA Interpretation 3 was issued in June 1981 to standardize the recognition of property tax revenues on the modified accrual basis. As a result, however, the term *available*, a key criterion of the modified accrual basis of accounting, is defined differently for property tax revenues than it is for all other revenues.

9. In March 1997, the GASB issued an Exposure Draft (ED) of a proposed Statement, *Accounting and Financial Reporting for Nonexchange Transactions*, that would establish criteria for accrual-basis revenue recognition for all types of nonexchange revenues, including property taxes. For recognition under the modified accrual basis it would continue to apply the *availability* criterion, as defined in NCGA Statement 1, but would defer to NCGA Interpretation 3, as amended, for property taxes.

10. In May 1997, the Board issued an ED, *Property Tax Revenue Recognition in Governmental Funds*, which led to this Interpretation. The Board received twenty-nine comment letters on the ED, the majority of which supported the proposal.

Appendix B

BASIS FOR CONCLUSIONS

11. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Interpretation. Individual Board members gave greater weight to some factors than to others.

12. For many governments, the additional elements of *available* introduced in NCGA Interpretation 3—due or past due within the year, and collected within sixty days of year-end—have had little or no effect. In general, the post-year-end sixty-day collection period has invoked a consistent and conservative measure of property tax revenues that many believe is an essential characteristic of the modified accrual basis of accounting. For some governments, however, the requirement that due dates for tax installments fall within the year has produced results that they believe are inappropriate and misleading. Governments that have due dates shortly after their year-ends (within the sixty-day collection period, for example) argue that those taxes are just as *available* to “pay the liabilities of the current period” as are taxes that are due shortly before year-end.

13. Because the criteria for accrual-basis recognition for nonexchange revenues in the nonexchange transactions ED would not include a *demand* or *due date* requirement, some believe that the “due date” feature in NCGA Interpretation 3 would be inconsistent and unnecessary for modified accrual basis revenue recognition. The contention is that a single definition of *available* should apply to *all* types of nonexchange revenues.

14. Paragraph 43 in the Basis for Conclusions of the nonexchange transactions ED states that the Board’s approach is to set general standards for the recognition of nonexchange transactions, based on the principal characteristics of different classes of nonexchange transactions. It further provides that, based on the principal characteristics of nonexchange transactions, general standards will lead to financial reporting that better conveys the substance of those transactions, as well as greater consistency in the reporting of similar nonexchange transactions.

15. In accordance with that approach, the Board believes that it is desirable to use consistent criteria for revenue recognition for all types of nonexchange transactions. The nonexchange transactions ED provides consistent criteria for accrual-basis recognition, but

in order to achieve the same result on the modified accrual basis, a consistent definition of *available* should be applied to *all* types of nonexchange revenues. The Board acknowledges that the definition of *available* provided in paragraph 62 of NCGA Statement 1, and referred to in the nonexchange transactions ED, uses the term *collectible* rather than *collected* or *expected to be collected*, but believes that modifying the terminology in paragraph 62 of NCGA Statement 1 is beyond the scope of this Interpretation.

16. The Board believes that a consistent definition of *available* should be applied to all nonexchange revenues. Furthermore, the Board believes that “due date” does not affect the *availability* of resources, but rather is a consideration in determining *when* a revenue should be accrued. In the absence of an exchange, some other transaction or event should be identified as the point at which revenue should be accrued. Some have argued that for “confiscatory” revenues, such as taxes, the government should first *demand* (through the imposition of a due date) the taxes to initiate the confiscation.

17. GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, includes a demand criterion for recognizing tax revenues on the accrual basis in governmental funds. Paragraph 133 in the Basis for Conclusions explains the Board’s reasoning:

The confiscatory nature of taxation is another important factor in recognizing tax revenue. In a sense, the underlying event (such as the earning of income by a taxpayer) is merely the basis on which tax is calculated. In a democratic society, taxes can be calculated on any basis approved by the citizens' representatives. To assert its claim to taxes, governments must demand or exact them from the taxpayers. The Board believes it is with the government's demand that taxpayers feel the burden of taxation and, therefore, when, in an interperiod equity sense, they have provided resources. Establishing a specific due date for payment constitutes the best evidence of an effective assertion of the demand for taxes. The Board concluded that a logical accrual-basis revenue recognition theory applicable to all taxes should consider both the underlying event and the demand. Both must take place before revenue can be recognized.

The preceding discussion from Statement 11 clearly regards “due date” as a factor for identifying the point at which tax revenues should be accrued, rather than an element of “availability.”

18. In the nonexchange transactions ED, however, the Board does not include a demand criterion as a factor in recognizing property taxes on the accrual basis. Paragraph 46 in the Basis for Conclusions explains the Board’s decision:

The Board has not, however, continued the requirement of Statement 11 that a government should have “demanded” taxes (by establishing a due date for payment) for accrual-basis revenue recognition to occur. The Board believes that, with the classification of nonexchange revenues in this Statement and the identification of their principal characteristics, the recognition criteria in this Statement—that an enforceable legal claim should have arisen or compliance with eligibility requirements should have occurred—are appropriate and sufficient. Those same criteria apply, with the addition that resources should be “available,” for recognition on the modified accrual basis.

19. NCGA Interpretation 3 also provides that property taxes should be collected within sixty days of year-end to be deemed “available.” Even though that stipulation applies to property taxes only, the Board does not believe that it results in a different *definition of available*, but rather that it simply imposes a reasonable time period that should be considered *soon enough thereafter*. Although some respondents to the ED questioned the sixty-day provision, the Board believes that the great disparity that exists in tax calendars and collection periods from government to government distinguishes property taxes from other types of nonexchange revenues, and in the interest of consistency, it is appropriate to continue to apply the sixty-day collection requirement.

20. The Board’s research indicates that eliminating the due date criterion will not significantly affect the majority of governments, especially because the sixty-day collection period would be retained. Generally, only those governments that have tax installment due dates for current-period taxes within sixty days of their year-end (or shortly thereafter) will be affected. The Board believes that, as a result of the change, the amounts reported for fund balances and property tax revenues by the affected governments will better portray the flow of current financial resources. The Board agrees with those who contend that current-year taxes collected within sixty days of year-end are *available* to “pay the liabilities of the current period,” whether or not they are “due” within the year.

Appendix C

CODIFICATION INSTRUCTIONS

21. The section that follows updates the June 30, 1997 *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Interpretation.

* * *

PROPERTY TAXES

SECTION P70

Sources: [Add the following:] GASB Interpretation 5

.103 [Revise the second sentence as follows:] *Available* means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. [NCGAI 3, ¶6 and ¶8; GASBI 5, ¶4]