HOW SHOULD PROPERTY TAXES AND OTHER IMPOSED NONEXCHANGE REVENUES BE ACCOUNTED FOR?

Classified as ad valorem taxes (based on value), property taxes are most typically levied against real property (land and buildings).

Governments establish the property tax rate by dividing the amount of revenue that it needs to collect from the tax by the assessed value of the property subject to tax.

SIGNIFICANT EVENTS IN THE REVENUE GENERATION PROCESS

Several events in the property tax timeline have potential accounting significance:

• The legislative body levies the tax, establishing the tax rate and estimating the total amount to be collected.

• Administrative departments determine the amount due from the individual property owners, enter the amounts on the tax roll (a subsidiary ledger that supports the taxes receivable control account), and send tax notices (bills) to property owners.

• The taxes are collected—most prior to the due date, some afterward.

• The taxes are due, and the government has the right to impose a lien on that property for which taxes have not been paid.

GASB standards:

**Governments should recognize** assets from property taxes **in the period during which** they first have an enforceable claim to the assets or when they first receive the assets ,whichever comes first.

Governments have an enforceable claim to the assets (receivables) when taxes are levied.

**Governments should recognize revenues** from property taxes in the year for which taxes are levied . (Time limitations )

**Revenue recognition under MAB subject to the available stipulation.**

**Deferred tax revenues (liability):**

**Governments should delay (defer) تأجيل revenues from PT in the following cases**:

1. When revenues are not available ( will not be collected during the available period)….just only under MAB.
2. When taxes are collected in advance before levied under MAB and FAB.
3. When taxes are levied in a year to finance the budget of subsequent year under MAB and FAB. Example on property taxes

**Example :**

In **October 2016** a city levies property taxes of $515 million for the year beginning **January 1, 2017**. During **2017** it collects $410 million. It collects $30 million of the remaining 2017 taxes during each of the first three months of 2018, and estimates that the $15 million balance will be uncollectible.

In addition, in 2017 it collects $20 million in taxes applicable to 2018. Taxes are due on January 31 of each year, and the government has the right to impose a lien on the taxed property if it has not received payment by that date.

**Required: record the journal entries in 2016,2017 and 2018**

**October ,2016:** when taxes are levied for 2017:

Property taxes receivable $515

( liability)deferred revenue $500

Allowance for uncollectible property taxes 15

To record the property tax levy for 2017

**2017 :**

1. 1/1 : deferred revenue $500

revenue from PT 500

1. Collection from taxes levied for 2017:

Cash $410

Property taxes receivable $410

To record the collection of property taxes in 2017

1. Cash $20

deferred revenues $20

To record collection of property taxes received in advance of the year to which they are applicable( this entry is made under both MAB and FAB)

Adjusting entry 31/12/2017 under MAB to defer revenue that will be collected after the available period in March ,2018 :

4) revenue from PT $30

deferred revenue 30

ledger accounts :

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| P .T receivable | |  | deferred revenue | |  | revenue from PT | |
| Bb: 515 | 2: 410 |  | 1: 500 | Bb: 500 |  | 4: 30 | 1: 500 |
|  |  |  |  | 3: 20 |  |  |  |
|  |  |  |  | 4: 30 |  |  |  |
| Bal31/12:  105 |  |  |  | Bal31/12:50 |  |  | Bal31/12:  470 |

1. Financial statements for the general fund for 2017:

St of revenues and expenditures (1/1/2017-31/12/2017):

Revenues from PT : 470

Balance sheet 31/12/2017:

|  |  |  |  |
| --- | --- | --- | --- |
| Assets: |  | Liabilities: |  |
| Receivables – delinquent | 105 | Deferred revenues | 50 |
| Less : Allowance | ( 15 ) |  |  |
| Net recevables | 90 |  |  |

1. Government wide statements report:

Revenues 500…………..st of revenues and expenses

B/S :

|  |  |  |  |
| --- | --- | --- | --- |
| Assets: |  | Liabilities: |  |
| Receivables | 105 | Deferred revenues | 20 |
| Less : Allowance | ( 15 ) |  |  |
| Net receivables | 90 |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Tax levy for 2017:515 |  |  |  |  |  |  |
| Not measurable | 15 |  |  |  |  |
|  |  | Collected in 2017 | 410 |  |  |
| measurable | 500 |  |  | Jan and Feb  60 | |
|  |  | Will be collected in 2018 : 90 | | March  30 | |
|  |  |  |  |  |  |

JOURNAL entries in 2018:

Assuming taxes levied for 2018 on 1/1 : 600

Journal entry for tax levy is made as usual as if there is no taxes collected in advance:

1/1 Property taxes receivable(2018) $600

Revenue from PT 600

1/1 To eliminate asset and the liability:

deferred revenue $20

Property taxes receivable(2018) 20

COLLECION from taxes levied for 2017 in January and February,2018:

Cash 60

Receivables from PT(2017) 60

COLLECION from taxes levied for 2017 in March,2018 ( two journal entries):

1. Cash 60

Receivables from PT(2017) 60

1. deferred revenue 30

Revenue from PT 30 this entry is made just only under MAB.