

Contracts and leases: Government permits

Summary conclusion

Questions

1. The AEG was asked if they agreed with the following recommendations of the Canberra II Group.

Recommendation 1 All government permits that rely on the exercise of sovereign powers and are issued on a restricted basis should be treated as taxes.

This recommendation should have referred to the treatment of government permits without any underlying assets. The discussion identified the possible treatments as taxes, assets or services, depending on the situation.

Recommendation 2 The method of setting the price of a restricted government permit is not relevant for its treatment as a tax or an asset.

Recommendation 3 If permits are valid for several years, only the portion representing the current year is a tax. The remainder is a financial asset for the purchaser and a liability for the government.

Recommendation 4 Permits that are transferable or that can be returned to the issuing government for a refund of the unexpired portion are treated as financial assets/liabilities. If a multi-year permit is transferable, a non-produced, non-financial asset is deemed to be created, with a value that varies according to market conditions.

Outcome

2. The AEG was almost equally split on this issue, with a very narrow majority favouring treatment as a tax rather than as a sale of a non-produced non-financial asset. The ISWGNA will consider this matter further.