

ILLINOIS CPA SOCIETY

The GASB 33 Impact on Property Tax Recognition in Illinois

In December 1998, GASB issued Statement No. 33: *Accounting and Financial Reporting for Non-exchange Transactions*. In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. GASB Statement No. 33 addresses when governments recognize nonexchange transactions in the financial statements. Nonexchange transactions include taxes, shared revenues, grants, fines and penalties and other revenues. We are going to focus on property tax recognition because of the unique characteristics of Illinois property taxes. We will discuss how governments should recognize property tax assets and revenues in accordance with GASB Statement No. 33.

Several key matters described in GASB 33 that relate to property taxes are as follows:

- Assets (cash or receivables) are recognized on the date when an enforceable legal claim arises as specified in the enabling legislation. This date is sometimes referred to as the “lien date”.
- Assets (cash or receivables) and revenues should be recognized and reported for the year in which the taxes are levied.
- Revenues are recognized in governmental funds when the taxes are available. Available generally means collected within 60 days. If property taxes do not meet availability criteria they are then deferred.

The matters described in GASB 33 could lead to a number of inconsistencies in practice because of the characteristics of Illinois’ property tax system. The lien date in Illinois is significantly earlier than the date that the levy is passed. Therefore, recording a receivable on January 1st of the year when the levy will be passed in December does not seem to be appropriate. Also, determining the year that the taxes levied should be recorded as revenue can be confusing.

In a joint effort by the Illinois CPA Society’s Governmental Accounting Executive Committee and Government Report Review Task Force and the Illinois Government Finance Officers Association’s Technical Accounting Review Committee (TARC), several recommendations have been developed to assist in consistently applying GASB 33 to property taxes. The recommendations are described based on recognition of the assets and the revenues.

Assets (Receivables)

A receivable should be recognized after the lien date and when the levy is passed by the governing body. Generally, this recommendation should result in only one tax levy being recorded as a receivable at the end of the government’s fiscal year.

Revenue – Accrual Basis

Revenue should be recognized based on the period that the levy is intended to finance. Therefore, the appropriation or budget will be important to determine the intended period the levy is to fund. The intention of the levy collection's use is important to consider because the language in the tax levy may not clearly describe the government's intent. The tax levy is usually prepared showing the amount previously appropriated/budgeted with the comparative amount levied, as required by state law.

The tax levy may or may not indicate the period that the levy collections are to be applied. The levy most likely will refer to the appropriation or budget that was most recently passed because the amounts presented in the levy are based on that appropriation or budget. However, that reference may not mean that the levy is intended to finance the most recently passed appropriation or budget. Instead, the intent of when the levy is to be used should guide when revenue is recognized. Thus, recognition of revenue on the accrual basis will be similar to the budget basis.

In order to clarify the treatment, the government should consider explicitly describing the year that the tax levy is intended for. Such explicit language will help link the legal levy document with the government's property tax recognition practice.

Revenue – Modified Accrual Basis

Revenue recognition under the modified accrual basis will be similar to the accrual basis except that revenues can only be recognized at year end if the receivable is collected within 60 days after year end.

EXAMPLES

In order to apply the recommended guidance of GASB Statement No. 33, examples may be of assistance. The following examples will be used to provide suggested recognition measures and journal entries:

COOK COUNTY

- Example 1: 2001 Property Tax Levy with the levy collections to be used for the prior fiscal year.
- Example 2: 2001 Property Tax Levy with the levy collections to be used as collected.
- Example 3: 2001 Property Tax Levy with the levy to be used for the subsequent fiscal years.

NON-COOK COUNTY

- Example 4: 2001 Property Tax Levy with the levy collections to be used for the prior fiscal year.
- Example 5: 2001 Property Tax Levy with the levy collections to be used as collected, or 2001 Property Tax Levy with the levy to be used for the subsequent fiscal years.

The examples are described further on the following pages with journal entries necessary to record the transactions under these examples.

COOK COUNTY EXAMPLES

Example 1: 2001 Property Tax Levy with the levy collections to be used for the prior fiscal year

Village of Illinois

Fiscal year end April 30, 2002

2001 property tax levy lien date	January 1, 2001
Appropriation ordinance adopted (for year ended April 30, 2002) (the entire 2001 levy is intended to be used for the year ended April 30, 2002)	April 29, 2001
2001 property tax levy ordinance adopted	December 18, 2001
2001 property tax levy collection dates:	
1 st installment	March 1, 2002
2 nd installment	September 1, 2002

For the above set of facts, the following are the adjusting journal entries suggested for a governmental fund following the modified accrual basis of accounting:

MODIFIED ACCRUAL BASIS

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
12/18/01	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record receivable when levy has been enacted.	xx	xx
03/01/02	Cash Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue Property Tax Revenue (2001 Levy) To record receipt of property tax collections for the first installment of property taxes.	xx xx	xx xx

As of April 30, 2002, the balance in the property tax receivable and deferred revenue accounts should equal the uncollected property taxes since the collections within 60 days of the fiscal year end are not significant.

If the government maintains its records during the year on the cash basis the following entry would be necessary to convert to the modified accrual basis as of April 30, 2002, to record the uncollected 2001 Levy Receivable:

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
04/30/02	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record uncollected portion of the 2001 Tax Levy	xx	xx

COOK COUNTY EXAMPLES
(CONTINUED)

ACCRUAL BASIS

GASB 34 will require governments to record property taxes on the accrual basis at the government wide level. The appropriation/budget ordinance for the fiscal year ended April 30, 2002, includes revenue from the property tax levy passed by the Village in December of 2001. Therefore, on an accrual basis the tax levy collections for the 2001 Tax Levy would be matched against the May 1, 2001 – April 30, 2002 fiscal year. In addition to the entries noted above, the following entry will be necessary to the government wide financial statements:

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
04/30/02	Deferred Property Tax Revenue Property Tax Revenue	xx	xx

Example 2: 2001 Property Tax Levy with the levy collections to be used as collected

Village of Illinois

Fiscal year end April 30, 2002

2001 property tax levy lien date Appropriation ordinance adopted (for year ended April 30, 2002) (The 2001 levy is intended to be partially used for the year ended April 30, 2002 based on amounts collected through April 30, 2002. The remaining collections will be used for the year ended April 30, 2003) 2001 property tax levy ordinance adopted 2001 property tax levy collection dates: 1 st installment 2 nd installment	January 1, 2001 April 29, 2001 December 18, 2001 March 1, 2002 September 1, 2002
---	--

MODIFIED ACCRUAL BASIS

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
12/18/01	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record receivable when levy has been enacted.	xx	xx
03/01/02	Cash Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue Property Tax Revenue (2001 Levy) To record receipt of property tax collections for the first installment of property taxes.	xx xx	xx xx

As of April 30, 2002, the balance in the property tax receivable and deferred revenue accounts should equal the uncollected property taxes.

COOK COUNTY EXAMPLES
(CONTINUED)

If the government maintains its records during the year on the cash basis the following entry would be necessary as of April 30, 2002, to record the uncollected 2001 Levy Receivable:

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
04/30/02	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record uncollected portion of the 2001 Tax Levy.	xx	xx

ACCRUAL BASIS

GASB 34 will require governments to record property taxes on the accrual basis at the government wide level. The appropriation/budget ordinance for the fiscal year ended April 30, 2002, includes part of the revenue from the property tax levy passed by the Village in December of 2001. Therefore, on an accrual basis, the tax levy collections received by April 30, 2002, would be matched against the May 1, 2001 – April 30, 2002 fiscal year. The remaining 2001 tax levy collections would be matched against the May 1, 2002 – April 30, 2003 fiscal year. Therefore, no journal entry is necessary on the government wide financial statements because revenues are recognized as collected.

Example 3: 2001 Property Tax Levy with the levy to be used for the subsequent fiscal year

Village of Illinois

Fiscal year end April 30, 2002

2001 property tax levy lien date	January 1, 2001
Appropriation ordinance adopted (for year ended April 30, 2002)	April 29, 2001
2001 property tax levy ordinance adopted	December 18, 2001
2001 property tax levy collection dates:	
1 st installment	March 1, 2002
2 nd installment	September 1, 2002
Appropriation ordinance adopted (for the year ended April 30, 2003) (the 2001 levy is for the year May 1, 2002 – April 30, 2003)	April 25, 2002

For the above set of facts the following are the adjusting journal entries suggested for a governmental fund following the modified accrual basis of accounting:

MODIFIED ACCRUAL BASIS

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
12/18/01	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record receivable when levy has been enacted.	xx	xx
03/01/02	Cash Property Tax Receivable (2001 Levy) To record receipt of property tax collections for the first installment of property taxes.	xx	xx

COOK COUNTY EXAMPLES
(CONTINUED)

Note: No entry is made to the deferred property tax revenue account when the collections are received, since the revenue is intended for the fiscal year May 1, 2002 – April 30, 2003.

As of April 30, 2002, the balance in the property tax receivable and deferred revenue accounts will not equal the uncollected property taxes. The total deferred revenue account will equal the total 2001 Levy.

After the beginning of fiscal year 2003, the Village then records the property taxes that have been deferred as of April 30, 2002.

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
05/01/02	Deferred Property Tax Revenue Property Tax Revenue (2001 Levy) To record property tax revenue for the 2001 Levy that is to fund fiscal year 2003 operation.	xx	xx

If the government maintains its records during the year on the cash basis the following entries would be necessary to convert to the modified accrual basis as of April 30, 2002, to record the uncollected 2001 Levy Receivable and the deferral of property taxes:

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
04/30/02	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record uncollected portion of the 2001 Tax Levy.	xx	xx
04/30/02	Property Tax Revenue (2001 Levy) Deferred Property Tax Revenue To defer property tax revenue for amounts collected prior to year end.	xx	xx

Note: This entry assumes that as the collections are received they are recorded to property tax revenues.

05/01/02	Deferred Property Tax Revenue Property Tax Revenue (2001 Levy) To record property tax revenue for amounts collected in the prior year that are to fund fiscal year 2003 operation	xx	xx
----------	--	----	----

ACCRUAL BASIS

GASB 34 will require governments to record property taxes on the accrual basis at the government wide level. The appropriation ordinance passed by the Village in April of 2002 intends to use the levy collection for the year May 1, 2002 – April 30, 2003. Therefore, on an accrual basis the tax levy would be matched against the May 1, 2002 – April 30, 2003 fiscal year. Therefore, no journal entry is necessary to the government wide financial statements.

NON-COOK COUNTY EXAMPLES

Example 4: 2001 Property Tax Levy with the levy collections to be used for the prior fiscal year

Village of Illinois

Fiscal year end April 30, 2002

2001 property tax levy lien date	January 1, 2001
Appropriation ordinance adopted (for year ended April 30, 2002) (the entire 2001 levy is intended to be used for the year ended April 30, 2002)	April 29, 2001
2001 property tax levy ordinance adopted	December 18, 2001
2001 property tax levy collection dates:	
1 st installment	June 1, 2002
2 nd installment	September 1, 2002

For the above set of facts, the following are the adjusting journal entries suggested for a governmental fund following the modified accrual basis of accounting:

MODIFIED ACCRUAL BASIS

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
12/18/01	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record receivable when levy has been enacted.	xx	xx

As of April 30, 2002, the balance in the property tax receivable and deferred revenue accounts should equal the uncollected property taxes for the collections estimated within 60 days of the fiscal year end. Collections within 60 days can be recognized as revenue under the modified accrual basis.

04/30/02	Deferred Property Tax Revenue Property Tax Revenue (2001 Levy) To record an estimate of property taxes collected through June 30, 2002 (60 day collections will be utilized).	xx	xx
----------	---	----	----

If the government maintains its records during the year on the cash basis the following entry would be necessary to convert to the modified accrual basis as of April 30, 2002, to record the uncollected 2001 Levy Receivable:

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
04/30/02	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record uncollected portion of the 2001 Tax Levy for the property tax collections through April 30, 2002	xx	xx

NON-COOK COUNTY EXAMPLES
(CONTINUED)

04/30/02	Deferred Property Tax Revenue Property Tax Revenue (2001 Levy) To record an estimate of property taxes collected through June 30, 2002 (60 day collection will be utilized).	xx	xx
----------	--	----	----

The following entry would be recorded when collections of property taxes are received:

06/01/02	Cash Property Tax Receivable (2001 Levy) To record receipt of property tax collections for the first installment of property taxes.	xx	xx
----------	--	----	----

Note: No entry was made at this date to recognize revenue because the government chose to recognize the collections within the first 60 days of the year end. Deferred revenue would then be recognized as revenue after the 60 day collections have been received.

ACCRUAL BASIS

GASB 34 will require governments to record property taxes on the accrual basis at the government wide level. The appropriation/budget ordinance for the fiscal year ended April 30, 2002, includes revenue from the property tax levy passed by the Village in December of 2001. Therefore, on an accrual basis the tax levy collections for the 2001 Tax Levy would be matched against the May 1, 2001 – April 30, 2002 fiscal year. In addition to the entries noted above, the following entry will be necessary to the government wide financial statements:

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
04/30/02	Deferred Property Tax Revenue Property Tax Revenue (2001 Levy) To record the remaining uncollected 2001 property taxes.	xx	xx

Example 5: 2001 Property Tax Levy with the collections to be recognized as collected, or 2001 Property Tax Levy with the levy to be used for the subsequent fiscal year

Village of Illinois

Fiscal year end April 30, 2002

2001 property tax levy lien date	January 1, 2001
Appropriation ordinance adopted (for year ended April 30, 2002)	April 29, 2001
2001 property tax levy ordinance adopted	December 18, 2001
2001 property tax levy collection dates:	
1 st installment	June 1, 2002
2 nd installment	September 1, 2002
Appropriation ordinance adopted (for the year ended April 30, 2003) (the 2001 levy is for the year May 1, 2002 – April 30, 2003)	April 25, 2002

NON-COOK COUNTY EXAMPLES
(CONTINUED)

For the above set of facts the following are the adjusting journal entries suggested for a governmental fund following the modified accrual basis of accounting:

MODIFIED ACCRUAL BASIS

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
12/18/01	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record receivable when levy has been enacted.	xx	xx
4/30/02	Note: No entry is made to the deferred property tax revenue account when the collections are received, since the revenue is intended for the fiscal year May 1, 2002 – April 30, 2003.		

If the government maintains its records during the year on the cash basis the following entries would be necessary to convert to the modified accrual basis as of April 30, 2002, to record the uncollected 2001 Levy Receivable and the deferral of property taxes:

<u>Date</u>	<u>Journal Entry</u>	<u>DR</u>	<u>CR</u>
04/30/02	Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue To record the 2001 Tax Levy.	xx	xx

The following entry would be recorded when collections of property taxes are received:

06/01/02	Cash Property Tax Receivable (2001 Levy) Deferred Property Tax Revenue Property Tax Revenue (2001 Levy) To record receipt of property tax collections for the first installment of property taxes.	xx xx	xx xx
----------	--	--------------	--------------

ACCRUAL BASIS

GASB 34 will require governments to record property taxes on the accrual basis at the government wide level. The appropriation ordinance passed by the Village in April of 2002 intends to use the levy collection for the year May 1, 2002 – April 30, 2003. Therefore, on an accrual basis the tax levy would be matched against the May 1, 2002 – April 30, 2003 fiscal year. Therefore, no journal entry is necessary to the government wide financial statements.