

DEPARTMENT OF FINANCE AND ADMINISTRATION—POLICY 09

Revenue Recognition of Taxes, Licenses, Permits and Fees on the Modified Accrual Basis

(Revised August, 2005)

Applicable State Law

1. According to T.C.A. 4-3-1007, the Department of Finance and Administration “has the power and is required to: (1) maintain a system of general accounts embracing all the financial transactions of state government; ... (10) exercise the rights, powers and duties (except the power to collect taxes), conferred by law upon the comptroller of the treasury ... insofar as these provisions relate to financial administration and general accounting control of the state government, involving the keeping of general accounts, ...[and] (11) in consultation with the comptroller of the treasury, establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control ...”

Applicability and Effective Date

2. The requirements of this Policy Statement 09, as amended, apply to all state departments, agencies, boards, and commissions that collect tax, license, fee, or permit revenue for the State of Tennessee reporting entity (including component units). Policy Statement 09 shall be effective immediately upon issuance and remain in effect until amended or rescinded.

General Rule

3. All receipts of tax revenues for which the State or its agencies have an enforceable legal claim or for which the underlying exchange transaction has occurred should be recognized as revenue of the prior fiscal year if that revenue is measurable and available (as defined in paragraph 4D) to pay liabilities of the prior fiscal year. Those revenues not meeting the criteria should be deferred, in whole or in part, and recorded as revenues of the current or future period or periods. Revenues should be recorded in the accounting records in accordance with this Policy Statement 09, except as expressly provided in the various statements of policy and procedure issued by the Department of Finance and Administration, or in the law of the State of Tennessee as cited in the Tennessee Code Annotated and its supplements.

Definitions

4. The following definitions shall apply to accounting for revenue:
 - A. Revenues Revenues result from taxation, exchange and exchange-like transactions, nonexchange transactions and events, and/or from interest and penalties.
 - B. Revenue Accrual Recognition of revenue in the period when an enforceable legal claim has arisen and the resources are measurable and available, or when the underlying exchange transaction has occurred.
 - C. Unearned (Deferred) Revenue Deferral of revenue is delaying recognition of some or all of the revenue when collected. The portion of the revenue that is applicable to one or more future periods is deferred for recognition in the period or periods to which it applies. In governmental accounting, deferral of revenue may also include certain revenues that are measurable but will not be available to pay obligations of the prior period, for example, delinquent taxes. In that example, a portion of the delinquent taxes receivable must be recognized as deferred revenue.
 - D. Basis of Accounting Under the *modified accrual basis of accounting*, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual—that is when the revenue item is both *measurable* and *available* to finance expenditures of the fiscal period. Furthermore, *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. All governmental fund tax revenue is susceptible to accrual if it is attributable to the prior fiscal year by reason of taxpayer liability to the state or its agencies, and receipts of payment occur within sixty days (by August 31).

Rules of Procedure

2. Receipt of Payment for Taxes Within the Accrual Period At June 30, a receivable and a credit to revenue must be established for each type of revenue collected within sixty days of the fiscal year end for which the underlying transaction occurred. In the subsequent fiscal year, reversing entries should be made. As revenue is collected in the accrual period, a debit to cash and a credit to revenue should be made.

Recording and Receipt of Delinquent Taxes At June 30, a receivable should be established for delinquent taxes owed for the prior fiscal year as an amount to be partly accrued and partly deferred. An allowance for uncollectible taxes should also be established. Revenue of the prior year should be credited for an amount deemed to be collectible within the accrual period. The balance of the receivable amount should be credited to deferred revenue. In the subsequent fiscal year, revenue and deferred revenue accounts should be reversed. As these receivables are collected during the accrual period, a debit to cash and a credit to revenue should be made. Subsequent to the accrual period, a debit to cash and a credit to current year revenue should be made. Thus, the revenue will be recognized in the period in which it is deemed available to pay expenditures for the appropriate year.

Overpayment of Prior Period Taxes If, due to a filing error, a taxpayer has paid an amount during the prior fiscal year in excess of the taxes owed for the prior period and files a return before or during the accrual period, the accounting for the overpayment should be as follows: at June 30, debit revenue for the amount of overpayment received, credit the refunds payable if the funds are to be returned to the taxpayer, or credit deferred revenue if the overpayment is to be applied to the taxpayer's future tax liability. In the subsequent fiscal year, a reversing entry for these accounts should be made.

Licenses, Fines, Fees and Permits: Revenues generated by the issuance of licenses, fees and permits in exchange for services or privileges granted to the payees of these licenses, fees, or permits are not susceptible to accrual. They are recognized as revenue as cash is received.

Penalties and Interest for Late Payment of Taxes: Penalties assessed taxpayers due to late payment of taxes or for failure to file tax returns in a timely manner must be established in the accounts as revenue of the period in which the penalty is assessed. Interest on delinquent taxes must be recognized as revenue, as it accrues over time. Penalties and interest must be recorded as revenue of the related tax type and included in the related receivable.

Approvals

Approval of Commissioner of Finance and Administration:

I, M. D. Goetz, hereby approve of this amended Policy Statement 09 of the Department of Finance and Administration and as such agree with and authorize actions necessary to implement its requirements.

Signed: _____ Date _____
M.D. Goetz, Commissioner
Department of Finance and Administration

Approval of the Comptroller of the Treasury

I, John Morgan, hereby approve of this amended Policy Statement 09 of the Department of Finance and Administration, and as such agree with and authorize actions necessary to implement its requirements.

Signed: _____ Date _____
John Morgan, Comptroller
Office of the Comptroller of the Treasury