

TARC Recommends Accounting Treatment for PPRT Revenue Misallocation

Background

In late April, local governments received a notice from the Illinois Department of Revenue (IDOR) that a misallocation of Personal Property Replacement Taxes (PPRT) had resulted in an overpayment of an estimated \$168 million to local governments. IDOR has requested the Auditor General review the findings before finalizing a plan to recapture the funds over an extended period of time. The earliest that IDOR may begin to recoup the payments would be January 2017. A list of the estimated impact by taxing district may be found on the IDOR's website at <http://www.revenue.state.il.us/News/PPRT-Update.htm>

Recommended Accounting Treatment

TARC has concluded that this recovery warrants recognition as a liability, as defined by GASB Concepts Statement 4, for local governments until the obligation is satisfied. For entities with November 30 or December 31 year ends (or earlier) that have not yet issued their 2015 fiscal year end financial statements, the liability should be recognized at year end based on the GASB Statement No. 56 criteria for subsequent events, as described in paragraphs 8 through 11 because the misallocation occurred prior to year end. Entities with April 30 year ends or beyond would have received the IDOR notice prior to year end. Therefore subsequent event treatment is not relevant. However, recognition of a liability in the financial statements for any remaining obligation from the recovery is still warranted.

Although reporting the monthly distributions and tax recovery amounts at gross is recommended, the Committee recognizes that materiality may impact a government's decision on how to record and disclose the recovery amounts. Materiality will vary depending on the funds/opinion units that report PPRT taxes. If the transaction is not material to the local government, the government may decide not to record this transaction.

If material, netting the recovery amounts against revenues and/or receivables would not be appropriate. Instead, governments should record a liability to IDOR and a corresponding reduction to PPRT revenue for the amount due to be recouped by the IDOR in the fund(s) that received the over allocation. It is important to note that the liability should be treated as a fund liability regardless if the payment period is longer than one year. In future periods, when the reduced payments are received from the IDOR, the government should reduce the liability and increase revenue for the corresponding reduction to the payment. Depending on the significance of the recovery, additional footnote disclosure may be appropriate.

Governments are strongly encouraged to discuss the recovery and the treatment they have elected with their auditors.