

GET With GAAP

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Information Related to Previous LIT Guidance from SBOA Memorandum dated July 12, 2023

We are issuing a change in guidance for preparation of your next GAAP financial statements. Complete SBOA guidance is below. Almost all of the July 12, 2023 Memorandum is unchanged by the information below. The only changes are contained within the text boxes. Therefore, if you are familiar with the Memorandum from last year regarding LIT reporting you will want to concentrate on the areas within the text boxes for the changes. These changes are minor and pertain to reporting LIT Receivable within the fund financial statements. Other reporting recommendations have not changed.

GAAP Reporting of Local Income Tax

Unified Local Income Taxes (LIT) are derived tax revenues. Therefore, a receivable should be recognized in the period when the exchange transaction on which the tax is imposed occurs or when resources are received, whichever occurs first. Revenue net of estimated refunds and estimated uncollectible amounts, is recognized in the same period the receivable is recognized in accrual based financial statements (GASB Cod. N50.113). For modified accrual (governmental fund statements) revenue will be recognized when they become available and measurable. This means the Unified Local Income Taxes recognized as an asset and revenues in the current year are based on wages/income to the taxpayer from the current year.

The way the LIT statute is written and the GAAP standards that must be applied for asset and revenue recognition are difficult to align for this tax as the actual tax amount net of refunds and uncollectible amounts are not known at the time financial statements are prepared. As time passes, additional information about actual taxes imposed and collected continues to become available and can be used to adjust estimates. Therefore, it is important to determine what we know about the timing of state distributions to local governments for LIT as well as the estimated amounts of LIT.

One might think state distributions would be delayed until the tax imposed is collected and returns are processed by the State. However, that is not what is prescribed by Indiana Code. IC 6-3.6-3 requires the adopting body for LIT to adopt, increase, decrease, or rescind a tax or tax rate by ordinance. The timing of the ordinance passage determines the date of the imposition of the income tax and therefore, the date the asset and revenue should be included in the financial statements of the local government.

Based on IC 6-3.6-9-8, the State is distributing estimated LIT collections either current with the taxable transactions, when the effective date is January 1 of the following year, or within three months, when the effective date of the tax is October 1 of the current year. Per IC 6-3.6-9-16, the county shall allocate and distribute LIT to the appropriate entities upon receipt of each monthly distribution from the State. Therefore, other local governments are also receiving LIT current or within three months of imposition.

Each local government must use the information available to also determine the amount of assets and revenues appropriate to report as financial statements are prepared each year. The State provides much of the information you will find useful for calculating amounts for LIT journal entries and financial statement preparation.

We recommend the modified accrual statements recognize LIT revenue in the amount received during the year in monthly and supplemental distributions. Because of the language in GASB Cod. § N50.108, we believe the Asset recognition in the modified accrual statements would be the same as in the full accrual statement. Our recommendation for the calculation of the LIT Receivable amount is in the following paragraph and is the same for both the modified accrual and full accrual financial statements. Although the underlying derived tax transaction has occurred, revenue recognition in the modified accrual statements for the related LIT Receivable would only occur in these statements if the resources were also available, which we do not believe is the case with LIT. Therefore, the receivable would be posted as an asset with a corresponding deferred inflow of resources-unavailable revenue.

Our recommendation for the full accrual statements is for management to consider the supplemental distribution of LIT for the ensuing year. Because the supplemental distribution equals the amount of the unencumbered balance from two years prior that is determined to be in excess of 15% of the certified distribution minus any supplemental or special distributions that have not yet been accounted for in the last known balance of the county's trust account, you should also consider the amount that equals 15% of certified distributions in your estimations for booking the appropriate LIT receivable and additional revenue.

If you choose another methodology to estimate and book the LIT receivable, deferred inflows, and revenue in your financial statements, that methodology must have a reasonable basis and be supported by documentation that can be audited.

Applicable Indiana Code

IC 6-3.6-3-1 Adopting body; local income tax council; county fiscal body Sec. 1. (a) The following is the adopting body for a county: (1) The local income tax council in a county in which the county income tax council adopted either: (A) a county option income tax under IC 6-3.5-6 (repealed) that was in effect on January 1, 2015; or (B) a county economic development income tax for the county under IC 6-3.5-7 (repealed) that was in effect on January 1, 2015. (2) The county fiscal body in any other county. (3) The county fiscal body for purposes of adopting a rate dedicated to paying for a PSAP in the county as permitted by IC 6-3.6-6-2.5. (4) The county fiscal body for purposes of adopting a rate dedicated to paying for correctional facilities and rehabilitation facilities in the county as permitted by IC 6-3.6-6-2.7. (b) A local income tax council is established for each county. The membership of each county's local income tax council consists of the fiscal body of the county and the fiscal body of each city or town that lies either partially or entirely within that county. As added by P.L.243-2015, SEC.10. Amended by P.L.180-2016, SEC.15; P.L.184-2018, SEC.1.

IC 6-3.6-3-2 Actions by ordinance or resolution; uniform documents; hearing requirements and procedures Sec. 2. (a) An adopting body or, if authorized by this article, another governmental entity that is not an adopting body, may take an action under this article only by ordinance, unless this article permits the action to be taken by resolution. (b) The department of local government finance, in consultation with the department of state revenue, may make electronically available uniform notices, ordinances, and resolutions that an adopting body or other governmental entity may use to take an action under this article. An adopting body or other governmental entity may submit a proposed notice, ordinance, or resolution to the department of local government finance for review not later than thirty (30) days prior to the date that the adopting body or governing body intends to submit the notice, adopting ordinance or resolution, and vote results on an ordinance or resolution under subsection (d). If the adopting body or other governmental entity wishes to submit the proposed notice, ordinance, or resolution to the department of local government finance for review, the adopting body or other governmental entity shall submit the proposed notice, ordinance, or resolution to the department of local government finance on the prescribed forms. The department of local government finance shall provide to the submitting entity a determination of the appropriateness of the proposed notice, ordinance, or resolution, including recommended modifications, within thirty (30) days of receiving the proposed notice, ordinance, or resolution. (c) An ordinance or resolution adopted under this article must comply with the notice and hearing requirements set forth in IC 5-3-1. (d) The department of local government finance shall prescribe the procedures to be used by the adopting body or governmental entity for submitting to the department the notice, the adopting ordinance or resolution, and the vote results on an ordinance or resolution. The department of local government finance shall notify the submitting entity within thirty (30) days after submission whether the department has received the necessary information required by the department. A final action taken by an adopting body or governmental entity under this article to impose a new tax or amend an existing tax is not effective until the department of local government finance notifies the adopting body or governmental entity that it has received the required information from the submitting entity. As added by P.L.243-2015, SEC.10. Amended by P.L.247-2017, SEC.8; P.L.257-2019, SEC.69; P.L.159-2020, SEC.54.

IC 6-3.6-3-3 Effective date of ordinance Sec. 3. (a) An ordinance adopted under this article takes effect as provided in this section. (b) An ordinance that adopts, increases, decreases, or rescinds a tax or a tax rate takes effect as follows: (1) An ordinance adopted after December 31 of the immediately preceding year and before September 1 of the current year takes effect on October 1 of the current year. (2) An ordinance adopted after August 31 and before November 1 of the current year takes effect on January 1 of the following year. (3) An ordinance adopted after October 31 of the current year and before January 1 of the following year takes effect on October 1 of the following year. (c) An ordinance that grants, increases, decreases, rescinds, or changes a credit against the property tax liability of a taxpayer takes effect as follows: (1) An ordinance adopted after December 31 of the immediately preceding year and before November 2 of the current year takes effect on January 1 of, and applies to property taxes first due and payable in, the year immediately following the year in which the ordinance is adopted. (2) An ordinance adopted after November 1 of the current year and before January 1 of the immediately succeeding year takes effect on January 1 of, and applies to property taxes first due and payable in, the year that follows the current year by two (2) years. (d) An ordinance that grants, increases, decreases, rescinds, or changes a distribution or allocation of taxes takes effect as follows: (1) An ordinance adopted after December 31 of the immediately preceding year and before November 2 of the current year takes effect January 1 of the year immediately following the year in which the ordinance is adopted. (2) An ordinance adopted after November 1 of the current year and before January 1 of the immediately succeeding year takes effect January 1 of the year that follows the current year by two (2) years. (e) An ordinance not described in subsections (b) through (d) takes effect as provided under IC 36 for other ordinances of the governmental entity adopting the ordinance. As added by P.L.243-2015, SEC.10. Amended by P.L.247-2017, SEC.9.

IC 6-3.6-9-1 Budget agency accounting for each county; undistributed amounts Sec. 1. (a) The budget agency shall maintain an accounting for each county imposing a tax based on annual returns filed by or for county taxpayers. Any undistributed amounts so accounted for shall be held in reserve for the respective counties separate from the state general fund. (b) Undistributed amounts shall be invested by the treasurer of state and the income earned shall be credited to the counties based on each county's undistributed amount. As added by P.L.243-2015, SEC.10. Amended by P.L.126-2016, SEC.1; P.L.165-2021, SEC.93.

IC 6-3.6-9-4 Distribution of revenue to a county; amount Sec. 4. Revenue derived from the imposition of the tax shall, in the manner prescribed by this chapter, be distributed to the county that imposed it. The amount that is to be distributed to a county during an ensuing calendar year equals the amount of tax revenue that the budget agency determines has been: (1) attributed to that county for a taxable year ending in a calendar year preceding the calendar year in which the determination is made; and (2) reported on an annual return or amended return filed by or for a county taxpayer and processed by the department in the state fiscal year ending before July 1, or for a federal income tax deadline set after July 1, a date set by the department for a period of not more than sixty (60) days beyond the federal deadline, of the calendar year in which the determination is made. As added by P.L.243-2015, SEC.10. Amended by P.L.165-2021, SEC.94; P.L.137-2022, SEC.54.

IC 6-3.6-9-8 Adjustment of certified distribution; tax; tax rate Sec. 8. This section applies to a county that imposes, increases, decreases, or rescinds a tax or tax rate under this article before November 1 in the same calendar year in which the budget agency makes a certification under this section. The budget agency shall adjust the certified distribution of a county to provide for a distribution in the immediately following calendar year and in each calendar year thereafter. The budget agency shall provide for a full transition to certification of distributions as provided in section 4(1) through 4(2) of this chapter in the manner provided in section 6 of this chapter. If the county imposes, increases, decreases, or rescinds a tax or tax rate under this article after the date for which a certification under section 5(b) of this chapter is based, the budget agency shall adjust the certified distribution of the county after October 1 and before December 1 of the calendar year. The adjustment must reflect any other adjustment required under sections 6 and 7 of this chapter. The adjusted certification shall be treated as the county's certified distribution for the immediately succeeding calendar year. The budget agency shall certify the adjusted certified distribution to the county auditor for the county and provide the county council with an informative summary of the calculations that revises the informative summary provided in section 9 of this chapter and reflects the changes made in the adjustment. As added by P.L.243-2015, SEC.10.

IC 6-3.6-9-16 Allocation and distribution of a county's monthly payment to the appropriate entities Sec. 16. Upon receipt, each monthly payment of a county's certified distribution or supplemental distribution shall be allocated and distributed to the appropriate entities in accordance with this article and the allocation ordinances adopted under this article. As added by P.L.243-2015, SEC.10.

Additional Authoritative Literature

Derived Tax Revenue Transactions

Asset Reporting Full Accrual and Modified Accrual

GASB Cod. § N50.108: "All standards in this section apply whether the accrual basis or the modified accrual basis of accounting is required, except for the revenue recognition standards. (When the modified accrual basis of accounting is used for governmental funds in the fund financial statements, the requirements of this section for the recognition of *expenses* should be interpreted as requirements for the recognition of *expenditures*.) For revenue recognition, the standards in paragraphs [.113-.125](#) apply when the accrual basis of accounting is required and the standards in paragraphs [.126 and .127](#) apply when the modified accrual basis of accounting is required. On either basis of accounting, recognition of nonexchange transactions in the financial statements is required unless the transactions are not *measurable* (reasonably estimable) or are not *probable* ⁶ of collection. Transactions that are not recognizable because they are not measurable should be disclosed. [GASBS 33, ¶11, as amended by GASBS 35, ¶15; GASBS 34, ¶179]"

Full accrual basis

GASB Cod. § N50.113: "Governments should recognize *assets* from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. *Revenues* should be recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. Resources received in advance should be reported as liabilities until the period of the exchange. Derived tax revenues generally do not have time requirements. However, if they apply, asset and revenue recognition should be consistent with the requirements for imposed nonexchange revenue transactions. [GASBS 33, ¶16, as amended by GASBS 65, ¶31; GASBS 33, fn8]"

Modified accrual basis

GASB Cod. § N50.127(a): "When the modified accrual basis of accounting is used, revenues resulting from nonexchange transactions should be recognized as follows:

a. *Derived tax revenues*. Recipients should recognize revenues in the period when the underlying exchange transaction has occurred *and* the resources are available."

GASB 65 Paragraph 30: "[Paragraph 62](#) of NCGA Statement 1 provides that revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available."