

**List of Submissions to Proposed Interpretation “*Australian Superannuation Contributions Tax on Defined Benefit Plans*”**

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12 March 2009

**Finance & Administration  
Corporate Planning, Accounting & Admin**

*Corporate Accounting  
35/242 Exhibition Street  
Melbourne 3000, Victoria  
Australia*

The Acting Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Dear Sir,

**Proposed Interpretation – Australian Superannuation Contributions Tax for Defined Benefit Plans**

We are pleased to respond to the AASB Proposed Interpretation on Australian Superannuation Contributions Tax for Defined Benefit Plans.

We agree with the proposal that the impact of contributions tax payable by a defined benefit plan should be taken into account by the employer sponsor. This proposal is consistent with the requirement of AASB 119 paragraph Aus 55.1 that was deleted by the Board in AASB 2005-3 *Amendments to Australian Accounting Standards [AASB 119]* and the manner in which actuaries reflect the impact of contributions tax into the calculation of the defined benefit obligation.

We understand that in the development of the proposed interpretation Board members agreed with including contributions tax payable when a defined benefit plan is in a liability position. However, the Board had mixed views on whether the potential saving in contributions tax should be recognised when a defined benefit asset arises. We believe that the potential saving in contributions tax should be taken into consideration in the measurement of the defined benefit plan as it represents an asset to the entity. To avoid any confusion on the appropriate accounting treatment and ensure consistency across the financial reports of entities with defined benefit assets, we recommend the proposed interpretation should specifically address the issue. This could be achieved by providing commentary paragraphs under the consensus in paragraph 11 or in the Basis for Conclusions.

Please contact me on (03) 9634 6470 if you need any further explanation of the letter.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Anderson".

**David Anderson**  
Director Corporate Accounting

31 March 2009

Mr Bruce Porter  
Acting Chairman  
Australian Accounting Standards Board  
PO BOX 204  
COLLINS ST WEST VIC 8007

Email: [standard@aab.gov.au](mailto:standard@aab.gov.au)

Dear Bruce

**AASB Proposed Interpretation 10XX Australian Superannuation Contributions Tax for Defined Benefit Plans**

CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) are pleased to respond to the Proposed Interpretation Australian Superannuation Contributions Tax for Defined Benefit Plans.

We do not support the Australian Accounting Standards Board's (AASB) proposal to issue an Interpretation that will result in different outcomes from those that could have been achieved under IFRS. We are concerned that the AASB's [proposed] Interpretation does not deliver the full benefits of Australia's adoption of the International Financial Reporting Standards (IFRS). We contend that IAS 19 *Employee Benefits* allows different valid approaches for determining the amount to be recognised as a defined benefit liability/asset. We understand that there can be significantly different outcomes depending on the approaches taken – therefore, the level of comparability in financial reporting in Australia may be marginally diminished. However, we believe that having the same requirements as IFRSs for for-profit entities is in Australia's interest and will protect the brand of Australia's compliance with IFRS.

We understand that the AASB approached the International Financial Reporting Interpretations Committee (IFRIC) about this topic and have been unsuccessful getting it onto the international agenda. We believe that topics such as this should be dealt with by IFRIC and that greater research into the issue and the extent to which similar issues exist in other IFRS adopting countries around the world should be undertaken before making a formal proposal to IFRIC.

Should the AASB proceed with the [proposed] Interpretation, we agree that the inclusion of the Australian superannuation contributions tax in the determination of the present value of the defined benefit obligation is allowable. However, as noted above, we do not agree the [proposed] Interpretation is the only valid interpretation of AASB 119 – the return on plan assets discussed at paragraphs BC10 – BC15 of the [proposed] Interpretation is equally valid.

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

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We are not convinced that the AASB is able to restrict the scope of the [proposed] Interpretation to having opined on whether the impact of Australian superannuation contributions tax expected to be paid by an employer sponsor to fund a defined benefit plan should be included in the measurement of the defined benefit obligation or in the measurement of return on plan assets. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 12 states that management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to determine the accounting policy of the relevant entities. Although the tax treatment in Australia is uniquely characterised as a TTT regime (tax is imposed on contributions, investment income and capital gains derived from contributions and the payment of benefits),<sup>1</sup> some commentators have noted that the employers contributions to pension plans in Luxembourg and New Zealand are also taxed.<sup>2</sup> Thus, to the extent that the [proposed] Interpretation provides an accounting characterisation for Australian superannuation contributions tax its application could be extrapolated to equivalent superannuation contributions tax outside of Australia (for example, Luxembourg and New Zealand) where there is no current accounting policy.

In the process of finalising this submission, we became aware of a separate issue re AASB 119 – the different approaches to the treatment of taxes on investment income in defined superannuation plans. We strongly suggest that the AASB undertake preliminary research of this issue with the objective of raising the issue (if considered necessary) with the International Financial Reporting Interpretations Committee.

If you require further information on any of our views, please contact Mark Shying, CPA Australia via email [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au) or Kerry Hicks, the Institute via email [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au).

Yours sincerely



Geoff Rankin  
Chief Executive Officer  
CPA Australia Ltd



Graham Meyer  
Chief Executive Officer  
Institute of Chartered Accountants

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<sup>1</sup> Arrangements implemented in July 2007 have caused some commentators to characterise Australia as a tTE regime (contributions and earnings are taxed, but at preferential rates to other forms of saving. Withdrawals from taxed funds by individuals aged over 60 years are tax-exempt).

<sup>2</sup> Yoo, K.Y. and A. de Serres, 2005, Tax treatment of private pension plans in OECD countries, *OECD Economic Studies*, 39, 2, pp 73-110.  
Marriot, L, 2008. The taxation of retirement savings: a Trans-Tasman perspective. *The Melbourne Review*, 4, 2, pp 67-70.

**David Knox**  
Senior Actuary

**MERCER**

 MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

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31 March 2009

The Acting Chairman  
AASB  
PO Box 204  
Collins Street West  
VIC 8007  
By email: standard@asb.gov.au

Dear Sir,

**Proposed Interpretation 10XX: Australian Superannuation Contributions Tax for Defined Benefit Plans**

Mercer is pleased to be able to respond to the Australian Accounting Standards Board's call for comments on the Proposed Interpretation in relation to AASB 119 and contributions tax for defined benefit plans.

**Superannuation Contributions Tax**

We agree with the Board's conclusion that the impact of superannuation contributions tax should be allowed for in the calculations required in accordance with AASB 119. We also agree that the impact of contributions tax should be included in the measurement of the plan's defined benefit obligation, rather than in the measurement of the return on plan assets. This is the current approach that Mercer employs for the calculations it performs for entities as required by AASB 119.

Tax on the contributions paid to a plan is ultimately a liability of the entity, as the entity needs to pay a higher amount to cover the tax than would otherwise be needed. It therefore increases the overall cost to the entity of providing benefits in the superannuation plan. It is therefore reasonable to include an appropriate allowance for contributions tax relating to benefits already accrued in the plan in the measurement of the defined benefit obligation.

**Taxable Contributions**

We note that paragraph 1 of the Proposed Interpretation states that "*taxable contributions include ... an employee's member contributions as might be specified by the requirements of a defined benefit plan*". We believe this statement is misleading, in that member

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

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The Acting Chairman  
AASB

contributions to a defined benefit plan would only be taxable if made from pre-tax salary (ie salary sacrificed contributions). We recommend that the wording in paragraph 1 be amended to reflect this.

## **Superannuation Investment Tax**

Whilst we acknowledge that the Proposed Interpretation refers only to contributions tax, we would like to take this opportunity to encourage the Board to issue a similar interpretation covering the issue of superannuation investment tax. There has been significant debate between actuaries and auditors about the appropriate allowance for investment tax in the calculations required by AASB 119, in particular in relation to the setting of the discount rate. There is still uncertainty in both groups. Appropriate guidance from the Board would help to resolve this uncertainty.

## **About Mercer**

Mercer is one of the leading providers of actuarial, consulting and administrative services to superannuation funds in Australia. We also operate one of Australia's largest superannuation master trusts. We have a large client base of employers contributing to defined benefit public sector and corporate superannuation funds to whom we provide financial reporting information in accordance with AASB 119. Indeed we have the largest number of superannuation actuaries in Australia who prepare AASB119 reports for their clients.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dr David Knox'.

**Dr David Knox**  
**Senior Actuary**



## Institute of Actuaries of Australia

30 March 2009

The Acting Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
VICTORIA 8007

E-mail: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Dear Sir/Madam

### **Proposed Interpretation on Australian Superannuation Contributions Tax for Defined Benefit Plans under AASB 119**

The Institute of Actuaries of Australia (the Institute) welcomes the work the AASB has undertaken on this important issue. We believe that there is the potential for differing interpretations amongst preparers of financial statements. Some guidance is, therefore, warranted.

We have, however, previously indicated to the AASB that Australia is not unique in levying taxes on private retirement arrangements. Hence, the issue of an Australian interpretation continues to raise issues of international consistency. It is unfortunate that the IASB has so far declined to consider this issue. We encourage the AASB to continue to discuss the issue with the IASB.

Turning to the proposed interpretation, we agree that it is consistent with the economic substance of the tax (i.e. in the majority of cases the tax represents an additional cost to employers in the provision of defined benefit superannuation). Further, contributions taxes increase the liability to be funded by employer contributions in respect of a deficit in a defined benefit superannuation fund.

The draft interpretation, however, raises the following issues:

- The draft interpretation does not specifically address whether the allowance is appropriate both when a fund is in surplus and when it is in deficit. We believe that the economic substance is equivalent (i.e. there is a saving in contributions tax when a fund is in surplus). However, we understand that this may be a contentious issue. Hence, more specific discussion may be appropriate.
- We note that the actual treatment of contributions tax may be allowed for as an "actuarial assumption". We believe that there may be reasons for making different allowance in different circumstances (for example, for funds with pre-existing tax credits) and so it may not be appropriate to be prescriptive in how contributions tax is to be allowed for. However, to simply say that it may be allowed for as an actuarial assumption without giving any guidance on the Board's intentions would not appear to lead to consistent treatment.

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- The draft interpretation does not discuss how the cost of contributions tax should be included in the annual superannuation expense.

Given that an allowance is to be included in the defined benefit obligation, one interpretation would be that some of the annual expense in respect of contributions tax will arise through the service cost (which represents the annual accrual in defined benefit obligation), if an expected amount of contributions tax accruing over the year is determined. Some of the expense may also arise through the recognition of gains and losses on the defined benefit obligation, to the extent that there is an unexpected change in the provision due to experience.

However, these suggestions represent our view on a possible outcome of the proposed interpretation. We do not believe that these conclusions can necessarily be drawn from the proposed interpretation or that all preparers of the financial statements will reach the same view.

- As indicated above, tax on private retirement arrangements is not limited to Australia. Some Australian companies will sponsor retirement funds in other countries that have also taxes, in particular New Zealand. It is not clear if or how this interpretation would apply in those cases.
- Paragraph 1 of the interpretation notes that

*“Taxable contributions include those made by an employer sponsor, an employee’s salary sacrificed contributions, and an employee’s member contributions as might be specified by the requirements of a defined benefit plan.”*

We note the employee contributions are typically divided into salary sacrifice contributions and post-tax (or non-concessional) contributions. Post-tax contributions are not subject to contributions tax in the superannuation fund. Hence the reference to “employee’s member contributions” immediately after the reference to salary sacrificed contributions is potentially confusing or misleading. We would suggest the removal of that reference from that paragraph.

Finally, we note that this interpretation only addresses contributions taxes. Taxes on investment income in defined benefit superannuation plans are an issue that is open to even wider interpretation. As there is a degree of interaction between contributions and investment taxes (there is no separation of this concept in tax law), we would suggest that investment taxes also be addressed as a matter of urgency if they cannot be addressed as part of this interpretation.

We would be pleased to discuss any aspect of this letter with you. Please do not hesitate to contact the Chief Executive, John Maroney ((02) 92333466; [john.maroney@actuaries.asn.au](mailto:john.maroney@actuaries.asn.au)) if you wish to discuss any of our comments.

Yours sincerely



**Trevor Thompson**  
President



Deloitte Touche Tohmatsu  
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01 APR 2009

Mr Bruce Porter  
The Acting Chairman  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

31 March 2009

Our Ref: dr/kl

Dear Bruce

**Invitation to Comment Proposed Interpretation 10XX *Australian Superannuation Contributions Tax for Defined Benefit Plans***

Thank you for the opportunity to comment on the Australian Accounting Standards Board (AASB) Proposed Interpretation 10XX *Australian Superannuation Contributions Tax for Defined Benefit Plans* (Interpretation 10XX).

We do not believe that the AASB should proceed with the finalisation and issue of Interpretation 10XX, and would strongly recommend that instead the AASB work with the International Accounting Standards Board (IASB) on resolving this matter.

The reason for our objection is Interpretation 10XX represents the elimination of accounting policy options under Australian Accounting Standards that are available to entities that report under 'pure' International Financial Reporting Standards (IFRS), which may be seen as inconsistent with the AASB's objectives in relation to full convergence with IFRS and result in a lack of global comparability.

We note that at the March 2009 IASB meeting the Board specifically considered the issue of tax relating to pension costs. It is our understanding, based on our observer's notes, that the Board agreed with the staff recommendation i.e. to amend the definition of return on plan assets so that it includes any tax that has not been included in the actuarial assumptions used to measure the defined benefit obligation. This would be consistent with the approach taken for administration costs and would ensure that the tax is not double counted or not reflected at all. It would also be consistent with the principle underlying IAS 19 that employers should measure employee benefits at their *ultimate cost*.

Furthermore, we recommend that the AASB work with the IASB to consider a further related issue which is also subject to divergent interpretation to ensure this issue is not overlooked in any amendments to IAS 19. While most commentators would accept that when an employer sponsor recognises a defined benefit deficit it should recognise the contributions tax which would be incurred on funding the deficit in order to recognise the ultimate cost of reducing the deficit in the plan; the position is less clear when the defined benefit plan is in surplus. While Agenda Paper 8I for the IASB March 2009 meeting addressed the situation when the

Member of  
Deloitte Touche Tohmatsu

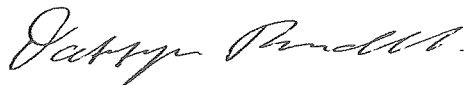
**Deloitte.**

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defined benefit plan is in deficit (see point 7) it failed to address the situation when the plan is in surplus. For many years this issue has been the subject of divergent interpretation between both actuaries and accountants and it is not specifically addressed in Interpretation 10XX. We believe the wording in paragraph 11 of Interpretation 10XX is extremely subtle in referring to the *contributions tax payable* by the plan and hence will be open to interpretation in the absence of further clarification. We understand that some commentators would continue to interpret this wording as permitting an employer sponsor to gross up a surplus for the contributions tax that would have been incurred on contributions to settle the liability this surplus negates.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9208 7916.

Yours sincerely



**Darryn Rundell**  
Partner  
Deloitte Touche Tohmatsu



Bruce Porter  
Acting Chairman  
Australian Accounting Standards Board  
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31 March 2009

Dear Bruce

**Proposed Interpretation 10XX Australian Superannuation Contributions Tax for Defined Benefit Plans**

We write in response to the request for comments contained in the Australian Accounting Standards Board (AASB) Proposed Interpretation *Australian Superannuation Contributions Tax for Defined Benefit Plans*.

We concur with the Board's conclusion that Superannuation Contributions Taxes can be included in the measurement of the defined benefit obligation under AASB 119. However we wonder how the Board intends to reconcile its position that this is the only possible treatment, with the recent discussions held at the IASB where it was acknowledged that both this approach and the alternative view written up in the Basis for Conclusions to the Proposed Interpretation are possible interpretations of IAS 19.

In our view the development of interpretations by the AASB on Australian equivalents to International Financial Reporting Standards (AIFRS) should only occur in the rare circumstances where there are scenarios unique to Australia that require interpretation. Notwithstanding the comments in the draft interpretation that make it clear that it only applies to Australian Superannuation Contributions Tax, we are concerned that the interpretation may be viewed as concluding on similar taxes in other jurisdictions.

Furthermore, as noted above, we are aware that the treatment of taxes relating to pension costs was discussed by the International Accounting Standards Board (IASB) at its meeting this month in the context of the post-employment benefit project (agenda paper 8I). Based on these discussions it seems to us to be likely that the proposed changes to IAS 19 and related communications by the IASB will be sufficient to resolve the issue.

Accordingly, we recommend that the Board does not proceed with this interpretation.



Bruce Porter  
31 March 2009

Some editorial comments are set out in the Attachment to this letter.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

A handwritten signature in cursive script that reads "Jan McCahey".

Jan McCahey  
Partner  
Assurance



Bruce Porter  
31 March 2009

## Attachment – Draft interpretation on Australian Superannuation Contributions Tax

### Editorial comments

While we agree that including contributions tax in the measurement of the defined benefit obligation is consistent with the principles in AASB 119, we found the arguments provided by the AASB in paragraph BC 13 to be not very convincing.

We do not believe that the defined benefit plan is genuinely acting as an agent by paying the contributions tax 'on behalf of the employer sponsor'. Under the *Income Tax Assessment Act 1936* it is the plan itself that is liable for the tax and not the employer. The tax is not levied on the contributions alone, but is payable on the net taxable income of the fund which also includes income from investment earnings and is net of allowable deductions.

We also do not understand how the fact that unpaid contributions must be excluded from plan assets supports the argument that future contributions tax must be included in the measurement of the defined benefit obligation. Interestingly, we note that the IASB in agenda paper 8I for its March 2009 meeting mentions this particular paragraph as one that could be seen to prevent contribution taxes being included in the measurement of the defined benefit obligation.

In our view, there is sufficient support for including the tax in the measurement of the defined benefit obligation in paragraphs 7 and 63. These state that the defined benefit obligation is measured by taking into account the expected future payments required to settle the obligation resulting from employee service in the current and prior period and that the measurement should take into account the ultimate cost of the defined benefit plan. It should therefore not be necessary to rely on a constructed agency relationship or paragraph 103.

However, if the AASB decides to issue the interpretation, it should discuss the nature of the tax and why it is different to investment tax and hence warrants a different accounting treatment. For example, the interpretation could explain that contributions tax is an unavoidable cost of running the fund and hence directly related to providing the benefits to the employees. In this sense it differs from the tax on investment income which is linked to the return on plan assets and only payable if the fund earns taxable income from its investments.



**Bruce Porter**  
**31 March 2009**

On that basis, a different treatment of the two taxes is justifiable, being:

- Contributions tax: include in the measurement of the defined benefit obligation as proposed in the interpretation
- Investment tax: include in return on plan assets; do not accrue in advance as part of the defined benefit obligation.

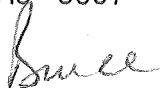
## Department of Treasury and Finance

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Mr Bruce Porter  
Acting Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins St West  
MELBOURNE Vic 8007

Dear Mr Porter



### **PROPOSED INTERPRETATION: AUSTRALIAN SUPERANNUATION CONTRIBUTIONS TAX FOR DEFINED BENEFIT PLANS**

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to comment on the Proposed Interpretation *Australian Superannuation Contributions Tax for Defined Benefit Plans*.

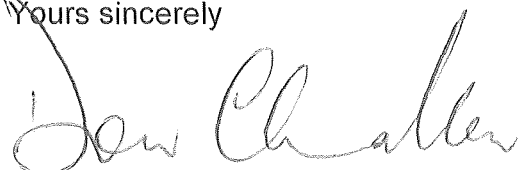
HoTARAC does not believe that the Interpretation's consensus will significantly impact the Australian public sector as it is common practice amongst HoTARAC members to allow for contributions tax when measuring a defined benefit obligation. HoTARAC considers the determination of the contribution tax amount to be a more contentious issue than if it should be allowed for.

HoTARAC believes that the clarity of the consensus would be improved if it stated that the impact should be determined after considering other relevant circumstances, such as any offsetting dividend imputations and tax deductions.

HoTARAC is not aware of any regulatory impediments to implementation of the changes. HoTARAC offers no comment about whether the changes are in the best interests of the Australian economy.

Please contact Peter Gibson from the Australian Department of Finance and Deregulation on 02 6215 3551 if you wish to discuss these matters further.

Yours sincerely

A handwritten signature in cursive script that reads "D W Challen". The signature is written in black ink and is positioned below the text "Yours sincerely".

D W Challen

**CHAIR**

**HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE**

30 March 2009

Contact: David Tadd  
Phone: (03) 6233 2515  
Our Ref: D/14423 BH/DT



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Mr Bruce Porter  
Acting Chair  
Australian Accounting Standards Board  
PO Box 204  
Collin St West VIC 8007

Our ref PropInterp10XX-AustSCT-2009-  
03-31\_v2\_6397501\_1(Admin) (2)

31 March 2009

Dear Bruce

**Submission - Proposed Interpretation 10XX Australian Superannuation Contributions Tax for Defined Benefit Plans**

We are pleased to have the opportunity to comment on Proposed Interpretation 10XX *Australian Superannuation Contributions Tax for Defined Benefit Plans* issued by the Australian Accounting Standards Board.

**Executive summary**

Whilst supportive of the Interpretations Advisory Panel process, KPMG is of the view that the AASB should not proceed with the publication of an Australian specific interpretation on the accounting for superannuations contribution tax (SCT).

- The International Accounting Standards Board appears to be in the process of resolving the issue in a manner that may not converge with the treatment being proposed by the AASB.
- The topic of taxes payable by a defined benefit plan is not sufficiently Australian specific to warrant an Australian interpretation. In addition, we do not consider that there is wide divergence in practice in the measurement of SCT in defined benefit plans.
- The Proposed Interpretation removes an alternative allowed by IAS 19 *Employee Benefits*, which is in conflict with other decisions by the AASB to allow alternatives that are allowed in the international standards.
- The Proposed Interpretation does not address with sufficient clarity the treatment of SCT in both surplus and deficit positions.
- The Proposed Interpretation does not address other tax-related issues that have caused divergence in practice in applying AASB 119 *Employee Benefits*, such as investment tax paid by defined benefit superannuation plans.



### ***Uncertain future IASB direction***

In the IASB's March 2009 meeting, the IASB considered an agenda paper on the issue of taxes payable by a plan, in light of confusion created by the revision of the definition of *return on plan assets* by the 2008 Annual Improvements Project. From the informal observations of those attending the meeting, the IASB appears to be proposing changes, through the current IAS 19 project, to amend the definition to revert to a choice to include taxes payable by a plan in either the return on plan assets or in the defined benefit obligation. They seem to be confirming that alternatives exist, at the same time the AASB is trying to remove one of those choices. They do appear to be considering guidance as to when different options might be applicable.

We are concerned that the AASB is considering issuing an interpretation when there is an issue on the current IASB or IFRIC agenda. We understood that the AASB's priority with interpretative issues was to work with the IASB or IFRIC to resolve the issue in the first instance. We are also concerned that the IASB may react unfavourably to future AASB requests for interpretation if they consider they are addressing the AASB's issues but are being overridden by the AASB.

### ***Not an Australian-specific issue***

The issue of taxes payable by defined benefit plans is not a singularly Australian issue. Other countries applying IFRS have regimes that require defined benefit plans pay taxes on the balance of plan assets they hold or on the returns that those plan assets earn, or some combination of both. Under the AASB's charter for interpretations we do not consider it such a rare and exceptional circumstance that it warrants an Australian specific interpretation.

The AASB should not issue interpretations on issues that are not uniquely Australian, because of the potential for conflict with the requirements of IFRS.

### ***Lack of evidence of divergence in practice***

On the specific issue of measuring SCT in defined benefit plans, we do not consider that there is sufficient divergence in practice to warrant proceeding with this Proposed Interpretation. In practice, we find most companies include contributions tax in the measurement of the defined benefit obligation, whether in net surplus or deficit positions, rather than in the measurement of the return on plan assets.

### ***Should not disallow an accepted alternative***

As noted in the Proposed Interpretation, AASB 119 deals with the issue of administrative costs and taxes payable by a defined benefit plan through the definition of return on plan assets. Similar to administrative costs, taxes are either included in the measure of return on plan assets on an 'as-incurred' basis, or are included in the measurement of the defined benefit obligation as part of the ultimate cost of the benefit being provided.



IAS 19 allows for alternative treatments of administrative costs and taxes payable by a plan. Previously, the AASB has decided to allow all alternatives allowed in IFRS and not reduce the options that are available when making Australian equivalents. Proceeding with this amendment would remove an option that is available in the international standard.

### ***Insufficient clarity on plan surpluses***

The Proposed Interpretation does not address the issue of including the measurement of contributions tax with sufficient clarity to reduce or eliminate divergent practices, especially when it comes to plans in a surplus position. As drafted, the Proposed Interpretation does not directly address the issue of whether a plan that has plan assets in excess of its defined benefit obligation should include as part of that surplus an amount that represents the payments of SCT that have already been made, but for which it might be considered that service has not been received. Without an explicit statement, with reasons included in the Basis for Conclusions, there is a risk that different users, such as actuaries, preparers and auditors, will come to differing conclusions.

The Proposed Interpretation refers to 'contributions tax payable by the plan' (paragraph 11) and SCT 'expected to be paid by an employer sponsor' (paragraph 9). We understand that the intention was to require that an entity only consider taxes that will be paid in the future in the calculation of their defined benefit obligation. However, the wording is vague in this regard. We are concerned that there is no specific guidance for the treatment of contributions taxes when a fund is in a surplus position.

This lack of clarity could result in diversity in practice. Some entities may conclude that deficit balance plans should include an additional liability for future contributions taxes, but no adjustments should be made if in a surplus position because there will be no future cash tax payment. Other entities may conclude that adjustments for contributions tax should be made in both deficit and surplus positions, because in both cases the taxes have been or will be paid by the plan and because the interpretation does not specifically disallow this approach.

### ***Investment taxes not addressed***

In Australia, there has been more debate as to whether and how to include future investment taxes within the measurement of the net defined benefit asset or liability, than around the contributions tax issue. Some of the debate is around whether some of the current practices relating to measuring investment tax payable by a defined benefit plan are in accordance with AASB 119 and IAS 19. In contrast, the practices in relation to contributions taxes are accepted as being consistent with the options that the standards provide. We consider that it is more important for the AASB to consider the issue of measuring investment taxes payable by a defined benefit plan. Until that has been resolved, we would prefer that the AASB defer issuing this Interpretation to avoid it being applied by analogy.



*Australian Accounting Standards Board  
Submission - Proposed Interpretation 10XX Australian  
Superannuation Contributions Tax for Defined Benefit  
Plans  
31 March 2009*

Paragraph 10 states that the Proposed Interpretation does not deal with any other taxes payable by superannuation plans. Therefore, the issue of how to account for investment taxes payable by a plan – in return on plan assets or as part of a defined benefit obligation – is not specifically addressed.

Some users may want to apply the principles of this Proposed Interpretation to investment taxes payable by a plan. If the AASB does not consider this to be appropriate, the final interpretation should state that the conclusion should not be applied to other taxes by analogy.

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We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7710, or Sarah Inglis on (02) 9455 9773.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tracey Driver'.

Tracey Driver  
Partner

3 April 2009

Mr Bruce Porter  
 Acting Chairman  
 Australian Accounting Standards Board  
 Level 7  
 600 Bourke Street  
 Melbourne VIC 3000

Dear Mr Porter

**Re: Australian Superannuation Contributions Tax for Defined Benefit Plans**

The National Institute of Accountants (NIA) is pleased to respond to the Australian Accounting Standards Board's (AASB) request for comment on the proposed interpretation on accounting for the superannuation contributions tax for defined benefit plans.

We make this submission on behalf of the members of our organisation that work in accounting practices, companies and other entities that require greater assistance in understanding the interaction between domestic laws and accounting standards, particularly in the areas of superannuation and tax.

*Support for the AASB's process*

Whilst we may prefer the International Accounting Standards Board (IASB) or its interpretations subcommittee, the International Financial Reporting Interpretations Committee (IFRIC) deal with interpretative matters we support the AASB's initiative to clarify reporting requirements in areas where the standard setter believes there is widespread divergence in practice.

The NIA supports the AASB's process of requesting resolutions to issues giving rise to divergent practice from IFRIC. We are conscious that IFRIC will not deem it necessary to tackle issues when it believes a domestic standard setter is better placed to deal with an issue that is confined to a single jurisdiction.

We would encourage the AASB to continue to consult first with IFRIC and seek an international interpretation. A domestic interpretation should only be considered where there is divergence in practice and the IFRIC is unwilling to place it on the agenda because it sees it as a domestic issue.

It is also critical that the treatment approved by the AASB not be in conflict with existing international accounting standards. Nothing has come to our attention that would indicate the treatment proposed in the interpretation released for public comment is contrary to IFRS as it currently exists.

*Superannuation Contributions Tax – consensus view*

The AASB's consensus as reflected in Paragraph 11 of the proposed interpretation will have the effect of standardising practice of the measurement of a defined benefit obligation. This will aid comparability in an area where there is great public interest and we hope lead to better understood data in this area of financial reporting. An interpretation such as this can help eliminate divergent reporting practices within Australia while keeping financial reporting practices in line with current international standards.

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Interpretations issued in these circumstances also provide useful guidance to practitioners and accountants operating in the middle market. Not all users of accounting standards have access to the body of growing precedent in the application of IFRS. An interpretation issued by the AASB on issues where existing accounting guidance is unclear.

Please feel free to contact our policy adviser Tom Ravlic via [tom.ravlic@nia.org.au](mailto:tom.ravlic@nia.org.au) should you require further information.

Kindest Regards



Andrew Conway PNA  
Deputy Chief Executive Officer  
National Institute of Accountants





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8 April 2009

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Vic 8007

Dear Chairman

**Proposed Interpretation 10XX Australian Superannuation Contributions Tax for Defined Benefit Plans**

We are pleased to submit our comments on Proposed Interpretation 10XX *Australian Superannuation Contributions Tax for Defined Benefit Plans*.

Overall, subject to our comment regarding recent discussions at the IASB, we support the issue of an Australian Interpretation to address the current diversity in practice as to whether the impact of superannuation contributions tax is included when accounting for defined benefit plans by employer sponsors. The impact of contributions tax is an Australian issue and one which the IFRIC has in the past not addressed. As contributions tax impacts on the ultimate cost of providing benefits by the employer sponsor to its employees, it should be included in the measurements required in relation to defined benefit funds as proposed by the draft Interpretation.

We also support the approach proposed in the draft Interpretation to include the impact of the contributions tax as part of the measurement of the defined benefit obligation (DBO) rather than as part of the return of plan assets. We are of the view that it is incorrect to deduct superannuation contributions tax payable by the plan from the return on plan assets because there is no relationship between the other components of the expected rate of return (eg interest and dividend income, realised and unrealised gains on plan assets) and the superannuation contributions tax.

On the other hand, inclusion of the contributions tax as part of the DBO is consistent with paragraph 7 of AASB 119 which defines the present value of a DBO as follows:

"... the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods".

Paragraph 49 of AASB 119 also states that "... the payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability (and willingness) to make good any shortfall in the fund's assets..."

Hence, it is our view that the present value of a DBO should include all future payments required to settle the obligation; which includes those necessary to meet the future benefit payments as well as any resulting contributions tax. By taking this into account as part of the actuarial assumptions used to calculate the ultimate costs of an entity's DBO, this would ensure that appropriate consideration is given to contributions tax, whether the fund is in surplus or in deficit and regardless of the level of funding (ie

funded or unfunded). On the other hand, including contributions tax as part of the expected return on plan assets would not be suitable in the situation where the plan is unfunded.

Contributions tax forms part of the overall cost of providing benefits to employees under a defined benefit plan. Contributions tax is however an obligation to the Australian Taxation Office as opposed to an obligation to the employee. It could therefore be argued that such cost should not be included in the DBO. However, to the extent that contributions tax is an overall cost of providing benefits to employees, it could be argued that the employer has an other long term employee liability which should be recognised separately. Such a long term employee liability would otherwise be accounted for using the Projected Unit Credit Method under AASB 119. Hence, whether the obligation to pay contributions tax is included as part of the DBO or recognised as a separate employee liability, the resulting net liability recognised would be the same (albeit that any changes in estimates may be accounted for differently).

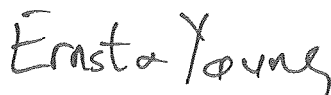
We note that IASB staff presented an Issues Paper to the IASB at its March 2009 meeting (Staff Paper 81) which appears to support the approach proposed by the draft Interpretation. It is our understanding that the IASB agreed to amend the definition of return on plan assets so that it includes any tax payable that has not been included in the actuarial assumptions used to measure the defined benefit obligation (DBO). As the issue has now been brought to the IASB's attention, we recommend that the AASB wait for the outcome of any changes which may be proposed by the IASB before issuing the Interpretation, to ensure that any Interpretation issued is not inconsistent with the IASB changes, if any.

Other comments on the draft Interpretation include:

- The Scope paragraph is currently unclear. It states that the Interpretation does not address any **other taxes** payable by superannuation plans. However, it has not referred to the specific type of tax that it deals with in the first instance, ie, contributions tax.

We would be pleased to discuss our comments further with you. Please contact Charles Feeney on (02) 9248 4665 or Georgina Dellaportas on (03) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours sincerely



Ernst & Young

