

Urgent Issues Group

Interpretation 1019

September 2004

The Superannuation Contributions Surcharge



Australian Government

**Australian Accounting
Standards Board**

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PREFACE

Main Features of UIG Interpretation 1019

This Interpretation is applicable to annual reporting periods beginning on or after 1 January 2005. Early adoption of this Interpretation is not permitted. Application of this Interpretation will begin in the context of adopting all Australian equivalents to International Financial Reporting Standards. The requirements of Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Interpretation had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

The Interpretation requires a superannuation plan to recognise a liability and an expense and to make certain disclosures in respect of the superannuation contributions surcharge.

Comparison with Superseded Requirements

There is no substantive difference with the previous requirements in Australia in the superseded UIG Abstract 19 *The Superannuation Contributions Surcharge*.

URGENT ISSUES GROUP
INTERPRETATION 1019
THE SUPERANNUATION
CONTRIBUTIONS SURCHARGE

Interpretation 1019 is set out in paragraphs 1 to 23.

ISSUE

1. The Superannuation Contributions Surcharge (the surcharge) was introduced in the 1996 Federal Budget. The legislation is contained principally in the *Superannuation Contributions Tax (Assessment and Collection) Act 1997* and the related Regulations. It currently applies to surchargeable contributions attributable to a superannuation provider (normally a superannuation plan) for members whose adjusted taxable income exceeds \$99,710 for the 2004-05 income year. The threshold is subject to indexation.
2. The surcharge is calculated by the Australian Taxation Office and advised to the superannuation provider via an assessment. Assessments are made in respect of each year ending 30 June, based on members' surchargeable contributions and adjusted taxable income for that year, regardless of the superannuation provider's reporting date.
3. The legislation provides that the superannuation provider holding the surchargeable contributions is liable for the surcharge. The liability may rest with the member or another superannuation provider where benefits have been withdrawn or a pension has begun to be paid before the assessment is made.
4. For years ending on or after 30 June 1998 an advance instalment process was introduced to collect the surcharge. The Australian Taxation Office advises the superannuation provider of the required advance instalment when making the initial assessment. Unfunded schemes may elect not to pay the surcharge until the benefit payment is made, in which case the surcharge amount payable accumulates, accruing interest, until payment is made.
5. Many superannuation providers pass the cost of the surcharge on to members by debiting the cost of the surcharge to each relevant member's account or benefit. However, in some cases the surcharge

may be funded from the surplus of a superannuation plan, or an employer may make additional contributions to meet the surcharge.

6. This Interpretation deals with financial reporting by superannuation plans. Superannuation plans are defined in Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans* as arrangements whereby it is agreed between trustees and employers, employees or self-employed persons that benefits be provided upon the retirement of plan members or upon their resignation, death, disablement or other specified event. This Interpretation may also be applicable in analogous circumstances to other entities liable for payment of the superannuation surcharge. As noted in paragraph 3, the legislation places the obligation for payment of the surcharge on superannuation providers. Superannuation providers are defined in the legislation to include trustees of superannuation and approved deposit funds, a provider of retirement savings accounts, a life insurance company or a registered organisation.
7. The issues are:
 - (a) is the surcharge a liability and an expense of the superannuation plan; and, if so,
 - (b) when should the liability and expense be recognised?

CONSENSUS

8. **The obligation in respect of the superannuation contributions surcharge gives rise to a liability and an expense of a superannuation plan.**
9. **A superannuation plan shall recognise a liability for the superannuation contributions surcharge when the entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.**
10. **The financial report shall disclose:**
 - (a) **the accounting policy adopted for the recognition of the liability for the superannuation contributions surcharge;**
 - (b) **the amount of the superannuation contributions surcharge recognised as an expense during the reporting period;**

- (c) **the amount of the liability for the superannuation contributions surcharge recognised as at the reporting date; and**
- (d) **whether any unrecognised liability for the superannuation contributions surcharge exists as at the reporting date, stating the reasons for not recognising the liability.**

Application

- 11. **This Interpretation applies to superannuation plans when Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* applies.**
- 12. **This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.**
- 13. **This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.**
- 14. **The requirements specified in this Interpretation apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**
- 15. **When applicable, this Interpretation supersedes Abstract 19 *The Superannuation Contributions Surcharge*, as issued in July 1998.**
- 16. **Abstract 19 remains applicable until superseded by this Interpretation.**

DISCUSSION

- 17. The object of the *Superannuation Contributions Tax (Assessment and Collection) Act 1997* and the related Regulations (the legislation) is to provide for the assessment and collection of the superannuation contributions surcharge payable on surchargeable contributions for individuals whose adjusted taxable income exceeds a certain specified threshold. The legislation provides that the holder of surchargeable contributions for a financial year (usually a superannuation provider) is liable to pay the surcharge. The surcharge is calculated at differential rates, up to a maximum of 12.5%, for adjusted taxable income levels above \$99,710 in respect of the income year 2004-05. Threshold amounts for the differential surcharge rates are subject to indexation. Surchargeable contributions are determined as follows:

- (a) for a defined contribution plan, by reference to the tax status of contributions actually paid to superannuation plans. They include taxable contributions, for example, employer contributions, salary sacrifice contributions and contributions by self-employed persons, and may also include a surplus allocated during the year; and
 - (b) for a defined benefit plan, by applying an actuarially determined “notional surchargeable contributions factor” to the member’s annual salary.
- 18. AASB 137 defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits. The *Framework for the Preparation and Presentation of Financial Statements* defines expenses as decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Superannuation plans which hold surchargeable contributions are required to make an outflow of resources embodying economic benefits to the Australian Taxation Office. This Interpretation reflects the view that the obligation to make the outflow is a liability of the plan and gives rise to a corresponding expense.
- 19. The legislation specifies the basis on which surchargeable contributions for the financial year are to be calculated. Under the legislation, a superannuation plan is liable to pay the superannuation contributions surcharge when it is the holder of surchargeable contributions, or actuarially determined notional surchargeable contributions, in respect of a member. The legislation provides that if a member transfers to another superannuation provider, or is paid a benefit before an assessment is issued, the liability for the surcharge follows the member. Where a superannuation plan has recognised a liability for the surcharge, and the obligation in respect of the surcharge has transferred to another plan or to the member, the plan derecognises the liability.
- 20. AASB 137 requires a liability to be recognised when an entity has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reliably estimated. This Interpretation requires that a liability for the surcharge be recognised by a plan when these recognition criteria are satisfied. The Interpretation does not require a liability to be recognised where an estimate is not reliable.

21. Whether a reliable estimate of the amount of the superannuation contributions surcharge can be made before the relevant surcharge assessment is received from the Australian Taxation Office will depend on the characteristics of the superannuation plan. For example, differences in the following factors will affect the stage at which a reliable estimate can be made, and therefore a liability recognised in the financial reports of different superannuation plans:
- (a) the number and turnover of members;
 - (b) the size of the plan and the member profile; and
 - (c) the information available to the trustees on past assessments and the adjusted taxable income of members.

In view of the number of potential factors affecting the estimation process, each superannuation plan makes its own assessment as to when a liability can be reliably measured.

22. This Interpretation deals with the recognition of a liability and an expense of a superannuation plan. It does not deal with the allocation of the surcharge to relevant member's accounts. That is an administrative matter to be determined by the trustees of a plan.

Disclosure

23. This Interpretation requires certain disclosures to be made in respect of the superannuation contributions surcharge. These disclosures will enhance the usefulness and comparability of the financial reports. They are useful input to an assessment of the financial position of a superannuation plan.

REFERENCES

Australia

The Urgent Issues Group discussed Issues Paper 04/3 “Revision of Various UIG Abstracts for 2005” in relation to this Interpretation at its meeting on 22 July 2004. In developing the superseded Abstract, the UIG discussed Issue Summary 98/1 “The Superannuation Contributions Surcharge” at meetings on 24 March and 18 June 1998.

Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans*

Framework for the Preparation and Presentation of Financial Statements

International Accounting Standards Board

International Accounting Standard IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*