

31 March 2009

Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
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Email: 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



The Institute of
Chartered Accountants
in Australia

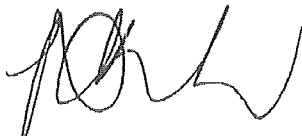
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We are not convinced that the AASB is able to restrict the scope of the [proposed] Interpretation to having opined on whether the impact of Australian superannuation contributions tax expected to be paid by an employer sponsor to fund a defined benefit 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),¹ some commentators have noted that the employers contributions to pension plans in Luxembourg and New Zealand are also taxed.² 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 or Kerry Hicks, the Institute via email kerry.hicks@charteredaccountants.com.au.

Yours sincerely



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¹ 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).

² 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.