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31 March 2009

The Acting Chairman  
AASB  
PO Box 204  
Collins Street West  
VIC 8007  
By email: [standard@aasb.gov.au](mailto:standard@aasb.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

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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,



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