

**Australian
Accounting
Standards
Board**

Proposed Interpretation 10XX
February 2009

Australian Superannuation Contributions Tax for Defined Benefit Plans



Australian Government

**Australian Accounting
Standards Board**

Commenting on this Proposed Interpretation

Comments on this Proposed Interpretation are requested by 31 March 2009.
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AASB Proposed Interpretation 10XX *Australian Superannuation Contributions Tax for Defined Benefit Plans* is set out in paragraphs 1 – 16. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation and Application of Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Main Features of Interpretation 10XX

This Interpretation is applicable to annual reporting periods beginning on or after X Xxxxx 200X. This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before X Xxxxx 200X.

This Interpretation is a result of deliberations of the AASB about whether the impact of 'superannuation contributions tax' payable by the plan should be included in measuring the defined benefit obligation of an employer sponsor in relation to a defined benefit superannuation plan under paragraph 64 of AASB 119 *Employee Benefits*. This Interpretation requires an employer sponsor to measure a defined benefit obligation by including the impact of superannuation contributions tax payable by the plan.

AUSTRALIAN ACCOUNTING STANDARDS BOARD

PROPOSED INTERPRETATION 10XX

AUSTRALIAN SUPERANNUATION CONTRIBUTIONS TAX FOR DEFINED BENEFIT PLANS

REFERENCES

Accounting Standard AASB 119 *Employee Benefits*

BACKGROUND

1. 'Before tax' contributions¹ made to a superannuation plan are included in that superannuation plan's assessable income and are therefore subject to income tax (currently 15%)². 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. This tax is paid by the plan to the Australian Taxation Office as a requirement of the *Income Tax Assessment Act 1997*. Tax on superannuation contributions is widely described as 'superannuation contributions tax'.
2. The *Income Tax Assessment Act 1997* Guide to Subdivision 295-C notes there are basically three types of assessable contributions, the first of these being those made by a contributor (for example, an employer) on behalf of someone else (for example, an employee)³.
3. To contribute a particular amount to a plan that can be retained as part of plan assets, the employer sponsor needs to contribute that particular amount plus an amount to meet the superannuation contributions tax.

1 These may also be called 'concessional'. After tax superannuation contributions are called 'non-concessional' and are not subject to further taxation, unless they exceed statutory limits.

2 The effective rate may be less than 15%.

3 The other two types of assessable contributions are:

- those made by the contributor (employee) for which the contributor is entitled to a deduction; and
- those transferred from a foreign superannuation fund to an Australian superannuation fund.

4. The inclusion or exclusion of the impact of superannuation contributions tax on superannuation contributions expected to be paid by an employer sponsor to fund a defined benefit obligation has the potential to affect the amounts that an employer sponsor recognises in its financial statements in respect of a defined benefit plan. Australian constituents have sought clarification of whether the impact of the tax should be included when measuring the defined benefit obligation.
5. The issue⁴ was referred to the International Financial Reporting Interpretations Committee (IFRIC) for clarification. In March 2007, the IFRIC issued a final agenda decision not to add the issue to its agenda. The IFRIC agenda decision noted the following:
 - “
 - Taxes paid by a defined benefit plan are included in the definition in IAS 19 of the return on plan assets.
 - Income taxes paid by the entity are accounted for in accordance with IAS 12.
 - The scope of IAS 19 is not restricted to benefits paid to employees. It includes some costs of employee benefits that are not paid to employees.
 - A wide variety of taxes on pension costs could exist worldwide, each specific to its own jurisdiction, and it is a matter of judgement whether they are income taxes within the scope of IAS 12, costs of employee benefits within the scope of IAS 19, or other costs within the scope of IAS 37.”
6. AASB 119 *Employee Benefits* paragraph 54 requires an employer sponsor to recognise a defined benefit liability/asset that is the net total of the following amounts:
 - (a) the present value of the defined benefit obligation at the reporting date (see paragraph 64);
 - (b) plus any actuarial gains (less any actuarial losses) not recognised because of the treatment set out in paragraphs 92 and 93;
 - (c) minus any past service cost not yet recognised (see paragraph 96); and

4 The IFRIC was asked to consider whether taxes related to defined benefits, for example taxes payable on contributions to a defined benefit plan or taxes payable on some other measure of the defined benefit, should be treated as part of the defined benefit obligation in accordance with IAS 19 *Employee Benefits*.

- (d) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102-104).
- 7. AASB 119 paragraph 64 requires an entity to use the Projected Unit Credit Method to determine the present value of its defined benefit obligation. This involves making certain demographic and financial actuarial assumptions which might incorporate the impact of taxes on superannuation contributions.
- 8. AASB 119 paragraph 7 defines the return on plan assets as “interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself”⁵. Since it is the superannuation plan that remits the superannuation contributions tax to the Australian Taxation Office, the taxes referred to in this definition could be read as including tax on superannuation contributions.

ISSUE

- 9. This Interpretation addresses the issue of whether the impact of 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.

SCOPE

- 10. This Interpretation applies to employer sponsors of defined benefit superannuation plans that make superannuation contributions on behalf of their employees. This Interpretation does not address any other taxes payable by superannuation plans.

CONSENSUS

- 11. **An employer sponsor of a defined benefit superannuation plan shall include the impact of Australian superannuation contributions tax payable by the plan when measuring a defined benefit obligation.**

⁵ This definition applies to annual reporting periods beginning on or after 1 January 2009 and may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

Application

12. **This Interpretation applies to:**
 - (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;**
 - (b) **general purpose financial statements of each other reporting entity; and**
 - (c) **financial statements that are, or are held out to be, general purpose financial statements.**
13. **This Interpretation applies to annual reporting periods beginning on or after X Xxxxx 200X.**
14. **This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before X Xxxxx 200X.**
15. **The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

Transition

16. **Changes in accounting policy shall be accounted for in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.**

BASIS FOR CONCLUSIONS ON AASB INTERPRETATION 10XX

This AASB Basis for Conclusions accompanies, but is not part of, AASB Interpretation 10XX.

- BC1 This Basis for Conclusions summarises the Board’s considerations in reaching its consensus. Individual Board members gave greater weight to some factors than to others.
- BC2 Within Australia, income tax (currently 15%) is levied on the taxable income of a superannuation plan which includes superannuation contributions received by the plan. These superannuation contributions include those paid by an employer sponsor, an employee’s salary sacrificed superannuation contributions and an employee member’s superannuation contributions as might be specified by the requirements of a defined benefit plan. The contributions are treated as part of the plan’s assessable income to the Australian Taxation Office as a requirement of the *Income Tax Assessment Act 1997*.
- BC3 The effect of this ‘superannuation contributions tax’ is that a percentage of the contributions paid by an employer sponsor to fund a defined benefit plan cannot be retained as plan assets.
- BC4 The Board had been advised of diversity in practice as to whether the impact of superannuation contributions tax is included when an employer sponsor makes defined benefit plan measurements. Since the inclusion or exclusion of the superannuation contributions tax has the potential to affect the amounts that an employer sponsor recognises in its financial statements in respect of a defined benefit plan, and the IFRIC has not dealt with the issue, the Board decided it was necessary to develop an Interpretation addressing the issue.
- BC5 The issue addressed in this Interpretation is 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.

Should the impact of superannuation contributions tax be included?

- BC6 The Board considered that the principle underlying AASB 119 is that employers should measure employee benefits at their ultimate cost.

This view is supported by a number of references in AASB 119. For example:

- (a) paragraph 7 – definition of the present value of defined benefit obligation “is 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” [emphasis added]; and
- (b) paragraph 63 states; “The **ultimate cost** of a defined benefit plan may be influenced by many variables ...” [emphasis added].

BC7 One view is that, because AASB 119 paragraph 54 (see paragraph 6 of this Interpretation) does not explicitly require superannuation contributions tax to be included, it could be considered that such tax cannot be included under the Standard. However, the Board concluded that, because the principle underlying AASB 119 is that employee benefits should be measured at their ultimate cost, the impact of superannuation contributions tax should be included in the measurements required in relation to defined benefit plans.

BC8 Although the Board agreed that the impact of superannuation contributions tax is to be included in the measurements required in relation to defined benefit plans, there was a further question as to whether the impact of the superannuation contributions tax should be included in the measurement of the defined benefit obligation or the measurement of return on plan assets.

Taxes as part of the Defined Benefit Obligation

BC9 Under the heading of “Recognition and measurement: present value of defined benefit obligation and current service cost” paragraph 63 of AASB 119 states; “The ultimate cost of a defined benefit plan may be influenced by many variables ...” and suggests that these variables are estimated by making certain actuarial assumptions. Paragraph 73, states; “Actuarial assumptions are an entity’s best estimates of the variables that will determine the ultimate cost of providing post-employment benefits”. Therefore, the Board considered that superannuation contributions tax could be included in the actuarial assumptions to calculate the ultimate cost of an entity’s defined benefit obligation.

Taxes as part of Return on Plan Assets

- BC10 An alternative view is that any taxes that have been or will be paid by superannuation plans should be included in the measurement of return on plan assets.
- BC11 When the issue was referred to the IFRIC for clarification, the Board noted that one of the reasons given for rejection in the March 2007 final agenda decision was that “Taxes paid by a defined benefit plan are included in the definition in IAS 19 of the return on plan assets”.
- BC12 Paragraph 7 of AASB 119 defines the return on plan assets as “... interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any cost of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any **tax payable by the plan itself.**” [Emphasis added].
- BC13 The Board discussed whether superannuation contributions tax should be included in the measurement of return on plan assets, given the reference to “taxes payable by the plan itself” and decided that:
- (a) in paying the tax on contributions made by the employer sponsor to fund the defined benefit plan the plan is acting as an agent for the employer sponsor; and
 - (b) paragraph 103 of AASB 119 excludes unpaid contributions from plan assets and therefore would also exclude unpaid taxes on those contributions.
- BC14 To fund a defined benefit obligation the employer sponsor needs to contribute that particular amount plus an amount to meet the superannuation contributions tax. For example, if an employer sponsor is to provide an amount of \$100 to fund a defined benefit obligation and given a 15% tax rate, the employer sponsor would have to contribute \$117.65 ($100/.85$) to meet this obligation. The plan would receive the \$117.65 contribution and remit 15% of that contribution in tax to the Australian Taxation Office. Accordingly, the Board concluded that the plan is in substance acting in the capacity of an agent for the employer sponsor and the superannuation contributions tax should not be considered part of return on plan assets.

BC15 The Board also noted that paragraph 103 of AASB 119 states; “plan assets exclude unpaid contributions due from the entity to the fund ...”. Therefore, since plan assets do not include unpaid contributions, the Board concluded that return on plan assets would also not include unpaid contributions and consequently would not include any superannuation contributions tax.

Accounting for the superannuation contributions tax

BC16 The Board discussed how superannuation contributions tax should be included in defined benefit plan measurements.

BC17 AASB 119 paragraph 64 requires the present value of a defined benefit obligation at reporting date to be calculated using the Projected Unit Credit Method. This method requires actuarial assumptions to be used to determine the defined benefit obligation payable to employees (paragraph 73).

BC18 Paragraph 73 of AASB 119 explains that actuarial assumptions are an entity’s best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. As well as demographic assumptions, actuarial assumptions include financial assumptions, such as:

- (a) the discount rate;
- (b) future salary and benefit levels;
- (c) possible medical benefits; and
- (d) the expected rate of return on plan assets.

The Board noted that this list is not exhaustive and, therefore, superannuation contributions tax can be included in the financial actuarial assumptions.

BC19 Consequently, the Board concluded that an employer sponsor of a defined benefit superannuation plan should include the impact of superannuation contributions tax when measuring a defined benefit obligation.

UIG Interpretation 1019

BC20 In September 2004, the Board issued UIG Interpretation 1019 *The Superannuation Contributions Surcharge*. A superannuation contributions surcharge was introduced in the 1996 Federal Budget and superannuation plans were required to pay a surcharge for members whose adjusted taxable income exceeded a threshold limit (periodically adjusted). The contributions surcharge was removed with effect from 1 July 2005. The Board noted that UIG Interpretation 1019 may be considered to be inconsistent with this AASB Interpretation 10XX, because UIG Interpretation 1019 does not treat the superannuation plan as acting in the capacity of an agent for the employer sponsor with respect to the surcharge. Paragraph 8 of UIG Interpretation 1019 states; “The obligation in respect of the superannuation contributions surcharge gives rise to a liability and an expense of a superannuation plan”. However, the Board noted that UIG Interpretation 1019 was drafted with reference to AAS 25 *Financial Reporting by Superannuation Plans* and therefore is viewing transactions from the superannuation plan’s perspective and not that of the employer sponsor. The Board also noted that AAS 25 is undergoing a comprehensive review and the AASB proposes reconsidering the status of UIG Interpretation 1019 as part of that review.