



Institute of Actuaries of Australia

30 March 2009

The Acting Chairman
Australian Accounting Standards Board
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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) if you wish to discuss any of our comments.

Yours sincerely



Trevor Thompson
President