

**Australian Accounting
Standards Board**

Interpretation 10XX
XXXXXXXX 200X

Australian Superannuation Contributions Tax

Interpretation 10XX Australian Superannuation Contributions Tax will be considered by the Board at its meeting on 12-13 November 2008. Please note that the Interpretation does not reflect settled positions by the AASB and may change or be modified by the AASB. This draft is not an authoritative pronouncement of the AASB. Decisions become final only after completion of the formal processes required to issue an Interpretation. No responsibility is taken for the results of actions or omission to act taken on the basis of any information in this draft or for any errors or omissions.



Australian Government

**Australian Accounting
Standards Board**

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AUSTRALIAN SUPERANNUATION CONTRIBUTIONS TAX

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BASIS FOR CONCLUSIONS

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AASB Interpretation 100X *Australian Superannuation Contributions Tax* is set out in paragraphs 1 – 10. 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 the manner in which future Australian superannuation contributions tax should be accounted for in the context of a liability (deficit) or asset (surplus) recognised by an employer sponsor in relation to a defined benefit superannuation plan under paragraph 54 of AASB 119 *Employee Benefits*. It requires an employer sponsor to:

- (a) measure a defined benefit liability by taking into account the impact of future Australian superannuation contributions;
- (b) measure a defined benefit asset by taking into account the impact of the Australian superannuation contributions tax when, and to the extent that, the employer sponsor intends to benefit from the surplus by using it within the superannuation plan – sometimes referred to as taking a ‘contribution holiday’; and
- (c) measure a surplus by not taking into account the impact of the Australian superannuation contributions tax when, and to the extent that, the employer sponsor intends to benefit from the surplus by having the surplus refunded from the superannuation plan.

AUSTRALIAN ACCOUNTING STANDARDS BOARD
INTERPRETATION 10XX
SUPERANNUATION CONTRIBUTIONS TAX

REFERENCES

Accounting Standard AASB 119 *Employee Benefits*

BACKGROUND

1. 'Before tax' contributions¹ made to superannuation plans are subject to superannuation contributions tax (currently 15%) that is paid by the plan. This tax is payable on superannuation guarantee contributions made by an employer, employer contributions made as part of a defined benefit plan, an employee's salary sacrificed contributions, and an employee's member contributions as specified by the requirements of the defined benefit plan. Superannuation contributions made by an employee from after tax earnings are not subject to the superannuation contributions tax.
2. AASB 119 *Employee Benefits* paragraph 54 requires an employer sponsor to recognise a defined benefit liability/asset that is the net amount of:
 - (a) the present value of the defined benefit obligation;
 - (b) plus any actuarial gains not recognised;
 - (c) minus any past service cost not yet recognised; and
 - (d) minus the fair value at the end of the reporting period of plan assets which the obligations are to be settled directly.

ISSUE

3. The issues are:
 - (a) whether superannuation contributions tax that will be paid on future contributions required to settle an employer's liability should be taken into account in measuring that liability; and

¹ These may also be called 'concessional', 'taxable' or 'deductible' contributions.

- (b) whether superannuation contributions tax that was paid on past contributions that contributed to an employer's defined benefit asset should be taken into account in measuring that asset.

SCOPE

- 4. This Interpretation applies to employer sponsors of defined benefit plans that are subject to Australian superannuation contributions tax.

CONSENSUS

- 5. **An employer sponsor of a defined benefit superannuation plan shall:**
 - (a) **measure a defined benefit liability by taking into account the impact of future Australian superannuation contributions taxes; and**
 - (b) **measure a defined benefit asset by taking into account the impact of prepaid Australian superannuation contributions tax when, and to the extent that, the employer sponsor intends to benefit from the surplus by using it within the superannuation plan; and**
 - (c) **measure a defined benefit asset by not taking into account the impact of prepaid Australian superannuation contributions tax when, and to the extent that, the employer sponsor intends to benefit from the surplus by having it refunded from the superannuation plan.**

Application

- 6. **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.**
- 7. **This Interpretation applies to annual reporting periods beginning on or after X Xxxxx 200X.**

8. **This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before X Xxxxx 200X.**
9. **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

10. 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 INTERPRETATIONS 100X

This AASB Basis for Conclusions accompanies, but is not part of, AASB Interpretation 100X.

- 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, a tax (currently 15%) is levied on deductible contributions to superannuation plans which include contributions made by an employer sponsor and individual's salary sacrifice contributions. The tax is paid by the employer sponsor, on behalf of the employee, to the superannuation plan which in turn remits them to the Australian Taxation Office (ATO). This is a requirement of the *Superannuation Contributions Tax (Assessment and Collection) Act 1997* and the related Regulations.
- BC3 When AASB 119 *Employee Benefits* was first issued in July 2004, paragraphs Aus 55.1 and Aus55.2 provided direction on how this tax should be accounted for when an employer sponsor calculated its defined benefit liability. In June 2005, AASB 2005-3 *Amendments to Australian Accounting Standards* removed these Aus paragraphs and added Australian Guidance paragraph G20 which provided non-mandatory guidance on how to account for future payments of superannuation contributions tax from an employer sponsor's perspective. This guidance was later removed by a Board decision in April 2006.
- BC4 The Board has been advised there is currently diversity in practice and therefore decided it is necessary to issue an Interpretation addressing the impact of superannuation contributions tax on the measurement of an employer sponsor's defined benefit liabilities and assets.

What does the AASB 119 defined benefit liability represent?

- BC5 The focus of this interpretation is the figure calculated on the basis of paragraph 54 in terms of what it represents and how it should be measured. AASB 119 paragraph 54 requires that the amount recognised in an entity's (the employer sponsor) financial statements as a defined benefit liability shall be the net total of:

- (a) the present value of the defined benefit obligation at the reporting date;
 - (b) plus any actuarial gains (less any actuarial losses) not previously recognised;
 - (c) minus any past service cost not yet recognised; and
 - (d) minus the fair value at the reporting date of the plan assets (if any).
- BC6 One view is that the formula in paragraph 54 clearly defines the inputs that are required to calculate the defined benefit liability and that there is no scope for an interpretation.
- BC7 An alternative view is based on the principle underlying AASB 119 that employee benefits are measured at their ultimate cost, which is evident in a number of the requirements in the Standard. 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];
 - (b) Paragraph 63 states “**The ultimate cost** of a defined benefit plan may be influenced by many variables...” [emphasis added]; and
 - (c) 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” [emphasis added].
- BC8 Because AASB 119 paragraph 54 does not explicitly require tax to be included in the measurement of a defined benefit liability, it could potentially be conclude that the inclusion of the impact of future payments of superannuation contributions tax is not permitted under the Standard.
- BC9 An alternative conclusion, favoured by the Board, is that the future superannuation contributions tax needs to be included in the measurement of a defined benefit liability in order to show the ultimate cost of that benefit, consistent with the principle underlying AASB 119.

How to account for the superannuation contributions tax

- BC10 The Board discussed two methods for incorporating the superannuation contributions tax into the measurement of the defined benefit liability. One method is to calculate the defined benefit liability as prescribed by paragraph 54 and then 'gross up' the resulting shortfall by 17.65%². This is the method outlined in paragraph Aus55.2 in the July and December 2004 versions of AASB 119, and is regarded by some as a 'short-cut' method.
- BC11 A second method is to factor future payments of superannuation contributions tax into the cash flows of the defined benefit obligation calculation. This method is consistent with the previous Australian Guidance paragraph G20, which stated that future superannuation contributions tax payments should be included in the actuarial assumptions used to determine the relevant components of an employers' defined benefit liability.
- BC12 Under paragraph 73 of AASB 119 actuarial assumptions include financial assumptions, such as:
- (a) the discount rate;
 - (b) future salary and benefit levels;
 - (c) possible medical benefits; and
 - (d) the expect rate of return on plan assets.

The Board notes that this list is not exhaustive and, therefore, future payments of superannuation contributions tax can be included in the financial actuarial assumptions made when considering the cash flows of the defined benefit obligation.

What about a defined benefit asset?

- BC13 Paragraph 58 states that the amount determined under paragraph 54 may be negative and therefore result in the recognition of a defined benefit asset. This surplus can be used in one of two ways. Firstly, it may be 'reapplied' to the plan to provide the employer sponsor with a 'contribution holiday'; that is, no contributions would need to be made while the surplus is being 'used up'.

² The 15% superannuation contributions tax is levied on the total contributions, therefore a deficit will have to be grossed up by approximately 17.65% to result in a net contribution sufficient to settle the liability.

BC14 Alternatively, in some circumstances the surplus may be refunded to the employer sponsor. Whether an employer sponsor can receive a refund is dependent on the terms of the trust deed of the superannuation plan. Further, the *Superannuation Industry (Supervision) Act 1993* (SIS) section 117 has certain prerequisites, that must be met before an employer sponsor can receive a refund of surplus.

BC15 It is generally appreciated that the procedural requirements of the SIS Act section 117 for obtaining a refund are onerous and in most cases probably prohibitive and, therefore, most employer sponsors would only utilise a surplus as a 'contribution holiday'.

Measurement of a defined benefit asset

Surplus as a contributions holiday

BC16 When an employer sponsor intends to use a surplus as an offset against future contributions, the economic benefit to the employer is not only the saving of future contributions but also the saving of future superannuation contributions tax. There is a view that the measurement of an asset should not reflect any increase of cost saving because it is an opportunity cost. However, the Board's view is that the asset is similar to prepaid contributions and the employer sponsor can be considered to have also prepaid the superannuation contributions tax. Therefore, the Board considers that the 15% superannuation contributions tax should be factored into the measurement of the defined benefit asset to the extent that the employer sponsor intends to benefit from the surplus by using it within the superannuation plan.

BC17 The Board notes that this treatment is consistent with AASB Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, in which paragraph BC17 states:

“The IFRIC decided that the amount of the contribution reduction available to the entity should be measured with reference to the amount that the entity would have been required to pay had there been no surplus.”

Surplus taken as a refund by the employer sponsor

BC18 The Board considers that the treatment for a defined benefit asset that is intended to be realised as a refund will differ from that which applies when the employer sponsor uses the asset for a 'contributions holiday'. Contributions tax paid cannot be recovered from the ATO.

Accordingly, the Board's view is that the economic benefit available to an employer sponsor when it receives a refund only represents the cash sum it will receive and therefore the overpayment of superannuation contributions tax should not be factored into the measurement of the defined benefit asset to the extent that the employer sponsor intends to benefit from the surplus as a refund.

Other possible interpretations

- BC19 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 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]
- BC20 The Board discussed whether future payments of superannuation contributions tax should be included in the calculation of return on plan assets, on the basis of the reference to "taxes payable by the plan itself". Whilst it is the superannuation plan that actually remits the superannuation contributions tax to the ATO, it is paid on behalf of the employee, via the employer sponsor. This is akin to the remittance of PAYG tax that an employer withholds from an employee's salary and remits to the ATO on their behalf. The PAYG tax is the employee's responsibility. As a matter of administrative convenience, superannuation plans remit the superannuation contributions tax on past contributions and investments tax in the same return. Therefore, the Board concluded that the superannuation plan is acting in the capacity of an agent.
- BC21 On the basis of this agency relationship, the Board does not consider it appropriate to factor future payments of superannuation contributions tax into the calculation of return on plan assets. The Board concluded that the tax payable referred to in the definition of return on plan assets is a reference to tax on returns on assets and not contributions tax that plans are required to remit on behalf of a third party in an agency capacity.
- BC22 The Board also noted that paragraph 103 of AASB 119 states that "plan assets exclude unpaid contributions due from the entity to the fund ...". 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 payable on future contributions.