

**Australian Accounting  
Standards Board**

**Interpretation 10XX**  
XXXXXXXX 200X

# **Australian Superannuation Contributions Tax for Defined Benefit Obligations**

*Interpretation 10XX Australian Superannuation Contributions Tax for Defined Benefit Obligations will be considered by the Board at its meeting on 17-18 December 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.*



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## CONTENTS

### PREFACE

### **AASB INTERPRETATION 100X AUSTRALIAN SUPERANNUATION CONTRIBUTIONS TAX FOR DEFINED BENEFIT OBLIGATIONS**

	<i>Paragraphs</i>
References	
Background	1 – 2
Issue	3
Scope	4
Consensus	5
Application	6 – 9
Transition	10
BASIS FOR CONCLUSIONS	<i>Page 8</i>

AASB Interpretation 100X *Australian Superannuation Contributions Tax for Defined Benefit Obligations* is set out in paragraphs 1 – 13. 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, and the manner in which, cash flows of tax on of future concessional superannuation contributions should be included 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 measure a defined benefit liability or asset by including the impact of tax on future concessional superannuation contributions.

**AUSTRALIAN ACCOUNTING STANDARDS BOARD**

**INTERPRETATION 10XX**

***AUSTRALIAN SUPERANNUATION  
CONTRIBUTIONS TAX FOR  
DEFINED BENEFIT OBLIGATIONS***

**REFERENCES**

Accounting Standard AASB 119 *Employee Benefits*

**BACKGROUND**

1. 'Before tax' contributions<sup>1</sup> made to a superannuation plan are included in that superannuation plan's assessable income and are therefore subject to income tax (currently 15%). Taxable contributions include those 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. Tax on superannuation contributions is widely described as 'superannuation contributions tax'.
2. The effect of this is that a percentage of the contributions is not available as plan assets to be used to fund an employer sponsor's defined benefit obligation.
3. 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 of AASB 119);
  - (b) plus any actuarial gains (less any actuarial losses) not recognised (because of the treatment set out in paragraphs 92 and 93 of AASB 119);
  - (c) minus any past service cost not yet recognised (see paragraph 96 of AASB 119); and

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

- (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 of AASB 119).
4. Australian constituents have questioned whether the requirements of paragraph 54 of AASB 119 allow the inclusion of the tax on superannuation contributions in the measurement of the defined benefit liability/asset and if so, how it should be included.
5. The issue<sup>2</sup> was referred to IFRIC for clarification, however, in January 2006 IFRIC issued a tentative agenda decision not to add the issue to its agenda. The IFRIC noted the following:
- (a) taxes paid by a defined benefit plan are included in the IAS 19 definition of return on plan assets;
  - (b) income taxes paid by the entity are accounted for in accordance with IAS 12;
  - (c) 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; and
  - (d) 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, cost of employee benefits within the scope of IAS 19, or other costs within the scope of IAS 37.

## ISSUE

6. This Interpretation addresses the following issues:
- (a) whether the impact of taxes on future superannuation contributions should be included when measuring a defined benefit liability;
  - (b) whether the impact of taxes on past superannuation contributions should be included when measuring a defined benefit asset;
  - (c) whether including the impact of taxes on superannuation contributions is allowable under the requirements of AASB 119

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<sup>2</sup> 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*.

when measuring a defined benefit liability or defined benefit asset; and

- (d) if the impact of taxes on superannuation contributions should be included when measuring a defined benefit liability or defined benefit asset, how this impact should be included.

## **SCOPE**

- 7. This Interpretation applies to employer sponsors of defined benefit plans that make concessional superannuation contributions on behalf of their employees.

## **CONSENSUS**

- 8. **An employer sponsor of a defined benefit superannuation plan shall:**
  - (a) **include the impact of taxes on future Australian superannuation contributions in measuring a defined benefit liability; and**
  - (b) **include the impact of taxes on past Australian superannuation contributions in measuring a defined benefit asset;**

**by including them in the cash flows used to determine the present value of a defined benefit obligation.**

## **Application**

- 9. **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.**
- 10. **This Interpretation applies to annual reporting periods beginning on or after X Xxxxx 200X.**

11. **This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before X Xxxxx 200X.**
12. **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**

13. 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 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, income tax (currently 15%) is levied on concessional contributions to superannuation plans, which include contributions made as superannuation guarantee contribution, those made by an employer sponsor as part of a defined benefit plan and an individual's salary sacrifice contributions. The tax is paid by the plan to the Australian Taxation Office (ATO) as a requirement of the *Income Tax Assessment Act 1997*. Although the tax is paid by the plan, it is allocated to individual member accounts to for the purposes of administering the tax.
- BC3 The effect of this 'tax leakage' is that a percentage of contributions made to the superannuation plan are not available as plan assets for use in settling the defined benefit obligation. Therefore, if the tax is not included in the calculation of an employer sponsor's defined benefit obligation the resulting defined benefit liability or defined benefit asset may be understated.
- BC4 The Board has been advised there is currently diversity in practice as to whether the impact of taxes payable on future superannuation contributions should and can be included when an employer sponsor measures its defined benefit liability or defined benefit asset. Accordingly, the Board decided it is necessary to issue an Interpretation addressing the tax.
- BC5 The issues addressed in this interpretation are:
- (a) whether the impact of taxes on future superannuation contributions should be included when measuring a defined benefit liability;
  - (b) whether the impact of taxes on past superannuation contributions should be included when measuring a defined benefit asset;
  - (c) whether including the impact of taxes on superannuation contributions is allowable under the requirements of

AASB 119 when measuring a defined benefit liability or defined benefit asset; and

- (d) if the impact of taxes on superannuation contributions should be included when measuring a defined benefit liability or defined benefit asset, how this impact should be included.

### **Should the impact of the tax be included?**

BC6 The focus of this Interpretation is the figure calculated on the basis of paragraph 54 of AASB 119 *Employee Benefits* in terms of what it represents and how it should be measured. Paragraph 54 requires the amount recognised in an entity's (the employer sponsor) financial statements as a defined benefit liability to be the net total of:

- (a) the present value of the defined benefit obligation at the reporting date (see paragraph 64 of AASB 119);
- (b) plus any actuarial gains (less any actuarial losses) not previously recognised because of the treatment set out in paragraphs 92 and 93 (of AASB 119);
- (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) out of which the obligations are to be settled directly.

BC7 The Board's 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]; and
- (b) paragraph 63 states “**The ultimate cost** of a defined benefit plan may be influenced by many variables...” [emphasis added].

Therefore, the Board concluded that taxes payable on future superannuation contributions should be included in the measurement of a defined benefit liability or defined benefit asset in order to show

the ultimate cost of that employee benefit, which is consistent with the principle underlying AASB 119.

### **Can the tax be included under the requirements of AASB 119?**

- BC8 The Board is of the view that, due to the focus on ultimate cost, AASB 119 does not prohibit the inclusion of taxes on future payments of superannuation contributions as emphasised in paragraph 73, which 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]. Furthermore, the Board considers that taxes on future superannuation contributions should be included in the actuarial assumptions in order to calculate the ultimate cost of an entity’s defined benefit obligation.
- BC9 An alternative view is that, 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 concluded that the inclusion of the impact of tax on future payments of superannuation contributions is not permitted under the Standard.
- BC10 Another alternative view is that any taxes related to superannuation plans should be factored into the return on plan assets.

#### **Taxes as part of Return on Plan Assets**

- BC11 When the issue was referred to IFRIC for clarification, the Board noted that one of the reasons given for rejection in the January 2006 tentative agenda decision was that taxes paid by a defined benefit plan are included in the definition in IAS 19 *Employee Benefits* of the return on plan assets.
- BC12 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].
- BC13 The Board discussed whether taxes on future superannuation contributions should be included in the calculation of return on plan assets, based on the reference to “taxes payable by the plan itself”. The *Income Tax Assessment Act 1997* Div 295-155 states 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)”. The plan’s income tax is levied on these contributions, however, as mentioned, the plan allocates the tax to individual plan members for administrative purposes. Therefore, 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. Therefore, the Board concluded that the tax paid by the plan is in fact tax attributable to members of the defined benefit plan and that the plan is therefore acting in the capacity of an agent.

- BC14 Because of this agency relationship, the Board does not consider it appropriate to include tax on future payments of superannuation contributions in 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 the income tax on future contributions that superannuation plans are required to remit on behalf of a third party in an agency capacity.
- BC15 The Board also noted that paragraph 103 of AASB 119 states “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 tax payable on future superannuation contributions.

## **How to account for the superannuation contributions tax**

- BC16 The Board discussed how the tax on future superannuation contributions should be included in the measurement of a defined benefit liability or defined benefit asset.
- 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 final obligation payable to employees.
- BC18 Paragraph 73 of AASB 119 states 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 also 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 notes that this list is not exhaustive and, therefore, (as mentioned above) tax on future superannuation contributions can be included in the financial actuarial assumptions.

- BC19 The Illustrative Example at the end of this Basis for Conclusions provides a simple illustration of how the tax on superannuation contributions would be incorporated into the future cash flows used to calculate a defined benefit obligation.

### **Measuring a Defined Benefit Asset**

- BC20 Paragraph 58 of AASB 119 states that the amount determined under paragraph 54 may be negative and therefore result in the recognition of a defined benefit asset (surplus) and the Board discussed whether the treatment of taxes on future superannuation contributions tax would be any different if an entity had a defined benefit asset and not a defined benefit liability.

- BC21 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'. 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.

#### *Surplus as a Contributions Holiday*

- BC22 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 tax on future superannuation contributions. 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 tax on

future superannuation contributions should be factored into the measurement of the defined benefit asset to the extent that the employer sponsor can benefit from the surplus by using it within the superannuation plan.

*Surplus as a Refund*

BC23 The Board considered that the measurement of a defined benefit asset that is intended to be realised as a refund may differ from that which applies when the employer sponsor uses the asset for a 'contributions holiday'. Income tax paid as a result of tax on contributions cannot be recovered from the ATO. Accordingly, the Board's view as a result of tax on contributions 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 income tax paid on past superannuation contributions should not be factored into the measurement of the defined benefit asset to the extent that the employer sponsor will benefit from the surplus as a refund.

BC24 AASB Interpretation 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* paragraph 9 states:

“The economic benefit available does not depend on how the entity intends to use the surplus. An entity shall determine the maximum economic benefit that is available from refunds, reduction in future contributions or a combination of both.”

and further, AASB Interpretation 14 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”

BC25 Therefore, consistent with the requirements of AASB Interpretation 14, the Board concluded that an employer sponsor which holds a defined benefit asset should, to the extent feasible, recognise that asset as if the surplus were to be used as a 'contribution holiday' which would include factoring in the taxes on saved future superannuation contributions as this would be “the maximum economic benefit available...” (paragraph 9 of AASB Interpretation 14). This is consistent with paragraph BC17 of AASB Interpretation 14 in that the reference is to the amount that the employer sponsor would have had to pay, had there been no surplus.

## **Inconsistency with AASB Interpretation 1019**

BC26 In September 2004, the Board issued AASB 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 superannuation plans generally attributed any surcharge back to the applicable member, however, AASB Interpretation 1019 states that “The obligation in respect of the superannuation contributions surcharge gives rise to a liability and an expense of a superannuation plan”. This is in conflict with the position the Board has taken on the superannuation contributions tax, which is paid by the superannuation plan in an agency capacity. The Board has decided it will withdraw AASB 1019 when this Interpretation becomes effective.