IAS 19 *Employee Benefits* (July 2013)

Pre-tax or post-tax discount rate
The Interpretations Committee received a request for guidance on the calculation of defined benefit obligations. In particular, the submitter asked the Interpretations Committee to clarify whether, in accordance with IAS 19 *Employee Benefits* (2011), the discount rate used to calculate a defined benefit obligation should be a pre-tax or post-tax rate.

The tax regime in the jurisdiction of the submitter can be summarised as follows:

(a) the entity receives a tax deduction for contributions that are made to the plan;
(b) the plan pays tax on the contributions received and on the investment income earned; but
(c) the plan does not receive a tax deduction for the benefits paid.

The Interpretations Committee noted that:

(a) paragraph 76(b)(iv) of IAS 19 (2011) mentions only taxes on contributions and benefits payable within the context of measuring the defined benefit obligation;
(b) paragraph 130 of IAS 19 (2011) states that: “in determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation”; and
(c) according to paragraph BC130 of IAS 19 (2011) the measurement of the obligation should be independent of the measurement of any plan assets actually held by a plan.

Consequently, the Interpretations Committee observed that the discount rate used to calculate a defined benefit obligation should be a pre-tax discount rate.

On the basis of the analysis above the Interpretations Committee decided not to add this issue to its agenda.