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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**March 2009, London**
Project:	**Post-employment Benefits**
Subject:	**Additional Issues Raised in Comment Letters - Tax relating to pension costs (Agenda paper 8I)**

The issue

1. Paragraph 7 of IAS 19 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 and **less any tax payable by the plan itself**." [emphasis added]

2. In May 2008, the Board amended the definition of return on plan assets in IAS 19 as follows:

> The return on plan assets is 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 (<u>other than those included in the actuarial assumptions used to measure the defined benefit obligation</u>) and less any tax payable by the plan itself.

3. It also added the following to paragraph BC75 of the Basis for Conclusions to IAS 19:

> The IASB concluded that if the actuarial assumptions used to measure the defined benefit obligation include an allowance for plan administration costs, the deduction of such costs in

> calculating the return on plan assets would result in double-counting them. Therefore, as part of Improvements to IFRSs issued in May 2008, the IASB amended the definition of the return on plan assets to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.

4. The issue that arises is whether any tax payable by the plan itself could be reflected in the measurement of the defined benefit obligation[1].

Staff analysis and recommendation

5. The principle underlying IAS 19 is that employers should measure employee benefits at their ultimate cost.

6. Paragraph 7 of IAS 19 defines the present value of a defined benefit obligation as:

> *The present value of a 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**]

7. Some jurisdictions require the plan to pay tax on contributions made by the employer sponsor. In order to contribute a certain amount to a plan, the employer sponsor would need to contribute that certain amount plus an amount to meet the contributions tax. Therefore, under these circumstances, the ultimate cost of reducing any deficit in a plan would be the amount of the deficit, plus any additional tax payable when the contribution is made.

8. IAS 19 does not explicitly require any taxes to be included in the measurement of the defined benefit obligation. Also, paragraph 103 of IAS 19 states that plan assets exclude any unpaid contributions, and consequently any taxes payable on these unpaid contributions. Some take the view that this means that the taxes described in paragraph 7 cannot be included in the measurement of the defined benefit obligation.

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[1] At its January 2009 meeting, the Board noted a second issue relating to 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. However, the Board tentatively agreed not to include this issue in the scope of this project.

9. **We recommend that the Board resolve this issue by amending the definition of return on plan assets so that includes any tax payable that has not been included in the actuarial assumptions used to measure the defined benefit obligation, because**:

   a. It would be consistent with the approach taken for administrative costs.

   b. It would be consistent with the principle underlying IAS 19 is that employers should measure employee benefits at their ultimate cost.