

# The Superannuation Contributions Surcharge

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This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted for annual periods beginning on or after 1 January 2014 but before 1 January 2020. It incorporates relevant amendments made up to and including 21 May 2019.

Prepared on 2 March 2020 by the staff of the Australian Accounting Standards Board.



**Australian Government**

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UIG Interpretation 1019 *The Superannuation Contributions Surcharge* (as amended) is set out in paragraphs 1 – 23. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation of Standards* and AASB 1057 *Application of Australian Accounting Standards* sets out their application. 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.

## UIG Interpretation 1019

Interpretation 1019 was issued in September 2004.

This compiled version of Interpretation 1019 applies to annual reporting periods beginning on or after 1 January 2020. It incorporates relevant amendments contained in other AASB pronouncements up to and including 21 May 2019 (see Compilation Details).

## Urgent Issues Group Interpretation 1019 *The Superannuation Contributions Surcharge*

### Issue

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- 1 The Superannuation Contributions Surcharge (the surcharge) was introduced in the 1996 Federal Budget. The legislation is contained principally in the *Superannuation Contributions Tax (Assessment and Collection) Act 1997* and the related Regulations. It currently applies to surchargeable contributions attributable to a superannuation provider (normally a superannuation plan) for members whose adjusted taxable income exceeds \$99,710 for the 2004-05 income year. The threshold is subject to indexation.
- 2 The surcharge is calculated by the Australian Taxation Office and advised to the superannuation provider via an assessment. Assessments are made in respect of each year ending 30 June, based on members' surchargeable contributions and adjusted taxable income for that year, regardless of the superannuation provider's end of the reporting period.
- 3 The legislation provides that the superannuation provider holding the surchargeable contributions is liable for the surcharge. The liability may rest with the member or another superannuation provider where benefits have been withdrawn or a pension has begun to be paid before the assessment is made.
- 4 For years ending on or after 30 June 1998 an advance instalment process was introduced to collect the surcharge. The Australian Taxation Office advises the superannuation provider of the required advance instalment when making the initial assessment. Unfunded schemes may elect not to pay the surcharge until the benefit payment is made, in which case the surcharge amount payable accumulates, accruing interest, until payment is made.
- 5 Many superannuation providers pass the cost of the surcharge on to members by debiting the cost of the surcharge to each relevant member's account or benefit. However, in some cases the surcharge may be funded from the surplus of a superannuation plan, or an employer may make additional contributions to meet the surcharge.
- 6 This Interpretation deals with financial reporting by superannuation plans. Superannuation plans are defined in Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans* as arrangements whereby it is agreed between trustees and employers, employees or self-employed persons that benefits be provided upon the retirement of plan members or upon their resignation, death, disablement or other specified event. This Interpretation may also be applicable in analogous circumstances to other entities liable for payment of the superannuation surcharge. As noted in paragraph 3, the legislation places the obligation for payment of the surcharge on superannuation providers. Superannuation providers are defined in the legislation to include trustees of superannuation and approved deposit funds, a provider of retirement savings accounts, a life insurance company or a registered organisation.
- 7 The issues are:
  - (a) is the surcharge a liability and an expense of the superannuation plan; and, if so,
  - (b) when should the liability and expense be recognised?

### Consensus

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- 8 **The obligation in respect of the superannuation contributions surcharge gives rise to a liability and an expense of a superannuation plan.**
- 9 **A superannuation plan shall recognise a liability for the superannuation contributions surcharge when the entity has a present obligation (legal or constructive) as a result of a past event, it is**

probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

- 10 The financial statements shall disclose:
- (a) the accounting policy adopted for the recognition of the liability for the superannuation contributions surcharge;
  - (b) the amount of the superannuation contributions surcharge recognised as an expense during the reporting period;
  - (c) the amount of the liability for the superannuation contributions surcharge recognised as at the end of the reporting period; and
  - (d) whether any unrecognised liability for the superannuation contributions surcharge exists as at the end of the reporting period, stating the reasons for not recognising the liability.

## Application

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- 11 This Interpretation applies to superannuation plans when Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* applies.
- 12 This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.  
[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]
- 13 This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.
- 14 [Deleted by the AASB]
- 15 When applicable, this Interpretation supersedes Abstract 19 *The Superannuation Contributions Surcharge*, as issued in July 1998.
- 16 Abstract 19 remains applicable until superseded by this Interpretation.

## Discussion

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- 17 The object of the *Superannuation Contributions Tax (Assessment and Collection) Act 1997* and the related Regulations (the legislation) is to provide for the assessment and collection of the superannuation contributions surcharge payable on surchargeable contributions for individuals whose adjusted taxable income exceeds a certain specified threshold. The legislation provides that the holder of surchargeable contributions for a financial year (usually a superannuation provider) is liable to pay the surcharge. The surcharge is calculated at differential rates, up to a maximum of 12.5%, for adjusted taxable income levels above \$99,710 in respect of the income year 2004-05. Threshold amounts for the differential surcharge rates are subject to indexation. Surchargeable contributions are determined as follows:
- (a) for a defined contribution plan, by reference to the tax status of contributions actually paid to superannuation plans. They include taxable contributions, for example, employer contributions, salary sacrifice contributions and contributions by self-employed persons, and may also include a surplus allocated during the year; and
  - (b) for a defined benefit plan, by applying an actuarially determined 'notional surchargeable contributions factor' to the member's annual salary.
- 18 AASB 137 defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits. The *Framework for the Preparation and Presentation of Financial Statements* defines expenses as decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Superannuation plans which hold surchargeable contributions are required to make an outflow of resources embodying economic benefits to the Australian Taxation Office. This Interpretation reflects the view that the obligation to make the outflow is a liability of the plan and gives rise to a corresponding expense.
- 19 The legislation specifies the basis on which surchargeable contributions for the financial year are to be calculated. Under the legislation, a superannuation plan is liable to pay the superannuation contributions surcharge when it is the holder of surchargeable contributions, or actuarially determined notional surchargeable contributions, in respect of a member. The legislation provides that if a member transfers to another superannuation provider, or is paid a benefit before an assessment is issued, the liability for the surcharge follows the member. Where a superannuation plan has recognised a liability for the surcharge,

and the obligation in respect of the surcharge has transferred to another plan or to the member, the plan derecognises the liability.

- 20 AASB 137 requires a liability to be recognised when an entity has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount can be reliably estimated. This Interpretation requires that a liability for the surcharge be recognised by a plan when these recognition criteria are satisfied. The Interpretation does not require a liability to be recognised where an estimate is not reliable.
- 21 Whether a reliable estimate of the amount of the superannuation contributions surcharge can be made before the relevant surcharge assessment is received from the Australian Taxation Office will depend on the characteristics of the superannuation plan. For example, differences in the following factors will affect the stage at which a reliable estimate can be made, and therefore a liability recognised in the financial statements of different superannuation plans:
- (a) the number and turnover of members;
  - (b) the size of the plan and the member profile; and
  - (c) the information available to the trustees on past assessments and the adjusted taxable income of members.

In view of the number of potential factors affecting the estimation process, each superannuation plan makes its own assessment as to when a liability can be reliably measured.

- 22 This Interpretation deals with the recognition of a liability and an expense of a superannuation plan. It does not deal with the allocation of the surcharge to relevant member's accounts. That is an administrative matter to be determined by the trustees of a plan.

## **Disclosure**

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- 23 This Interpretation requires certain disclosures to be made in respect of the superannuation contributions surcharge. These disclosures will enhance the usefulness and comparability of the financial statements. They are useful input to an assessment of the financial position of a superannuation plan.

## References

### Australia

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The Urgent Issues Group discussed Issues Paper 04/3 “Revision of Various UIG Abstracts for 2005” in relation to this Interpretation at its meeting on 22 July 2004. In developing the superseded Abstract, the UIG discussed Issue Summary 98/1 “The Superannuation Contributions Surcharge” at meetings on 24 March and 18 June 1998.

- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*
- AAS 25 *Financial Reporting by Superannuation Plans*
- *Framework for the Preparation and Presentation of Financial Statements*<sup>1</sup>

### International Accounting Standards Board

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- International Accounting Standard IAS 37 *Provisions, Contingent Liabilities and Contingent*

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<sup>1</sup> The reference is to the *Framework for the Preparation and Presentation of Financial Statements* adopted by the AASB in 2004 and in effect when the Interpretation was developed.

## Compilation details

### UIG Interpretation 1019 *The Superannuation Contributions Surcharge* (as amended)

*Compilation details are not part of Interpretation 1019.*

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2020. It takes into account amendments up to and including 21 May 2019 and was prepared on 2 March 2020 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 1019 (September 2004) as amended by other pronouncements, which are listed in the table below.

### Table of pronouncements

Pronouncement	Month/date issued	Effective date ( <i>annual periods</i> ... <i>on or after</i> ...)	Application, saving or transitional provisions
Interpretation 1019	Sep 2004	( <i>beginning</i> ) 1 Jan 2005	see (a) below
AASB 2007-8	24 Sep 2007	( <i>beginning</i> ) 1 Jan 2009	see (b) below
AASB 2007-10	13 Dec 2007	( <i>beginning</i> ) 1 Jan 2009	see (b) below
AASB 2013-9	20 Dec 2013	Pt A ( <i>ending</i> ) 20 Dec 2013 Pt B ( <i>beginning</i> ) 1 Jan 2014	see (c) below see (d) below
AASB 2019-1	21 May 2019	( <i>beginning</i> ) 1 Jan 2020	see (e) below

- (a) Earlier application of this Interpretation is not permitted.
- (b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.
- (c) Entities may elect to apply Part A of this Standard to annual reporting periods beginning on or after 1 January 2005 that end before 20 December 2013, provided that AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* and AASB 1048 *Interpretation of Standards* (December 2013) are also applied to such periods.
- (d) Earlier application of Part B of this Standard is not permitted.
- (e) Entities may elect to apply this Standard to annual periods beginning before 1 January 2020.

### Table of amendments

Paragraph affected	How affected	By ... [paragraph/page]
2	amended	AASB 2007-8 [6]
10	amended amended	AASB 2007-8 [6] AASB 2007-10 [114]
14	amended deleted	AASB 2007-8 [8] AASB 2013-9B [37, 38]
18	amended amended	AASB 2013-9A [22] AASB 2019-1 [page 35]
21	amended	AASB 2007-10 [114]
23	amended	AASB 2007-10 [114]
References	amended	AASB 2013-9A [22] AASB 2019-1 [page 36]