



## Class Ruling

### Income tax: Nuplex Industries (Aust) Pty Ltd – early retirement scheme

---

|                                     |           |
|-------------------------------------|-----------|
| Contents                            | Para      |
| <b>LEGALLY BINDING SECTION:</b>     |           |
| <b>What this Ruling is about</b>    | <b>1</b>  |
| <b>Date of effect</b>               | <b>7</b>  |
| <b>Scheme</b>                       | <b>8</b>  |
| <b>Ruling</b>                       | <b>30</b> |
| <b>NOT LEGALLY BINDING SECTION:</b> |           |
| <b>Appendix 1:</b>                  |           |
| <b>Explanation</b>                  | <b>33</b> |
| <b>Appendix 2:</b>                  |           |
| <b>Detailed contents list</b>       | <b>52</b> |

#### **ⓘ This publication provides you with the following level of protection:**

This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

## What this Ruling is about

---

1. This Ruling sets out the Commissioner's opinion on the way in which the relevant provision(s) identified below apply to the defined class of entities, who take part in the scheme to which this Ruling relates.

#### **Relevant provision(s)**

2. The relevant provisions dealt with in this Ruling are:

- section 83-170 of the *Income Tax Assessment Act 1997* (ITAA 1997); and
- section 83-180 of the ITAA 1997.

All legislative references are to the ITAA 1997 unless otherwise indicated

#### **Class of entities**

3. The class of entities to which this Ruling applies is those employees of Nuplex Industries (Aust) Pty Ltd, shown at paragraph 14 of this Ruling.

4. The class of entities defined in this Ruling may rely on its contents provided the scheme actually carried out is carried out in accordance with the scheme described in paragraphs 8 to 29 of this Ruling.

5. If the scheme actually carried out is materially different from the scheme that is described in this Ruling, then:

- this Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled; and
- this Ruling may be withdrawn or modified.

6. This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to:

Commonwealth Copyright Administration  
Copyright and Classification Policy Branch  
Attorney-General's Department  
3-5 National Circuit  
Barton ACT 2600

or posted at: <http://www.ag.gov.au/cca>

## Date of effect

---

7. This Ruling applies for a period of 12 months from 27 March 2013. The Ruling continues to apply after that date to all entities within the specified class who entered into the specified scheme during the term of the Ruling. However, this Ruling will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Ruling (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

## Scheme

---

8. The following description of the scheme is based on information provided by the applicant.

9. Nuplex Industries (Aust) Pty Ltd (Nuplex) is seeking the Commissioner of Taxation's approval to implement an early retirement scheme titled the Nuplex Australasian Early Retirement Scheme (the Scheme) in accordance with section 83-180 of the *Income Tax Assessment Act 1997* (ITAA 1997).

10. The purpose of implementing the Scheme is to rationalise and reorganise Nuplex's operations and reduce, by voluntary means, the size of Nuplex's workforce in the manufacturing functions to effectively streamline and maximise the capability of the remaining operations.

11. By offering the Scheme Nuplex will be able to directly reduce its fixed operating costs and introduce additional flexibility amongst the existing labour force.

12. As Nuplex undertakes the reorganisation, the release of older workers will assist by providing expanded redeployment and development opportunities for other classes of employees. This will assist Nuplex to maintain and develop future core people and talent capability while eliminating the need for growth and the termination of employees due to genuine forced redundancy.

13. The Australasian Policy supporting the Scheme is titled *Policy No. 27 - Australasian Policy - Early Retirement Policy*.

14. The class of employees to whom the Scheme applies is all employees, excluding senior executives, with over 5 years of continuous service who reside permanently in Australia and who are over the age of 55 but less than 65 years of age noting that:

- (a) qualifying service includes the period of continuous employment with Nuplex and other companies where employment with Nuplex is a result of an acquisition; and
- (b) An employee on maternity leave will be deemed to be in continuous employment during that period of leave taken within the company policy.

15. Nuplex will limit the number of employees who are eligible to retire under the Scheme to 10 employees. If more employees accept an offer under the Scheme than required, employees who participate first will be made an offer under the Scheme.

16. Participation in the Scheme is entirely voluntary.

17. All eligible employees will be invited to express an interest to participate in the Scheme within six months of the date of approval by the Commissioner.

18. All eligible employees who accept the offer to retire under the Scheme will terminate employment within 120 calendar days of accepting the offer.

19. Under the Scheme an employee will be entitled to receive a payment based on the calculation:

Years of service x percentage x current salary/wages

20. The value of any periodic bonus payable is not to be included in the calculation.

21. Subject to a maximum of 50%, the percentage used in the calculation is determined as follows:

- (a) Employees who retire within one to five years of reaching an age when eligible for Government retirement benefits – at the rate of 2% per year of continuous service; or
- (b) Employees who elect to retire on a nominated date which is greater than 5 years but less than 10 years from being eligible for Government retirement benefits – at a rate of 3% per year of continuous service.

22. Any employee who terminates employment other than under the Scheme will not be entitled to receive the payment.

23. All payments will be made on arm's length terms.

24. The payments will not include any payment in lieu of superannuation benefits.

25. The payment will not be made from an eligible superannuation fund.

26. Nuplex has no agreements or arrangements in place between itself and employees, or between itself and another person to re-employ employees should an offer under the Scheme be accepted.

27. The Scheme will be open for 12 months from the date of the Commissioner's approval. This will allow sufficient time for any employees to consider the offer, obtain advice with respect to the same and make transitional plans to assist them once their employment has been terminated.

28. There are seven separate enterprise agreements throughout Australia as well as individual contracts of employment. These include:

- Nuplex Industries (Aust) Pty Limited – Botany – Enterprise Agreement 2010
- Nuplex Masterbatch Pty Ltd employee Relations (Geelong Masterbatch Site) Agreement 2012
- Nuplex Industries (Aust) Pty Ltd Springvale Site Enterprise Agreement 2010
- Nuplex Masterbatch Pty Ltd – National Union of Workers Collective Agreement 2012
- Nuplex Industries (Aust) Pty Ltd Wacol Union Collective Agreement 2012
- Acquos Masterbatch Pty Ltd and The Australian Workers Union Enterprise Agreement 2010
- Nuplex Industries (Aust) Pty Ltd and AWU Wangaratta Enterprise Agreement 2011

29. Employees also fall under the Manufacturing and Associated Industries and Occupations Award 2010.

## **Ruling**

---

30. The early retirement scheme to be implemented by Nuplex Industries (Aust) Pty Ltd is an early retirement scheme for the purposes of section 83-180.

31. Accordingly, so much of the payment received by an employee that exceeds the amount that could reasonably be expected to be received by the employee in consequence of voluntary termination of his or her employment at the time of the retirement will be an early retirement scheme payment.

32. In addition, so much of the early retirement scheme payment as falls within the threshold calculated in accordance with section 83-170 is not assessable income and is not exempt income.

---

**Commissioner of Taxation**

27 March 2013

---

## Appendix 1 – Explanation

**①** *This Appendix is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

33. Where a scheme satisfies the requirements of section 83-180 of the *Income Tax Assessment Act 1997* (ITAA 1997) that scheme will be an 'early retirement scheme'.

34. Subsection 83-180(3) of the ITAA 1997 states that:

A scheme is an **early retirement scheme** if:

- a. all the employer's employees who comprise such a class of employees as the Commissioner approves may participate in the scheme; and
- b. the employer's purpose in implementing the scheme is to rationalise or re-organise the employer's operations by making any change to the employer's operations, or the nature of the work force, that the Commissioner approves; and
- c. before the scheme is implemented, the Commissioner, by written instrument, approves the scheme as an early retirement scheme for the purposes of this section.

35. These three conditions will now be considered.

### ***All employees within a class approved by the Commissioner may participate in the scheme***

36. In order to satisfy the first condition, the scheme must be offered to all employees in a class approved by the Commissioner under paragraph 83-180(3)(a) of the ITAA 1997.

37. The class of employees to whom early retirement will be offered is set out in paragraph 14 of this Ruling. The Commissioner considers that this is an appropriate class of persons for the Scheme to be offered. In approving this class of employees the Commissioner has considered the nature of the rationalisation or re-organisation of the operations of the employer. It is therefore considered that these employees meet the requirements of an approved class of employees for the purposes of paragraph 83-180(3)(a).

***The employer's purpose in implementing the scheme is to rationalise or re-organise the employer's operations in a way approved by the Commissioner***

38. The proposed scheme must be implemented by the employer with a view to rationalising or re-organising the operations of the employer as described in paragraph 83-180(3)(b) of the ITAA 1997.

39. The facts at paragraphs 10 to 12 describe the nature of the rationalisation or re-organisation of the employer's operations. In approving the scheme, the Commissioner has had regard to the fact that the re-organisation is being implemented with a view to a restructuring of the work force or operations of the employer. It is therefore considered that the scheme is to be implemented by the employer with a view to rationalising or re-organising the operations of the employer for the purposes of paragraph 83-180(3)(b) of the ITAA 1997.

***The scheme must be approved by the Commissioner prior to its implementation***

40. The scheme is proposed to operate for a period of 12 months from the date of the Commissioner's approval. The approval provided by this class ruling has been granted prior to implementation therefore for the purposes of paragraph 83-180(3)(c), this condition is satisfied.

41. The Scheme will be in operation for a period considered appropriate due to the circumstances of the restructure and the employees that will be given the option of early retirement under the Scheme.

***Other relevant information***

42. Under subsection 83-180(1) of the ITAA 1997 so much of the payment received by an employee because the employee retires under an early retirement scheme as exceeds the amount that could reasonably be expected to be received by the employee in consequence of the voluntary termination of his or her employment at the time of termination is an early retirement scheme payment.

43. It should be noted that, in order for a payment to qualify as an early retirement scheme payment, it must also satisfy the following requirements (as set out in subsections 83-180(2), 83-180(5) and 83-180(6)) of the ITAA 1997:

- the retirement occurred before the employee turned age 65 or such earlier date on which the employee's employment would have terminated under the terms of employment because of the employee attaining a certain age or completing a particular period of service (as the case may be);

- if the employee and the employer are not dealing with each other at arm's length (for example because they are related in some way) the payment does not exceed the amount that could reasonably be expected to be made if the retirement was made at arm's length;
- at the time of retirement there was no arrangement between the employee and the employer, or between the employer and another person, to employ the employee after the retirement;
- the payment must not be made in lieu of superannuation benefits;
- it is not a payment mentioned in section 82-135 of the ITAA 1997 (apart from paragraph 82-135(e)).

44. The term 'arrangement' is defined in subsection 995-1(1) as meaning 'any arrangement, agreement, understanding, promise or undertaking, whether express or implied, and whether or not enforceable (or intended to be enforceable) by legal proceedings'.

45. An early retirement scheme payment that falls within the specified limit is referred to as the 'tax-free' amount and will not be assessable income and will not be exempt income.

46. For the 2012-13 income year, the tax-free amount is limited to \$8,806 (base amount) plus \$4,404 (service amount) for each whole year of completed employment service to which the early retirement scheme payment relates. It should be noted that, 6 months, 8 months or even 11 months do not count as a whole year for the purposes of this calculation. In accordance with section 960-285 of the ITAA 1997, the base limit and service amount limits will be indexed in line with average weekly ordinary time earnings each income year.

47. The amount in excess of what is received on ordinary termination of employment qualifies as an early retirement scheme payment.

48. The total of the amount received on the termination of employment calculated in accordance with paragraph 48 of this ruling may qualify as an early retirement scheme payment.

49. The 'tax free' amount will not be an employment termination payment.

50. The payment in excess of this limit will be an employment termination payment and split up into tax free and taxable components. The tax free component of an employment termination payment includes the pre-July 83 segment of the payment. The tax free component is not assessable income and is not exempt income.

## **Appendix 2 – Detailed contents list**

51. The following is a detailed contents list for this Ruling:

|                                                                                                                                                           | <b>Paragraph</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>What this Ruling is about</b>                                                                                                                          | <b>1</b>         |
| Relevant provision(s)                                                                                                                                     | 2                |
| Class of entities                                                                                                                                         | 3                |
| <b>Date of effect</b>                                                                                                                                     | <b>7</b>         |
| <b>Scheme</b>                                                                                                                                             | <b>8</b>         |
| <b>Ruling</b>                                                                                                                                             | <b>30</b>        |
| <b>Appendix 1 – Explanation</b>                                                                                                                           | <b>33</b>        |
| <i>All employees within a class approved by the Commissioner may participate in the scheme</i>                                                            | 36               |
| <i>The employer's purpose in implementing the scheme is to rationalise or re-organise the employer's operations in a way approved by the Commissioner</i> | 39               |
| <i>The scheme must be approved by the Commissioner prior to its implementation</i>                                                                        | 41               |
| <i>Other relevant information</i>                                                                                                                         | 43               |
| <b>Appendix 2 – Detailed contents list</b>                                                                                                                | <b>52</b>        |

## References

---

*Previous draft:*

Not previously issued as a draft

*Related Rulings/Determinations:*

TR 2006/10

*Subject references:*

- early retirement
- employment termination
- redundancy or early retirement scheme payments

*Legislative references:*

- ITAA 1997
- ITAA 1997 82-135
- ITAA 1997 82-135(e)

- ITAA 1997 83-170
- ITAA 1997 83-180
- ITAA 1997 83-180(1)
- ITAA 1997 83-180(2)
- ITAA 1997 83-180(3)
- ITAA 1997 83-180(3)(a)
- ITAA 1997 83-180(3)(b)
- ITAA 1997 83-180(3)(c)
- ITAA 1997 83-180(5)
- ITAA 1997 83-180(6)
- ITAA 1997 960-285
- ITAA 1997 995-1(1)
- TAA 1953
- Copyright Act 1968

---

ATO references

NO: 1-4DMBZGQ

ISSN: 1445-2014

ATO law topic: *Income Tax ~~ Assessable income ~~ employment termination payments - early retirement scheme*