



Class Ruling

Income tax: 'Sydney Water Corporation Networks Business Unit Retirement Scheme 2018/2019'

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1 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.

Summary – what this Ruling is about

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

Relevant provisions

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

- section 83-170 of the *Income Tax Assessment Act 1997* (ITAA 1997)
- 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 whom this scheme applies is those employees of the Sydney Water Corporation (Sydney Water) shown at paragraph 12 of this Ruling who receive a payment under the scheme described under the heading Scheme.

Qualifications

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 under the heading Scheme.
5. If the scheme actually carried out is materially different from the scheme that is described in this Ruling, then:
 - the Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled, and
 - the Ruling may be withdrawn or modified.

Date of effect

6. The Ruling applies from 7 November 2018 to 30 November 2019. The Ruling continues to apply after 30 November 2019 to all entities within the specified class who entered into the specified scheme during the term of the Ruling. However, the 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 the Ruling (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10 *Public Rulings*).

Scheme

7. Sydney Water is seeking the Commissioner's approval to implement an early retirement scheme in accordance with section 83-180.
8. The scheme will be titled the '**Sydney Water Corporation Network Business Unit Retirement Scheme 2018/2019**', hereafter referred to as 'the Scheme'.
9. Sydney Water supplies water, wastewater, recycled water and some stormwater services to more than five million people in Sydney, the Illawarra and the Blue Mountains.
10. Sydney Water is commencing the second phase of the restructure of the Networks Business Unit.
11. Implementation of the Scheme will enable Sydney Water to manage transition to retirement in a planned manner to ensure knowledge and skills are retained through an organised handover to incoming staff. As Sydney Water has a high retention rate, Sydney Water (and the Networks Business Unit in particular) faces an aging work force. The Scheme will enable Sydney Water to bring new skills into the division.

12. The class of employees to whom the Scheme applies is all permanent full-time and part-time Sydney Water Production Employees within the Networks Business Unit who are aged between 55 and 64 years with at least five years of service with Sydney Water.

13. The Scheme will be open to eligible employees from the day after the date of the Commissioner's approval, and will be implemented as follows:

- Employees will have four weeks from the date of approval of the Scheme to submit an expression of interest.
- All applications will be reviewed and assessed by Sydney Water.
- Sydney Water will notify all individuals of the outcome of their application within two weeks of submitting their expression of interest.
- Employees who retire under the Scheme will receive a payment and terminate their employment no later than 30 November 2019.
- Employees will be terminated prior to 30 June 2019 at the time that meets operational requirements.
- The Scheme will be limited to 27 employees.
- If the number of eligible employees who wish to retire under the Scheme is greater than the number of packages available, the Scheme will be offered to those employees with the greatest length of service with Sydney Water.

14. All eligible employees terminated under the Scheme will receive a lump sum payment of \$50,000.

15. All eligible employees terminated under the Scheme will receive their statutory entitlements such as annual leave and long service leave where applicable. However these amounts will not form part of the payment under the Scheme.

16. The payment made under the Scheme is in excess of any superannuation and any other benefits to which eligible employees would otherwise be entitled.

17. Payments made under the Scheme will be at arm's length.

18. The retirement of employees who receive a payment under the Scheme will occur before they turn 65 years of age.

19. There is no agreement in place between any eligible employee and Sydney Water, or between Sydney Water and another person, to employ the eligible employee after retirement under the Scheme.

20. Participation in the Scheme will be entirely voluntary.

21. Employees who terminate their employment other than under the Scheme will not be entitled to receive the Scheme payment.

Ruling

22. The early retirement scheme to be implemented by Sydney Water is an early retirement scheme for the purposes of section 83-180.

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

24. 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

7 November 2018

Appendix 1 – Explanation

❶ *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.*

25. A scheme will be an early retirement scheme if it satisfies the requirements of subsections 83-180(3).

26. Subsection 83-180(3) 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.

These three conditions are now considered.

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

27. 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).

28. The class of employees to whom early retirement will be offered under the Scheme is set out in paragraph 12 of this Ruling.

29. The Commissioner considers that this is an appropriate class of persons for the Scheme to be offered to. 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

30. 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).

31. Paragraphs 9 to 11 of this Ruling 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 changes in the operations and nature of the work force of the employer. It is 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).

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

32. The Scheme is proposed to operate for a period from 7 November 2018 to 30 November 2019. The approval to be provided by the class ruling will have been granted prior to implementation therefore, for the purposes of paragraph 83-180(3)(c), this condition is satisfied.

33. The Scheme will be in operation for approximately twelve months. This is considered appropriate due to the circumstances of the re-organisation.

Other relevant information

34. Under subsection 83-180(1), 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 their employment at the time of termination is an early retirement scheme payment.

35. 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)):

- 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 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, and
- it is not a payment mentioned in section 82-135 (apart from paragraph 82-135(e)).

36. 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'.

37. In accordance with section 83-170, 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.

38. For the 2018-19 income year, the tax-free amount is limited to \$10,399 (base amount) plus \$5,200 (service amount) for each whole year of completed employment service to which the early retirement scheme payment relates. It should be noted that six months, eight months or even eleven months do not count as a whole year for the purposes of this calculation.

39. For the 2019-20 income year, the base amounts and the service amounts are yet to be determined at the publication of this Ruling. Therefore, employees should check the Australian Taxation Office website for these indexed amounts at the relevant time.

40. The total of the amount received on the termination of employment in accordance with paragraph 14 of this Ruling may qualify as an early retirement scheme payment.

41. The total payment received in accordance with paragraph 14 of this Ruling will be measured against the limit in accordance with the formula mentioned in paragraphs 38 and 39 of this Ruling to determine the tax-free amount of the early retirement scheme payment.

42. The tax-free amount will:

- not be an employment termination payment (ETP), and
- not be able to be rolled-over into a superannuation fund.

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

44. The taxable component of the ETP will be taxed at various rates depending on the person's age. It should be noted that the '*whole of income cap*' does not apply to any part of the early retirement scheme payment.

Appendix 2 – Detailed contents list

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

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References

Previous draft:

Not previously issued as a draft

Related Rulings/Determinations:

TR 2006/10

Legislative references:

- 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 995-1(1)
 - TAA 1953
 - ITAA 1997 82-135
 - ITAA 1997 82-135(e)
 - ITAA 1997 83-170
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ATO references

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