



# ***CR 2001/73 - Income tax: Approved Early Retirement Scheme - Diocesan Catholic Education Office, Diocese of Rockhampton***

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 This document has changed over time. This is a consolidated version of the ruling which was published on *5 November 2001*



## Class Ruling

### Income tax: Approved Early Retirement Scheme – Diocesan Catholic Education Office, Diocese of Rockhampton

Contents	Para
What this Class Ruling is about	1
Date of effect	8
Withdrawal	9
Arrangement	10
Ruling	28
Explanations	30
Detailed contents list	54

#### ***Preamble***

*The number, subject heading, and the **What this Class Ruling is about** (including **Tax law(s)**, **Class of persons** and **Qualifications** sections), **Date of effect**, **Withdrawal**, **Arrangement** and **Ruling** parts of this document are a ‘public ruling’ in terms of Part IVAAA of the **Taxation Administration Act 1953**. CR 2001/1 explains Class Rulings and Taxation Rulings TR 92/1 and TR 97/16 together explain when a Ruling is a public ruling and how it is binding on the Commissioner.*

#### **What this Class Ruling is about**

1. This Ruling sets out the Commissioner’s opinion on the way in which the ‘tax law(s)’ identified below apply to the defined class of persons, who take part in the arrangement to which this Ruling relates.

#### **Tax law(s)**

2. The tax law dealt with in this Ruling is section 27E of the *Income Tax Assessment Act 1936* (‘ITAA 1936’).

#### **Class of persons**

3. The class of persons to whom this Ruling applies is all Diocesan Catholic Education teachers and support staff currently working in the Rockhampton Diocese with greater than ten years continuous service in Catholic schools in Queensland, who receive a payment under the arrangement described below in paragraphs 10 to 27.

#### **Qualifications**

4. The Commissioner makes this Ruling based on the precise arrangement identified in this Ruling.

5. The class of persons defined in this Ruling may rely on its contents provided the arrangement described below at paragraphs

10 to 27 is carried out in accordance with the details of the arrangement provided in this Ruling.

6. If the arrangement described in this Ruling is materially different from the arrangement that is actually carried out:

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

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## Date of effect

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8. This Ruling applies from 5 November 2001. However, the Ruling does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

## Withdrawal

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9. This Ruling is withdrawn and ceases to have effect after 31 December 2002. The Ruling continues to apply, in respect of the tax law(s) ruled upon, to all persons within the specified class who enter into the specified arrangement during the term of the ruling. Thus, the Ruling continues to apply to those persons, even following its withdrawal, for arrangements entered into prior to withdrawal of the Ruling. This is subject to there being no change in the arrangement or in the persons' involvement in the arrangement.

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## Arrangement

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### The Scheme

10. The arrangement that is the subject of the Ruling is described below. This description is based on the following documents. These documents, or relevant parts of them, as the case may be, form part of and are to be read with this description. The relevant documents or parts of documents incorporated into this description of the arrangement are:

- correspondence dated 1 November 2001 from the Diocesan Catholic Education Office, Diocese of Rockhampton;
- record of telephone conversation with a representative of the Diocesan Catholic Education Office, Diocese of Rockhampton on 1 November 2001.

11. The Diocesan Catholic Education Office, Diocese of Rockhampton is seeking approval for an early retirement scheme.

12. The Diocese of Rockhampton would like to pursue its policy of providing schools with teachers and support staff who have been trained in the latest pedagogic methodologies, advanced human resource skills and are aware of the latest technological developments eg computer literacy. This will extend the schools' ability to provide an improved level of education and assist in making the schools more competitive within the non-government education sector.

13. The Employer's policy on the 'Education of Teachers' embodies the need for all teachers employed by Diocesan Catholic Education in the Diocese of Rockhampton to update and renew their teaching skills and acquaint themselves with the latest pedagogic methodologies. Support staff are also expected to update and renew their skills.

14. Teachers who have recently graduated will have been directly exposed to these and will have the benefit of working with the latest technological advances during their training. Similarly support staff, recently trained, will have received training that would relate to computer skills and the changing nature of the technical and administrative operations of the school.

15. The advent of the award restructuring process has witnessed a new teacher salary/classification structure that is based on academic qualifications and years of teaching experience. Teachers with ten or greater years of service are less likely to continue studying because they have accessed the top of the teaching scale.

16. The aim of the early retirement scheme is to replace the older teachers and support staff of the Diocesan Catholic Education Office

with graduate teachers or teachers with one year's experience and recently trained support staff.

17. The amount to be paid under the approved early retirement scheme is one week's salary for each year of service, with a maximum payment of \$17 800.

18. The employees will also receive the following but these do not form part of the approved early retirement scheme payment:

- long service leave, on a pro-rata basis of actual service accrued as at the date of retirement;
- full vesting of employer superannuation contributions in respect of the teachers' and support staffs' superannuation scheme.

19. It is proposed that there will be thirty positions available under the early retirement scheme.

20. The selection of the successful applicants will be on a first-in basis, however the Diocesan Catholic Education Office, Diocese of Rockhampton has advised that approval will be dependent upon the applicant being suitable, based on a consideration of the impact of their departure from the school, on subject areas taught, on the level of any special skills they possess and other local considerations. This will ensure that no school suffers an insufficient level of skill and experience among its teachers and support staff.

## **Payments made under the Scheme**

21. For a payment made under the above mentioned scheme to qualify as an approved early retirement scheme payment, the following conditions must be met. Please note, any payment made under the scheme that does not satisfy these requirements is not covered by this Ruling.

22. The payment must be an eligible termination payment (ETP) made in relation to the employee in consequence of his or her employment being terminated under the approved early retirement scheme.

23. The payment must not be made from an eligible superannuation fund.

24. The payment must not be made in lieu of superannuation benefits.

25. The employee terminated his or her employment before the earlier of:

- age 65; or

- the date on which his or her employment would have necessarily terminated under the terms of employment because of the taxpayer attaining a certain age or completing a certain period of service.

26. Where 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 what would have been paid to the employee had they been dealing at arm's length.

27. At the termination time, there is no agreement in force between the employee and the employer or the employer and another person, to re-employ the employee after the date of termination.

## **Ruling**

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28. The early retirement scheme offered by the Diocesan Catholic Education Office, Diocese of Rockhampton is an approved early retirement scheme for the purposes of section 27E of the ITAA 1936.

29. Accordingly, so much of the eligible termination payment (ETP) as exceeds the amount of an ETP that could reasonably be expected to have been made in relation to the taxpayer if the termination of employment had occurred at the termination time otherwise than in accordance with the approved early retirement scheme, is an approved early retirement scheme payment in relation to the taxpayer.

## **Explanations**

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30. Where a scheme satisfies the requirements of section 27E of the ITAA 1936 that scheme will be an 'approved early retirement scheme.'

31. The Commissioner of Taxation (the Commissioner) has issued Taxation Ruling TR 94/12 titled: *'Income tax: approved early retirement scheme and bona fide redundancy payments'* which sets out guidelines on the application of section 27E.

32. Paragraph 14 of TR 94/12 states that:

'Three conditions need to be satisfied for a scheme to qualify as an approved early retirement scheme. Those conditions are:

- (i) the scheme must be offered to all employees within a class identified by the employer (paragraph 27E(1)(a));
- (ii) the scheme must be entered into with a view to rationalising or re-organising the operations of the

- employer with an identified purpose in mind (paragraph 27E(1)(b)); and
- (iii) the scheme must be approved by the Commissioner prior to its implementation (paragraph 27E(1)(c)).’

***1. The scheme must be offered to all employees within a class identified by the employer***

33. In order to satisfy the first condition, the scheme must be offered to all employees within one of the categories specified in subparagraphs 27E(1)(a)(i) to (v).

34. The class of employees to whom the scheme is proposed to be offered is:

- all Diocesan Catholic Education teachers and support staff currently working in the Rockhampton Diocese with greater than ten years continuous service in Catholic schools in Queensland.

35. This class of employees does not come within any subparagraphs 27E(1)(a)(i) to (iv), therefore it must be considered under subparagraph 27E(1)(a)(v), namely, all employees of the employer who constitute a class of employees approved by the Commissioner for the purposes of this paragraph. 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 subparagraph 27E(1)(a)(v).

36. It is noted that the Diocesan Catholic Education Office, Diocese of Rockhampton retain a limited right of veto on applications from teachers whose departure from the school, would impact on the subject areas taught, on the level of any special skills they possess and other local considerations. The limitation of the scheme in this way is acceptable to the Commissioner

***2. The scheme must be entered into with a view to rationalising or re-organising the operations of the employer with an identified purpose in mind***

37. The proposed scheme must be implemented with a view to rationalise or re-organise the operations of the employer by means of one or more of the objectives set out in subparagraphs 27E(1)(b)(i) to (vi).

38. The purposes of the scheme are described at paragraphs 12 to 16 of this ruling. The proposed scheme meets the requirements set out

in subparagraph 27E(1)(b)(i); accordingly the second condition for approval has been met.

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

39. The scheme is proposed to operate for a period from 5 November 2001 to 31 December 2002. Since the implementation date has already passed, the scheme fails to meet the requirement of paragraph 27E(1)(c).

40. However, subsection 27E(2) allows the Commissioner to overlook the failure to comply with any of the three conditions if special circumstances exist in relation to the scheme. Paragraph 30 of TR 94/12 states:

“Special circumstances include circumstances where: a scheme is implemented before approval has been obtained because, for example, there has been a delay in processing an application made for its approval...”

41. Based on the full circumstances of the application it is considered that this case falls within special circumstances as set out in subsection 27E(2), and the Commissioner will waive compliance with the third requirement of subsection 27E(1).

42. The scheme will be in operation for approximately 14 months. Although this is outside the period of 12 months recommended in paragraph 28 of TR 94/12, given the commencement date in relation to the school year, it is considered that the scheme should remain open for the requested period to enable the desired objective to be attained.

***Other relevant information***

43. Under section 27E, so much of the payment received by a taxpayer under the approved early retirement scheme, that exceeds the amount that would ordinarily have been received on voluntary resignation or retirement is an approved early retirement scheme payment.

44. It should be noted that, in order for a payment to qualify as an approved early retirement scheme payment, it must also satisfy the following requirements (as set out in subsections 27E(4) and (5) of the Act):

- the payment must be an eligible termination payment (ETP) made in relation to the taxpayer in consequence of the taxpayer's employment being terminated under an approved early retirement scheme;



- the payment must not be from an eligible superannuation fund;
- the payment must not be made in lieu of superannuation benefits;
- if the taxpayer 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 what would have been paid to the taxpayer had they been dealing at arm's length;
- the date of termination was before age 65 or such earlier date on which the taxpayer's employment would necessarily have had to terminate under the terms of employment because of the taxpayer attaining a certain age or completing a certain period of service, whichever occurs first; and
- there was no agreement at the date of termination between the taxpayer and the employer, or the employer and another person to re-employ the taxpayer after the date of termination.

45. The term 'agreement' is defined in subsection 27A(1) as meaning 'any agreement, arrangement or understanding whether formal or informal, whether express or implied and whether or not enforceable, or intended to be enforceable by legal proceedings.'

46. An approved early retirement scheme payment made on or after 1 July 1994 that falls within the specified limit will be exempt from income tax and called the "tax-free amount."

47. For the year ending 30 June 2002, the tax-free amount is limited to \$5 295 plus \$2 648 for each whole year of completed employment service to which the approved early retirement scheme payment relates. Please note that 6 months, 8 months or even 11 months do not count as a whole year for the purposes of this calculation.

48. The following payment qualifies as an approved early retirement scheme payment:

- one week's salary for each year of service, with a maximum payment of \$17 800.

49. The total of the payments in the previous paragraph will be measured against the limit calculated in accordance with paragraph 47 to determine the "tax-free amount".

50. The tax-free amount will:

- not be an ETP;

- not be able to be rolled-over;
- not include any amount from a superannuation fund or paid in lieu of a superannuation benefit; and
- not count towards the recipient's Reasonable Benefit Limit.

51. Any payment in excess of this limit will be an ordinary ETP and split up into the pre-July 83 and post-June 83 (untaxed element) components. This ETP can be rolled-over.

52. It should be noted that the amount of an approved early retirement scheme payment that is over the tax-free amount may be subject to the provisions of the superannuation surcharge legislation, whether it is taken in cash or rolled-over.

53. A copy of this Ruling must be given to all employees eligible to participate in the approved early retirement scheme.

## **Detailed contents list**

54. Below is a detailed contents list for this Class Ruling:

	<b>Paragraph</b>
<b>What this Class Ruling is about</b>	<b>1</b>
Tax law(s)	2
Class of persons	3
Qualifications	4
<b>Date of effect</b>	<b>8</b>
<b>Withdrawal</b>	<b>9</b>
<b>Arrangement</b>	<b>10</b>
The Scheme	10
Payments made under the Scheme	21
<b>Ruling</b>	<b>28</b>
<b>Explanations</b>	<b>30</b>
1. <i>The scheme must be offered to all employees within a class identified by the employer</i>	33
2. <i>The scheme must be entered into with a view to rationalising or re-organising the operations of the employer with an identified purpose in mind</i>	37
3. <i>The scheme must be approved by the Commissioner prior to its implementation</i>	39

# CR 2001/73

*Other relevant information* 43

**Detailed contents list** 54

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## Commissioner of Taxation

28 November 2001

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- Previous draft:*
- Not previously issued in draft form - ITAA 1936 27E(1)(a)
  - ITAA 1936 27E(1)(b)
  - ITAA 1936 27E(1)(c)
- Related Rulings/Determinations:*
- CR 2001/1; TR 92/1; TR 92/20; - ITAA 1936 27E(1)(a)(i)
  - TR 97/16 - ITAA 1936 27E(1)(a)(ii)
  - ITAA 1936 27E(1)(a)(iii)
  - ITAA 1936 27E(1)(a)(iv)
  - ITAA 1936 27E(1)(a)(v)
- Subject references*
- approved early retirement scheme - ITAA 1936 27E(1)(b)(i)
  - payments; - ITAA 1936 27E(1)(b)(ii)
  - eligible termination payments - ITAA 1936 27E(1)(b)(iii)
  - eligible termination payments - ITAA 1936 27E(1)(b)(iv)
  - components - ITAA 1936 27E(1)(b)(v)
  - ITAA 1936 27E(1)(b)(vi)
- Legislative references:*
- TAA 1953 Part IVA
  - ITAA 1936 27A(1)
  - ITAA 1936 27E
  - ITAA 1936 27E(4)
  - ITAA 1936 27E(5)
- 

### ATO References

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