

# ***CR 2002/3 - Income tax: Approved Early Retirement Scheme - SunWater***

⚠ This cover sheet is provided for information only. It does not form part of *CR 2002/3 - Income tax: Approved Early Retirement Scheme - SunWater*

⚠ This document has changed over time. This is a consolidated version of the ruling which was published on *14 January 2002*



## **Class Ruling**

### **Income tax: Approved Early Retirement Scheme - SunWater**

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#### ***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**

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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 are:

- all employees who are Civil Engineering employees in the Professional Stream primarily engaged on construction activities in Engineering Services Group;
- all employees who are in the Technical Stream in Engineering Services Group and Water Supply Services Group but are not engaged in Computer Aided Drafting;
- all employees who are in the Operational Stream in Engineering Services Group;
- all employees who are Construction Workers;

- all employees who are Administrative Stream Level 2 or 3 in Engineering Services Group and Operations and Maintenance Group;
- all employees who are AO4 – AO7 officers in Water Supply Services Group; and
- all employees who are Operational Stream Level 6 or Level 7 Operations or Maintenance Supervisors, and Operations or Maintenance Coordinators, in Operations and Maintenance Group,

who receive a payment under the Voluntary Early Retirement Scheme 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 14 January 2002. 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 May 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.

## **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 from SunWater dated 28 November 2001;
- record of telephone conversation with a representative of SunWater dated 14 January 2002;
- correspondence from SunWater dated 14 January 2002; and
- the SunWater Corporate Plan 2001-2006.

Note: certain information from the applicant has been provided on a commercial-in-confidence basis and will not be disclosed or released under the Freedom of Information Legislation.

11. SunWater is a Government Owned Corporation which was corporatised on 1 October 2000. As a Government Owned Corporation, SunWater must operate in a commercially viable manner, which provides cost effective water services.

12. The SunWater Corporate Plan 2001-2006 sets out a range of strategies to achieve this service. SunWater is required to improve

performance in order to achieve required levels of customer service and efficiency.

13. This process includes initiatives such as:

- reduced costs through business management systems;
- relocation of services to better match client profile;
- improved performance through commercially accountability processes; and
- staffing restructure.

14. These initiatives will be supported by the implementation of a reorganised structure that better meets the needs of SunWater's clients and aligns the skills of its employees with defined core business activities as outlined in SunWater's Corporate Plan.

15. The SunWater Corporate Plan changes business focus by anticipating increased external and international work opportunities and reduces capacity in certain areas of the business where future growth is limited. The implementation involves reduction of employees in some vocations and the re-organisation of many business functions.

16. The first step in this process is to offer the opportunity to the class of employees identified in these areas to be part of the SunWater Approved Early Retirement Scheme. This is being done in preference to retrenchments in order to maintain industrial harmony.

17. In accordance with the SunWater Corporate Plan, a number of key employees will be required to be retained. Under the arrangement, SunWater will retain a limited discretion to veto applications by key employees so that the required balance of skills and experience can be maintained. This discretion shall not be exercised for any other purpose.

18. The relevant industrial award or agreement that the employees of SunWater are employed pursuant to is the *SunWater Certified Agreement*.

19. For the employees accepting Voluntary Early Retirement, the following payments will be made as set out in the *SunWater Certified Agreement*:

- payment of 3 weeks per year of service to a maximum of 52 weeks; and
- payment of 8 weeks additional pay for timing the departure at the convenience of SunWater.

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

- payment of pro-rata long service leave;
- payment of accrued and pro-rata annual leave.

### **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 must terminate 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 SunWater 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 set out in paragraph 3.

35. This class of employees does not come within any of 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).

***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***

36. 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).

37. The purpose of the scheme is described at paragraphs 11 to 15 of this ruling. The purpose does not come within any of subparagraphs 27E(1)(b)(i) to (v), therefore it must be considered under subparagraph 27E(1)(b)(vi), namely any other change to the operations of the employer or to the nature of the workforce of the employer approved by the Commissioner for the purposes of this paragraph. In approving this purpose, the Commissioner has considered the nature of the rationalisation or re-organisation of the operations of the employer. It is therefore considered that the purpose of the scheme meets the requirements of subparagraph 27E(1)(b)(vi).

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

38. The scheme is proposed to operate from 14 January 2002 to 31 May 2002. The scheme will be in operation for approximately five months, which is within the period recommended in TR 94/12. The third condition is therefore satisfied.

***Other relevant information***

39. 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 retirement or resignation is an approved early retirement scheme payment.

40. 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 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.

41. 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.'

42. 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."

43. 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.

44. The total of the following payments qualify as an approved early retirement scheme payment:

- payment of 3 weeks per year of service to a maximum of 52 weeks; and
- payment of 8 weeks additional pay for timing the departure at the convenience of SunWater.

45. The total of the payments described in the previous paragraph will be measured against the limit calculated in accordance with paragraph 43 to determine the "tax-free amount".

46. 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.

47. 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.

48. 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.

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

## **Detailed contents list**

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

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## Commissioner of Taxation

23 January 2002

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<i>Previous draft:</i>	- ITAA 1936 27E(1)(a)
Not previously released in draft form	- ITAA 1936 27E(1)(b)
	- ITAA 1936 27E(1)(c)
<i>Related Rulings/Determinations:</i>	- ITAA 1936 27E(1)(a)(i)
CR 2001/1; TR 92/1; TR 92/20;	- ITAA 1936 27E(1)(a)(ii)
TR 97/16; TR 94/12	- ITAA 1936 27E(1)(a)(iii)
	- ITAA 1936 27E(1)(a)(iv)
	- ITAA 1936 27E(1)(a)(v)
<i>Subject references:</i>	- ITAA 1936 27E(1)(b)(i)
- approved early retirement scheme	- ITAA 1936 27E(1)(b)(ii)
payments;	- ITAA 1936 27E(1)(b)(iii)
- eligible termination payments	- ITAA 1936 27E(1)(b)(iv)
- eligible termination payments	- ITAA 1936 27E(1)(b)(v)
components	- ITAA 1936 27E(1)(b)(vi)
	- ITAA 1936 27E(2)
<i>Legislative references:</i>	- ITAA 1936 27E(4)
- ITAA 1936 27A(1)	- ITAA 1936 27E(5)
- ITAA 1936 27E	
- ITAA 1936 27E(1)	

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### ATO References

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