

CR 2003/101 - Income tax: Approved Early Retirement Scheme - Department of Education & Training

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⚠ This document has changed over time. This is a consolidated version of the ruling which was published on *9 November 2003*



Class Ruling

Income tax: Approved Early Retirement Scheme – Department of Education & Training

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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

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.
2. Broadly, this Ruling approves the particular early retirement scheme and acknowledges the availability of tax concessions for persons receiving payments under the scheme. There are many conditions attached to this Ruling and readers should be careful to ensure that these conditions are met before relying on this Ruling.

Tax law(s)

3. The tax laws dealt with in this Ruling are sections 27E and 27CB of the *Income Tax Assessment Act 1936* (ITAA 1936).

Class of persons

4. The class of persons to which this Ruling applies is all employees of the Department of Education & Training (DE&T) who receive a payment under the arrangement described in paragraphs 12 to 36.

Qualifications

5. The Commissioner makes this Ruling based on the precise arrangement identified in this Ruling.
6. The class of persons defined in this Ruling may rely on its contents provided the arrangement actually carried out is carried out in accordance with the arrangement described in paragraphs 12 to 36.
7. If the arrangement actually carried out is materially different from the arrangement that is described in this Ruling, then:
 - 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
 - this Ruling may be withdrawn or modified.
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9. A copy of this Ruling must be given to all employees eligible to participate in the approved early retirement scheme.

Date of effect

10. This Ruling applies from 7 November 2003 unless and until it is withdrawn (see paragraph 11). However, this 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 this Ruling (see paragraphs 21 to 22 of Taxation Ruling TR 92/20). Furthermore this Ruling applies to the extent that the relevant tax laws are not amended.

Withdrawal

11. This Ruling is withdrawn and ceases to have effect after 30 June 2004. 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

The Scheme

12. The arrangement that is the subject of this 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 DE&T; and
- records of telephone conversations with representatives of the DE&T.

13. The DE&T is seeking approval for an early retirement scheme known as the Voluntary Departure Package (VDP).

14. On 13 August 2003 a re-organisation of the Melbourne based headquarters of the DE&T was announced as part of the Victorian government's education reform agenda to improve school performance and accountability.

15. The proposed new structure and functional re-alignment for the DE&T was announced on 11 September 2003 and will:

- improve the capacity to achieve government's education priorities;
- better align and co-ordinate DE&T functions;
- promote a more integrated approach to DE&T's work; and
- ensure that DE&T is able to deliver the best possible outcomes.

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16. The reorganisation of the functions or services delivered by central office work locations will result in an organisational structure that has clear policy and accountability frameworks, and provides guidance, support and efficient client service with some key activities to be managed centrally.

17. Changes to how the Executive Services Functions are performed will involve integration of corporate communications (media relations, marketing and communication services) in the Office of Strategy and Review (OSR). This will reduce duplication and ensure better coordination and more effective services to the Department including regions. Also, centralisation of Ministerial and executive support services in the OSR will minimise duplication of efforts in these functions.

18. Changes to Policy, Research and Inter-agency Functions performed within the new structure will be aligned to government priorities and will be driven by continuous improvement and innovation. There will be more effective delivery and the removal of duplication in the management of inter-agency activities.

19. Performance review is to be driven by continuous improvement and innovation which will make better use of performance monitoring information. Central office will support strategies for evaluation and improvement in schools and TAFE institutes for strategic change in teaching and learning and for a high quality teaching workforce.

20. In addition, further streamlining of Resource Management Functions currently administered in the Office of School Education (OSE), the Office of Finance Strategy and Resources (OFSR) and the Office of Training and Tertiary Education (OTTE) is to ensure more cost-effective and efficient service delivery. This will involve centralisation of shared services, information technology and operations, and financial budget management operations.

21. Changes to Programs will ensure that they are aligned to government priorities and have access to the research and expertise to drive curriculum support and the ongoing professional development of the Department's workforce requiring better central coordination of available resources.

22. The changes to how the Regulation Functions are performed include improved strategic focus and quality of advice including the centralisation of the internal audit and shared services functions.

23. The class of employees to which the scheme will be offered is all ongoing VPS non executive staff of the DE&T employed under the *Public Sector Management Act 1998* who satisfy the basic eligibility criteria (in paragraph 24) and whose employment is based at one of the following locations:

- 2 Treasury Place, East Melbourne;
- 23 & 33 St Andrews Place, East Melbourne;
- 252 Victoria Parade, East Melbourne;
- 35 Spring Street, Melbourne;
- 589 Collins Street, Melbourne;
- 49 Batman Street, West Melbourne;
- 150 Palmerston Street, Carlton;
- 109 Reserve Road, Beaumaris;

excluding:

- staff employed in the Technical Support to Schools Unit of the Business and Technology Branch (BTB); and
- staff employed in Cases/Cases 21 and School System Training and Support Units of the Business Systems Development Branch (BSDB).

24. The basic eligibility criteria is that an employee must:

- be on the payroll as from 30 October 2003, and remain on the payroll thereafter;
- be employed on an open ended, continuing basis (i.e. not employed for a fixed period);
- not be a recipient of weekly non – medical payments under WorkCare / WorkCover as at 30 October 2003;
- not be on unpaid leave of any description at 30 October 2003; and
- not be on probation pending ongoing appointment or other trial arrangement.

25. Offers of VDPs will be made to employees either in November or December 2003 and employees will have ten working days to accept the offer.

26. It is noted, however, that the DE&T retains a limited right of veto to be applied to applications by key personnel who cannot be readily replaced and whose loss would impair the efficiency of the DE&T's business operations.

27. Further, the DE&T will limit the number of staff who can retire under the scheme in the Applications Service Unit (ASU) of the BSDB to a maximum of five and in the Learning Provisioning Programs Unit (LPPU) of the BTB, to a maximum of two.

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28. The DE&T will provide VDPs to the first five staff in the ASU and the first two staff in the LPPU who accept the offer, excluding key employees.

29. The VDP payment consists of:

- a flat rate of four weeks pay at the employee's substantive rate of ordinary time pay immediately before resignation; plus
- two weeks pay per year of continuous service to a maximum of 15 years (30 weeks pay); plus
- A lump sum voluntary departure incentive of up to \$10,000.

30. For a payment made under the above mentioned scheme to qualify as an approved early retirement scheme payment, the conditions set out in paragraphs 31 to 36 must be met. Please note, any payment made under the scheme that does not satisfy these requirements is not covered by this Ruling.

Payments made under the Scheme

31. 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.

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

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

34. 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.

35. Where the employee and the employer are not dealing with each other at arm's length (e.g. 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.

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

Ruling

37. The early retirement scheme offered by DE&T is an approved early retirement scheme for the purposes of section 27E of the ITAA 1936.

38. Accordingly, so much of the 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.

39. In addition, so much of the approved early retirement scheme payment as falls within the threshold calculated in accordance with subsection 27A(19) of the ITAA 1936 is non-assessable and is ignored in working out whether a capital gain has been made via the operation of section 27CB of the ITAA 1936.

Explanation

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

41. 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.

42. 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)).

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

43. 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).

44. The class of employees to which the scheme will be offered is all ongoing VPS non executive staff of the DE&T employed under the *Public Sector Management Act 1998* who satisfy the basic eligibility criteria (in paragraph 24) and whose employment is based at one of the following locations:

- 2 Treasury Place, East Melbourne;
- 23 & 33 St Andrews Place, East Melbourne;
- 252 Victoria Parade, East Melbourne;
- 35 Spring Street, Melbourne;
- 589 Collins Street, Melbourne;
- 49 Batman Street, West Melbourne;
- 150 Palmerston Street, Carlton;
- 109 Reserve Road, Beaumaris;

excluding:

- staff employed in the Technical Support to Schools Unit of the BTD; and
- staff employed in Cases/Cases 21 and School System Training and Support Units of the BSDB.

45. 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).

46. It is noted, however, that the DE&T retains a limited right of veto to be applied to applications by key personnel who cannot be readily replaced and whose loss would impair the efficiency of the Department of Education & Training's business operations.

47. Further, the DE&T will limit the number of staff employed in the ASU and the LPPU who can retire under the scheme as set out in paragraphs 27 and 28.

48. The limitation of the scheme as described in paragraphs 46 and 47 is acceptable to the Commissioner.

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

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

50. Paragraphs 14 to 22 describe the nature of the rationalisation or re-organisation of the DE&T's operations. The proposed scheme meets the requirement set out in subparagraph 27E(1)(b)(v); accordingly the second condition for approval has been met.

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

51. The scheme is proposed to operate for a period from 7 November 2003 to 30 June 2004.

52. The scheme will be in operation for approximately 8 months which is within the period recommended in TR 94/12.

Other relevant information

53. 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.

54. 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):

- 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;

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- if the taxpayer and the employer are not dealing with each other at arm's length (e.g. 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 employ the taxpayer after the date of termination.

55. 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'.

56. 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'.

57. For the year ending 30 June 2004, the tax-free amount is limited to \$5,882 plus \$2,941 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.

58. The total of the amount received on the termination of employment calculated in accordance with paragraph 29 qualifies as an approved early retirement scheme payment.

59. The total of the payments in the previous paragraph will be measured against the limit calculated in accordance with paragraph 57 to determine the 'tax-free amount'.

60. 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.

61. Any payment in excess of this limit will be an ordinary ETP and split up into the pre-July 1983 and post-June 1983 (untaxed element) components. This ETP can be rolled-over.

62. 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.

Detailed contents list

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

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Previous draft:

Not previously issued as a draft

Related Rulings/Determinations:

CR 2001/1; TR 92/1; TR 92/20;
TR 97/16; TR 94/12; TD 2003/21

Subject references:

- approved early retirement scheme
payments
- eligible termination payments
- eligible termination payments
components

Legislative references:

- ITAA 1936 27A(1)
- ITAA 1936 27A(19)
- ITAA 1936 27A(20)
- ITAA 1936 27CB
- ITAA 1936 27E

- ITAA 1936 27E(1)(a)
- ITAA 1936 27E(1)(a)(i)
- ITAA 1936 27E(1)(a)(ii)
- ITAA 1936 27E(1)(a)(iii)
- ITAA 1936 27E(1)(a)(iv)
- ITAA 1936 27E(1)(a)(v)
- ITAA 1936 27E(1)(b)
- ITAA 1936 27E(1)(b)(i)
- ITAA 1936 27E(1)(b)(ii)
- ITAA 1936 27E(1)(b)(iii)
- ITAA 1936 27E(1)(b)(iv)
- ITAA 1936 27E(1)(b)(v)
- ITAA 1936 27E(1)(b)(vi)
- ITAA 1936 27E(1)(c)
- ITAA 1936 27E(4)
- ITAA 1936 27E(5)
- TAA 1953 Pt IVAAA
- Copyright Act 1968
- Public Sector Management Act 1998

ATO references

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