



CR 2005/35 - Income tax: Approved Early Retirement Scheme - The South Australian Forestry Corporation (ForestrySA)

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Class Ruling

Income tax: Approved Early Retirement Scheme – The South Australian Forestry Corporation (ForestrySA)

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Preamble

*The number, subject heading, **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 in the log measurement and field operations within the South Australian Forestry Corporation (ForestrySA) who receive a payment under the arrangement described in paragraphs 12 to 29.

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 29.

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- this Ruling may be withdrawn or modified.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 5 May 2005 until it is withdrawn. 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 31 December 2005. 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 a representative of ForestrySA; and
- records of telephone conversations with a representative from ForestrySA.

13. ForestrySA is seeking approval for an early retirement scheme known as a Targeted Voluntary Separation Payment (TVSP).

14. ForestrySA is embarking on a restructure of its operational services.

15. Currently ForestrySA manually measures sawlogs before they are supplied to mills. This involves employees physically measuring the diameter of both ends of the log with a specially calibrated ruler. In the main this is conducted in a purpose built facility that allows employees safe and practical access to the loads of logs being carried on B-double semi trailers. The measurement is then entered into a computer program that calculates log volumes and generates billing information for customers.

16. The log scaling technology that ForestrySA plans to introduce is a purpose built facility that electronically scans the log diameter and length as it passes through the mill. As a result, manual measurement is no longer required.

17. Other operational services that will be impacted as a result of this change will be a removal of the need to undertake manual measurement of logs in the plantation environment and removal of the need to have a field mechanic for servicing of equipment.

18. The purpose of the scheme is intended to rationalise staff numbers, as forest operations will be altered due to the implementation of log scaling technologies and the re-organisation of other operational services that will change the nature of the work undertaken by employees.

19. The changes envisaged by the introduction of these new practices will result in a need for the reduction in the number of staff currently employed. This is due to changed work practices and lack of occupational skills required to contribute to ForestrySA's operations in the medium to long term.

20. The operators will be replaced by automated processes or contracted services that do not require the skills of the staff currently employed in the role.

21. The class of employees ForestrySA will offer a TVSP to, is all employees in the log measurement and field operations within ForestrySA.

22. There are no employees within the class specified that ForestrySA is not prepared to allow to retire.

23. There are 12 (twelve) employees who fall within the specified class.

24. If fewer employees than the 12 (twelve) required accept the offer to retire, ForestrySA will redeploy those employees to other operational areas as excess staff and allow employee numbers to reduce over time through natural attrition.

25. The employees who accept the TVSP are covered by the ForestrySA Enterprise Bargaining Agreement 2002, the South Australian Government Civil Constructions and Maintenance Award and the Metal Trades (SA Government Departments & Instrumentalities) Award.

26. No agreement exists with ForestrySA or any other employer to re-employ staff who accept the TVSP, whose employment is terminated under this scheme.

27. The TVSP under the approved early retirement scheme is as follows:

- a payment of eight (8) weeks pay; plus
- a further three (3) weeks pay for each completed year of service up to a maximum of 104 weeks.

28. The employees will also receive other usual resignation or retirement entitlements, however these do not form part of the TVSP. These may include:

- payment of all outstanding wages;
- accrued and unused paid days off;
- payment of all outstanding accrued leave; and
- payment in lieu of long service leave in accordance with the employee's award or current conditions of employment entitlements.

29. Employees who accept the offer will terminate employment and receive the payment no later than 31 December 2005.

Payments made under the Scheme

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.

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 (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.

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 (TVSP) offered by ForestrySA 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 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 must be satisfied for a scheme to qualify as an approved early retirement scheme. Those conditions are:

- the scheme must be offered to all employees within a class identified by the employer (paragraph 27E(1)(a));
- 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
- the scheme must be approved by the Commissioner prior to its implementation (paragraph 27E(1)(c)).

These three conditions are discussed below.

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 is proposed to be offered is set out in paragraph 21.

45. This class of employees does not come within subparagraph 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).

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

46. 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).

47. Paragraphs 14 to 20 of this Ruling describe the nature of the rationalisation or re-organisation of ForestrySA operations. The proposed scheme meets the requirements 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

48. The scheme is proposed to operate for a period from 5 May 2005 to 31 December 2005. Approval was granted prior to implementation therefore the third condition is satisfied.

49. The scheme will be in operation for approximately 9 months which is within the period recommended in TR 94/12.

Other relevant information

50. 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.

51. 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;
- 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 employ the taxpayer after the date of termination.

52. 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'.

53. 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'.

54. For the year ending 30 June 2005, the tax-free amount is limited to \$6,194 plus \$3,097 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. For the year ending 30 June 2006, the \$6,194 plus \$3,097 limits will be indexed to rise in line with increases in average weekly ordinary time earnings.

55. The total of the amount received on the termination of employment calculated in accordance with paragraph 27 qualifies as an approved early retirement scheme payment.

56. The total of the payments in the previous paragraph will be measured against the limit calculated in accordance with paragraph 54 to determine the 'tax-free amount'.

57. 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.

58. 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.

59. 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

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

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Commissioner of Taxation

18 May 2005

Previous draft:

Not previously issued as a draft

- eligible termination payments components

Related Rulings/Determinations:

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

Legislative references:

- ITAA 1936 27A(1)
- ITAA 1936 27A(19)
- 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)

Subject references:

- approved early retirement scheme payments
- eligible termination payments

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- 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
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ATO references

NO: 2005/6793

ISSN: 1445-2014

ATOlaw topic: Income Tax ~~ Tax offsets, credits and benefits ~~ eligible termination payments tax offset