

CR 2017/32 - Income tax: the 'Electrical Trades Union WA Early Voluntary Retirement Scheme 2017'

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Class Ruling

Income tax: the ‘Electrical Trades Union WA Early Voluntary Retirement Scheme 2017’

| Contents | Para |
|---|------|
| LEGALLY BINDING SECTION: | |
| Summary – what this Ruling is about | 1 |
| Date of effect | 6 |
| Scheme | 7 |
| Ruling | 23 |
| NOT LEGALLY BINDING SECTION: | |
| Appendix 1: <i>Explanation</i> | 26 |
| Appendix 2: <i>Detailed contents list</i> | 46 |

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 provision(s)

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

- section 83-170 of the *Income Tax Assessment Act 1997* (ITAA 1997), and
- 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 Electrical Trades Union WA (the Union) shown at paragraph 12, who receive a payment under paragraph 15 of this Ruling.

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. This Ruling applies from 8 June 2017 to 30 June 2019. The Ruling continues to apply after 30 June 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).

Scheme

7. The Union 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 '***The Electrical Trades Union WA Early Voluntary Retirement Scheme 2017***', hereafter referred to as the Scheme.

9. The Union recognises that due to the continuing increase in unemployment in Western Australia, and the subsequent downturn in union membership, it is no longer possible to continue operating with its current workforce.

10. The Scheme provides an avenue for a reduction in staff numbers to a level better aligned with union membership as well as the refreshment of a portion of the Union's work force.

11. The Scheme also provides the Union with an opportunity to refresh its work force by providing qualified upcoming staff with opportunities for further advancement.

12. The class of employees to whom the Scheme applies are those employees of the Union who meet the following criteria:

- are full-time employees

- have eight years' completed service at the time of retirement, and
- are under 65 years.

13. If the State Secretary and Assistant Secretary of the Union retire under the Scheme, these positions will be replaced by personnel already employed by the Union as these are mandatory positions for the Union.

14. Employees in any other position who retire under the Scheme will not be replaced.

15. Eligible employees who retire under the Scheme will receive a payment that:

- is equal to three weeks' salary for each year of completed service
- is payable at an employee's ordinary rate of pay at the time of payment, and
- is calculated on a weekly basis.

16. Following approval of the Scheme, all eligible employees will be invited to express their interest in participating in the Scheme up to June 2017.

17. If the number of employees who wish to retire under the Scheme is greater than the number of packages available, retirement under the Scheme will be offered to the oldest employees first.

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

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

20. There is no arrangement between any eligible employee and the Union, or between the Union and another person, to employ the eligible employee after the retirement under the Scheme.

21. All payments will be made on an arm's length basis.

22. Participation in the Scheme is entirely voluntary.

Ruling

23. '*The Electrical Trades Union WA Early Voluntary Retirement Scheme 2017*' is an early retirement scheme for the purposes of section 83-180.

24. 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.

25. 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 June 2017



Appendix 1 – Explanation

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.

26. A scheme will be an **early retirement scheme** if it satisfies the requirements of subsection 83-180(3) which states:

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).

CR 2017/32

31. The nature of the rationalisation or re-organisation of the employer's operations are described in paragraphs 9 to 11 of this Ruling. 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 therefore considered 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 commencing 8 June 2017 to 30 June 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 24 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 2016-17 income year, the tax-free amount is limited to \$9,936 (base amount) plus \$4,969 (service amount) for each whole year of completed employment service to which the early retirement scheme payment relates. It should be noted that 6 months, 8 months or even 11 months do not count as a whole year for the purposes of this calculation.

39. For the 2017-18 income year, the tax-free amount is limited to \$10,155 (base amount) plus \$5,078 (service amount) for each whole year of completed employment service.

40. For the 2018-19 income year, the base amount and the service amount is yet to be determined at the publication of this ruling. Therefore, employees should check the ATO website for these indexed amounts at the relevant time.

41. The total of the amount received on the termination of employment calculated in accordance with paragraph 15 of this Ruling may qualify as an early retirement scheme payment.

42. The total payment calculated in accordance with paragraph 15 of this Ruling will be measured against the limit in accordance with the formula mentioned in paragraphs 38, 39 and 40 of this Ruling to determine the tax-free amount of the early retirement scheme payment.

43. The tax-free amount will:

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

44. 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.

CR 2017/32

45. 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

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

| | Paragraph |
|--|------------------|
| Summary – what this Ruling is about | 1 |
| Relevant provision(s) | 2 |
| Class of entities | 3 |
| Qualifications | 4 |
| Date of effect | 6 |
| Scheme | 7 |
| Ruling | 23 |
| Appendix 1 – Explanation | 26 |
| All employees within a class approved by the Commissioner may participate in the scheme | 27 |
| 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 scheme must be approved by the Commissioner prior to its implementation | 32 |
| <i>Other relevant information</i> | 34 |
| Appendix 2 – Detailed contents list | 46 |

CR 2017/32

References

Previous draft:

Not previously issued as a draft

- 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

Related Rulings/Determinations:

TR 2006/10

Legislative references:

- ITAA 1997
- ITAA 1997 82-135
- ITAA 1997 82-135(e)
- ITAA 1997 83-170

ATO references

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