


# ***CR 2017/62 - Income tax: the 'Australian Trust for Conservation Volunteers Early Retirement Scheme 2017'***

 This cover sheet is provided for information only. It does not form part of *CR 2017/62 - Income tax: the 'Australian Trust for Conservation Volunteers Early Retirement Scheme 2017'*



## Class Ruling

# Income tax: the ‘Australian Trust for Conservation Volunteers Early Retirement Scheme 2017’

Contents	Para
<b>LEGALLY BINDING SECTION:</b>	
<b>Summary – what this Ruling is about</b>	<b>1</b>
<b>Date of effect</b>	<b>6</b>
<b>Scheme</b>	<b>7</b>
<b>Ruling</b>	<b>23</b>
<b>NOT LEGALLY BINDING SECTION:</b>	
<b>Appendix 1: Explanation</b>	<b>26</b>
<b>Appendix 2: Detailed contents list</b>	<b>48</b>

### **📌 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)
- 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 Australian Trust for Conservation Volunteers (CVA) shown at paragraph 11 of this Ruling who receive a payment under the scheme described under the heading *Scheme*.

# CR 2017/62

## 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 6 September 2017 to 30 June 2018. The Ruling continues to apply after 30 June 2018 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. CVA 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 '**Australian Trust for Conservation Volunteers Early Retirement Scheme 2017**', hereafter referred to as 'the Scheme'.
9. In 2014-15, CVA was awarded the management of the Green Army program which enabled CVA to significantly expand its operations and annual turnover. This program was originally to be funded until 2019-20. However, in December 2016, the Green Army program was cancelled by the Government, and CVA was required to wind down allocated program delivery. The reduction in funding and projects requires a major organisational restructure and rationalisation, and reorganisation of the operations of CVA.
10. The Scheme is intended to facilitate the reduction in personnel to enable CVA to manage, rationalise and reorganise its activities following the completion of Green Army projects.
11. The class of employees to whom the Scheme applies are those employees of CVA who:
  - are full time or part time permanent employees

- have been employed continuously by CVA for a minimum of five years on 1 June 2017, and
- are aged above 55 years and under 65 years on 1 June 2017.

12. The Scheme will not be available to any employee who has an active workers compensation claim where there are payments being made for loss of income or employees who are under investigation for allegations of misconduct.

13. Full time employees who retire under the Scheme will receive a voluntary departure package (VDP) of six weeks' normal salary. A VDP package based on six weeks' normal salary on a pro rata basis will be provided to part time employees.

14. All eligible employees who retire under the Scheme will also receive their statutory entitlements. However, these payments will not form part of the payment made under the Scheme.

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

16. Any employee who terminates their employment other than under the proposed Scheme will not be entitled to receive the Scheme payment.

17. Payments made under the Scheme will be at arm's length.

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

19. The Scheme will be implemented as follows:

- Employees will be invited to provide an expression of interest (EOI) to participate in the Scheme.
- EOIs will have to be made in writing to the People & Culture Director.
- CVA will notify all individuals of the outcome of their applications within two weeks of providing their EOI.
- Employees may withdraw their application for early retirement up until the date that they receive confirmation of acceptance from CVA.

20. Eligible employees who choose to accept early retirement under the Scheme will be required to terminate their employment with CVA by no later than four weeks after confirmation of their successful application.

21. There is no agreement in place between any eligible employee and CVA, or between CVA and another person to employ the eligible employee after retirement under the Scheme.

22. Participation in the Scheme is entirely voluntary.

# CR 2017/62

## Ruling

---

23. The *Australian Trust for Conservation Volunteers Early 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**

6 September 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 subsections 83-180(3) or (4).

27. Subsection 83-180(3) states that:

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**

28. 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).

29. The class of employees to whom early retirement will be offered under the Scheme is set out in paragraph 11 of this Ruling.

30. 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**

31. 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 2017/62

32. Paragraphs 9 and 10 of this Ruling describe the nature of the rationalisation or re-organisation of the employer's operations. 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 considered that 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).

33. Accordingly, the second condition for approval has been met.

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

34. The Scheme is proposed to operate for a period from 6 September 2017 to 30 June 2018. 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.

35. The Scheme will be in operation for approximately eleven months. This is considered appropriate due to the circumstances of the re-organisation.

36. As all the conditions for approval under subsection 83-180(3) have been met, consideration of subsection 83-180(4) is not required.

## **Other relevant information**

37. 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.

38. 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), (5) and (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)).

39. 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*'.

40. 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.

41. 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 to which the early retirement scheme payment relates. It should be noted that six months, eight months or even eleven months do not count as a whole year for the purposes of this calculation.

42. For the 2018-19 income year, the base amounts and the service amounts are yet to be determined at the publication of this Ruling. Therefore, employees should check the Australian Taxation Office website for these indexed amounts at the relevant time.

43. The total of the amount received on the termination of employment calculated in accordance with paragraph 13 of this Ruling may qualify as an early retirement scheme payment.

44. The total payment calculated in accordance with paragraph 13 of this Ruling will be measured against the limit in accordance with the formula mentioned in paragraphs 42 and 43 of this Ruling to determine the tax-free amount of the early retirement scheme payment.

45. The tax-free amount will:

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

46. 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 2017/62

47. 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**

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

	<b>Paragraph</b>
<b>Summary – what this Ruling is about</b>	<b>1</b>
Relevant provision(s)	2
Class of entities	3
Qualifications	4
<b>Date of effect</b>	<b>6</b>
<b>Scheme</b>	<b>7</b>
<b>Ruling</b>	<b>23</b>
<b>Appendix 1 – Explanation</b>	<b>26</b>
All employees within a class approved by the Commissioner may participate in the scheme	28
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	31
The scheme must be approved by the Commissioner prior to its implementation	34
Other relevant information	37
<b>Appendix 2 – Detailed contents list</b>	<b>48</b>

## References

---

<i>Previous draft:</i>	- ITAA 1997 83-180(1)
Not previously issued as a draft	- ITAA 1997 83-180(2)
	- ITAA 1997 83-180(3)
<i>Related Rulings/Determinations:</i>	- ITAA 1997 83-180(3)(a)
TR 2006/10	- ITAA 1997 83-180(3)(b)
	- ITAA 1997 83-180(3)(c)
<i>Legislative references:</i>	- ITAA 1997 83-180(4)
- ITAA 1997	- ITAA 1997 83-180(5)
- ITAA 1997 82-135	- ITAA 1997 83-180(6)
- ITAA 1997 82-135(e)	- ITAA 1997 960-285
- ITAA 1997 83-170	- ITAA 1997 995-1(1)
- ITAA 1997 83-180	- TAA 1953

---

### ATO references

NO: 1-B567ERF

ISSN: 2205-5517

ATOlaw topic: Income tax ~~ Assessable income ~~ Employment related  
~~ Employment termination payments – early retirement  
scheme

---

**© AUSTRALIAN TAXATION OFFICE FOR THE  
COMMONWEALTH OF AUSTRALIA**

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).