


# ***CR 2019/62 - Placard Pty Ltd - early retirement scheme 2019***

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## Class Ruling

### Placard Pty Ltd – early retirement scheme 2019

#### **❶ Relying on this Ruling**

This publication (excluding appendix) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

If this Ruling applies to you, and you correctly rely on it, we will apply the law to you in the way set out in this Ruling. That is, you will not pay any more tax or penalties or interest in respect of the matters covered by this Ruling.

Further, if we think that this Ruling disadvantages you, we may apply the law in a way that is more favourable to you.

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#### **What this Ruling is about**

1. This Ruling sets out tax consequences of an early retirement scheme implemented by Placard Pty Ltd (Placard).
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.

3. Full details of this Scheme are set out in paragraphs 10 to 22 of this Ruling.

#### **Who this Ruling applies to**

4. This Ruling applies to the class of employees, as set out in paragraph 14 of this Ruling, who receive payment under the heading Scheme.

#### **When this Ruling applies**

5. This Ruling applies from 9 October 2019 to 30 June 2020.

## Ruling

6. The 'Placard Early Retirement Scheme 2019' is an early retirement scheme for the purposes of section 83-180.

7. 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.

8. 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.

## Scheme

9. The following description of the Scheme is based on information provided by the applicant. If the Scheme is not carried out as described, this Ruling cannot be relied upon.

10. Placard has sought the Commissioner's approval to implement an early retirement scheme in accordance with section 83-180.

11. The Scheme is titled 'Placard Early Retirement Scheme 2019', hereafter referred to as the 'Scheme'.

12. Placard is a security printing company that designs, manufactures and personalises plastic cards for banking, government and retail clients.

13. Placard is undergoing significant technological change with the introduction of new equipment to ensure the business remains competitive. New equipment is being introduced over the next 12 months in the printing department, the finishing plant and the card personalisation bureau. This change will introduce new systems of work and retraining of existing employees.

14. The class of employees to whom the Scheme applies is all employees who are:

- employed as process workers and printers covered by the *Placard Pty Ltd Enterprise Agreement* and the *Graphic Arts General Award 2000*
- employed on a continuing basis, and
- at least 55 years of age, but under 65 years, on the date of termination of employment.

15. Eligible employees who retire under the Scheme will receive a departure package comprising one week of base rate pay per year of service, up to a maximum of 20 weeks.

16. The Scheme will operate as follows:

- eligible employees will be invited to submit an expression of interest (EOI) to participate in the Scheme
- eligible employees who submit an EOI will be advised of the outcome within 30 days, and
- eligible employees will have 14 days to accept the offer.

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

18. Employees who terminate their employment other than under the Scheme, will not be entitled to receive the Scheme payment.

19. The retirement of employees who receive a payment under the Scheme will occur before they turn 65 years of age.
20. Payments made under the Scheme will be at arm's length.
21. There is no agreement in place between any eligible employee and Placard, or between Placard and another person, to employ the eligible employee after the retirement under the Scheme.
22. Participation in the Scheme is entirely voluntary.

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**Commissioner of Taxation**

9 October 2019

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**Appendix – Explanation**

**ⓘ** *This Explanation 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.*

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**Requirements for an early retirement scheme**

23. A scheme will be an early retirement scheme if it satisfies the requirements of subsection 83-180(3).

24. 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**

25. 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).

26. The class of employees to whom early retirement will be offered under the Scheme is set out in paragraph 14 of this Ruling.

27. 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 reorganisation 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 reorganise the employer's operations in a way approved by the Commissioner***

28. The proposed Scheme must be implemented by the employer with a view to rationalising or reorganising the operations of the employer as described in paragraph 83-180(3)(b).

29. Paragraphs 10 to 13 of this Ruling describe the nature of the rationalisation or reorganisation of the employer's operations. In approving the Scheme, the Commissioner has had regard to the changes in the operations and nature of the workforce of the employer. It is considered that the Scheme is to be implemented by the employer with a view to rationalising or reorganising the operations of the employer for the purposes of paragraph 83-180(3)(b).

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

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

31. The Scheme is proposed to operate for a period from 9 October 2019 to 30 June 2020. The approval to be provided by this Ruling will have been granted prior to implementation therefore, for the purposes of paragraph 83-180(3)(c), this condition is satisfied.

32. The Scheme will be in operation for a period considered appropriate due to the circumstances of the reorganisation.

***Other relevant information***

33. 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.

34. 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 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)).

35. 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*'.

36. 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.

37. For the 2019-20 income year, the tax-free amount is limited to \$10,638 (base amount) plus \$5,320 (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 11 months do not count as a whole year for the purposes of this calculation.

38. 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.

39. 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 paragraph 37 of this Ruling to determine the tax-free amount of the early retirement scheme payment.

40. The tax-free amount will:

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

41. 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.

42. 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.

**References**

<i>Previous draft:</i>	- ITAA 1997 83-180(2)
Not previously issued as a draft	- ITAA 1997 83-180(3)
	- ITAA 1997 83-180(3)(a)
<i>Legislative references:</i>	- ITAA 1997 83-180(3)(b)
- ITAA 1997 82-135	- ITAA 1997 83-180(3)(c)
- ITAA 1997 82-135(e)	- ITAA 1997 83-180(5)
- ITAA 1997 83-170	- ITAA 1997 83-180(6)
- ITAA 1997 83-180	- ITAA 1997 995-1(1)
- ITAA 1997 83-180(1)	- TAA 1953

## ATO references

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