



# ***CR 2001/37 - Income tax: Approved Early Retirement Scheme - Robert Bosch (Australia) Proprietary Limited***

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## Class Ruling

### Income tax: Approved Early Retirement Scheme – Robert Bosch (Australia) Proprietary Limited

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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.

#### **Tax law**

2. The tax law dealt with in this Ruling is section 27E of the *Income Tax Assessment Act 1936*.

#### **Class of persons**

3. The class of persons to whom this Ruling applies is
- all salaried staff and indirect workers who are 55 years or older and provide support for Trade Sales and manufacturing operations of Robert Bosch (Australia) Proprietary Limited (“RBAU”)
- and receive a payment under the arrangement described below in paragraphs 10 to 24.

#### **Qualifications**

4. The Commissioner makes this Ruling based on the precise arrangement identified in this Ruling.

5. The class of persons defined in this Ruling may rely on its contents provided the arrangement described below at paragraphs 10 to 24 is carried out in accordance with the details of the arrangement provided in this Ruling.

6. If the arrangement described in this Ruling is materially different from the arrangement that is actually carried out:

- (a) 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
- (b) this Ruling may be withdrawn or modified.

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## Date of effect

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8. This Ruling applies from 1 September 2001. However, the 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 the Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).

## Withdrawal

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9. This Ruling is withdrawn and ceases to have effect after 30 June 2002. 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.

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## Arrangement

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### The Scheme

10. The arrangement that is the subject of the 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:

- e-mail from RBAU dated 21 June 2001;
- e-mail from RBAU dated 16 July 2001;
- record of telephone conversation with a representative of RBAU on 24 July 2001; and
- e-mail from RBAU dated 7 August 2001.

Note: certain information received from RBAU has been provided on a commercial-in-confidence basis and will not be disclosed or released under the Freedom of Information Legislation.

11. RBAU is seeking approval under section 27E of the *Income Tax Assessment Act 1936* (the Act) for an early retirement scheme referred to as an Enhanced Retirement Scheme (“ERS”).

12. RBAU is undergoing structural changes in its manufacturing operations as it aligns its business more towards high technology products. Exit strategies are in place for some traditional product groups and they are being replaced by new high technology products.

13. During the change process RBAU faces a combination of problems such as an ageing work force and a mismatch of its skill base against those required for the new business areas.

14. RBAU intends to offer an ERS for salaried staff and indirect workers who provide support for Trades Sales and manufacturing operations of the company and replace them with younger and more appropriately skilled employees.

15. The ERS is proposed to operate from 1 September 2001 until 30 June 2002.

16. Employees who accept an offer will be paid:

- 4 weeks pay plus 2 weeks pay for each year (or part year) of service capped at 39 weeks; and
- for employees whose service is less than 5 years, half of the value of all accumulated sick leave; or

- for employees with a minimum of 5 years service, half of the value of all sick leave accrued prior to 1 July 2000.

17. The following payments made by RBAU do not form part of the approved early retirement scheme payment:

- accumulated sick leave that accrued after 1 July 2000 for employees with a minimum of 5 years service;
- pro-rated annual leave loading;
- pro-rated long service leave; and
- \$500 of financial planning advice.

## **Payments made under the Scheme**

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

19. The payment must be an eligible termination payment made in relation to the employee in consequence of his or her employment being terminated under the approved early retirement scheme.

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

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

22. 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.

23. 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.

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

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## Ruling

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25. The Enhanced Retirement Scheme offered by Robert Bosch (Australia) Proprietary Limited is an approved early retirement scheme for the purposes of section 27E of the *Income Tax Assessment Act 1936*.

26. Accordingly, so much of the eligible termination payment as exceeds the amount of an eligible termination payment 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.

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## Explanations

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27. Where a scheme satisfies the requirements of section 27E of the *Income Tax Assessment Act 1936* (the Act), that scheme will be an ‘approved early retirement scheme.’

28. The Commissioner of Taxation (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.

29. Paragraph 14 of Taxation Ruling 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)).’

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

30. In order to satisfy this condition, the scheme must be offered to all employees within one of the categories specified in subparagraphs 27E(1)(a)(i) to (v).

31. The class of employees to whom the scheme is proposed to be offered are:

- all salaried staff and indirect workers who are 55 years or older and provide support for Trade Sales and manufacturing operations of RBAU.

32. This class of employees does not come within any 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 RBAU. 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).

33. It is noted that RBAU retains a limited right of veto on ERS applications from employees whose skills or competencies are considered critical to the normal operation of business. The limitation of the scheme in this way is acceptable to the Commissioner.

***2. 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***

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

35. The purposes of RBAU's Enhanced Retirement Scheme ("ERS") are described at paragraphs 12 to 14 of this ruling. The proposed scheme meets the requirements set out in subparagraph 27E(1)(b)(ii). Accordingly the second condition for approval has been met.

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

36. The scheme is proposed to operate from 1 September 2001 until 30 June 2002. The scheme will be in operation for approximately 10 months, which is within the period recommended in Taxation Ruling TR 94/12. The third condition is therefore satisfied.

***Other relevant information***

37. 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 retirement or resignation is an approved early retirement scheme payment.

38. 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) of the Act):

- the payment must be an eligible termination payment 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 re-employ the taxpayer after the date of termination.

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.'

39. 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."

40. For the year ending 30 June 2002, the tax-free amount is limited to \$5,295 plus \$2,648 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.

41. The total of the following payments qualify as an approved early retirement scheme payment:

- 4 weeks pay plus 2 weeks pay for each year (or part year) of service capped at 39 weeks; and
- half of the value of all unused sick leave in accordance with paragraph 16 of this Ruling.

42. The total of the payments described in the previous paragraph will be measured against the limit calculated in accordance with paragraph 40 to determine the tax-free amount.

43. The tax-free amount will:

- not be an eligible termination payment (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.

44. 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.

45. 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.

46. A copy of this Ruling must be given to all employees eligible to participate in the approved early retirement scheme.

## Detailed contents list

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

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**Commissioner of Taxation**

22 August 2001

<i>Previous draft:</i>	- ITAA 1936 27E(1)(a)(ii)
Not previously issued in draft form	- ITAA 1936 27E(1)(a)(iii)
	- ITAA 1936 27E(1)(a)(iv)
<i>Related Rulings/Determinations:</i>	- ITAA 1936 27E(1)(a)(v)
CR 2001/1; TR 92/1; TR 92/20;	- ITAA 1936 27E(1)(a)
TR 97/16; TR 94/12; TR 94/12E	- ITAA 1936 27E(1)(b)(i)
	- ITAA 1936 27E(1)(b)(ii)
<i>Subject references:</i>	- ITAA 1936 27E(1)(b)(iii)
- approved early retirement scheme payments	- ITAA 1936 27E(1)(b)(iv)
- eligible termination payments	- ITAA 1936 27E(1)(b)(v)
- eligible termination payments components	- ITAA 1936 27E(1)(b)(vi)
	- ITAA 1936 27E(1)(b)
	- ITAA 1936 27E(1)(c)
	- ITAA 1936 27E(2)
<i>Legislative references:</i>	- ITAA 1936 27E(4)
- ITAA 1936 27A(1)	- ITAA 1936 27E(5)
- ITAA 1936 27E	- Copyright Act 1968
- ITAA 1936 27E(1)(a)(i)	

**ATO References**

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