



# ***CR 2001/55 - Income tax: Approved Early Retirement Scheme - Burnie Port Corporation Pty Ltd***

 This cover sheet is provided for information only. It does not form part of *CR 2001/55 - Income tax: Approved Early Retirement Scheme - Burnie Port Corporation Pty Ltd*

 This document has changed over time. This is a consolidated version of the ruling which was published on *16 October 2001*



## Class Ruling

### Income tax: Approved Early Retirement Scheme – Burnie Port Corporation Pty Ltd

Contents	Para
What this Class Ruling is about	1
Date of effect	8
Withdrawal	9
Arrangement	10
Ruling	26
Explanations	28
Detailed contents list	51

#### ***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(s)**

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

##### **Class of persons**

3. The class of persons to whom this Ruling applies is
- all employees of Burnie Port Corporation Pty Ltd who are 60 years of age prior to 1 July 2001

and receive a payment under the arrangement described below in paragraphs 10 to 18.

##### **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 18 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- (b) this Ruling may be withdrawn or modified.

7. A Class Ruling may only be reproduced in its entirety. Extracts may not be reproduced. Because each Class Ruling is subject to copyright, except for any use permitted under the *Copyright Act 1968* no Class Ruling may be reproduced by any process without prior written permission from the Commonwealth. Requests and enquires concerning reproduction and rights should be sent to:

The Manager  
Legislative Services, AusInfo  
GPO Box 1920  
CANBERRA ACT 2601.

## Date of effect

---

8. This Ruling applies from 16 October 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

---

9. This Ruling is withdrawn and ceases to have effect after 12 November 2001. 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

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:

- correspondence from Burnie Port Corporation Pty Ltd of 20 August 2001;
- record of telephone conversation with a representative of Burnie Port Corporation Pty Ltd on 25 September 2001;
- record of telephone conversation with a representative of Burnie Port Corporation Pty Ltd on 15 October 2001.

11. Burnie Port Corporation Pty Ltd is seeking approval for an early retirement scheme.

12. Burnie Port Corporation Pty Ltd is responsible for the operation of the port of Burnie situated on the North West Coast of Tasmania.

13. Burnie Port Corporation Pty Ltd has had a reduction in gross revenue.

14. Burnie Port Corporation Pty Ltd has taken various steps to mitigate the loss of revenue but wishes to avoid if at all possible any enforced labour reductions. However, it would further contribute to Burnie Port Corporation Pty Ltd's endeavours to remain a viable entity if a small reduction in the number of employees in the construction/maintenance section of the workforce could be effected.

15. The primary reason for focusing on the construction/maintenance section is that over the years most of the port's old timber piled wharves have been demolished and new concrete wharves constructed. This has reduced the need for day-to-day maintenance. Furthermore, due to the reduction in revenue, Burnie Port Corporation Pty Ltd has had to severely curtail its capital and maintenance program for the next few years at least. Again, this reduces the productive work available for construction/maintenance personnel.

16. The payment is 1 weeks pay for each year of service with a maximum of 26 weeks pay.

17. The payment for each week will be equivalent to the sum the employee would have received had the employee actually worked a full week at normal hours, excluding tool allowance (where applicable).

18. The offer would be open for a period of 4 weeks from 16 October 2001 to 12 November 2001.

## **Payments made under the Scheme**

19. 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.

20. 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.

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

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

23. The employee terminated 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.

24. 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.

25. 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.

---

## Ruling

---

26. The early retirement scheme offered by Burnie Port Corporation Pty Ltd is an approved early retirement scheme for the purposes of section 27E of the ITAA 1936.

27. Accordingly, so much of the eligible termination payment (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.

---

## Explanations

---

28. Where a scheme satisfies the requirements of section 27E of the ITAA 1936 that scheme will be an 'approved early retirement scheme.'

29. 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.

30. Paragraph 14 of 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***

31. 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).

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

- all employees of Burnie Port Corporation Pty Ltd who are 60 years of age prior to 1 July 2001.

33. This class of employees is considered to have met the requirements of subparagraph 27E(1)(a)(ii), that is, all employees of the employer who have attained a particular age.

**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 the scheme is described at paragraphs 14 and 15 of this ruling. In approving the objectives of the scheme, although the nature of the rationalisation or re-organisation of the employer's operations does not fit within one of the specific objectives identified in subparagraphs 27E(1)(b)(i) to (v), the Commissioner has had regard to the fact that the re-organisation is being implemented with a view to a restructuring of the work force or operations of the employer. It is therefore 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 subparagraph 27E(1)(b)(vi).

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

36. Application for approval of the scheme dated 20 August 2001, was received in this office on 22 August 2001. The scheme is proposed to operate for a period from 16 October 2001 to 12 November 2001. Since the implementation date has already passed, the scheme fails to meet the requirement of paragraph 27E(1)(c).

37. However, subsection 27E(2) allows the Commissioner to overlook the failure to comply with any of the three conditions if special circumstances exist in relation to the scheme. Paragraph 30 of TR 94/12 states:

“Special circumstances include circumstances where: a scheme is implemented before approval has been obtained because, for example, there has been a delay in processing an application made for its approval...”

38. It is considered that this case falls within special circumstances as set out in subsection 27E(2), and the Commissioner will waive compliance with the third requirement of subsection 27E(1).

39. The scheme will be in operation for 4 weeks which is within the period recommended in TR 94/12.

***Other relevant information:***

40. 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.

41. 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 (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 re-employ the taxpayer after the date of termination.

42. The term 'agreement' is defined in subsection 27A(1) as meaning 'any agreement, arrangement or understanding whether



# CR 2001/55

formal or informal, whether express or implied and whether or not enforceable, or intended to be enforceable by legal proceedings.’

43. 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.”

44. 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.

45. The following payment qualifies an approved early retirement scheme payment:

- 1 weeks pay for each year of service with a maximum of 26 weeks pay.

46. The payment in the previous paragraph will be measured against the limit calculated in accordance with paragraph 44 to determine the “tax-free amount”.

47. 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.

48. 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.

49. 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.

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

## Detailed contents list

---

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

	<b>Paragraph</b>
<b>What this Class Ruling is about</b>	<b>1</b>
Tax law(s)	2
Class of persons	3
Qualifications	4
<b>Date of effect</b>	<b>8</b>
<b>Withdrawal</b>	<b>9</b>
<b>Arrangement</b>	<b>10</b>
The Scheme	10
Payments made under the Scheme	19
<b>Ruling</b>	<b>26</b>
<b>Explanations</b>	<b>28</b>
1. <i>The scheme must be offered to all employees within a class identified by the employer</i>	31
2. <i>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</i>	34
3. <i>The scheme must be approved by the Commissioner prior to its implementation</i>	36
<i>Other relevant information:</i>	40
<b>Detailed contents list</b>	<b>51</b>

---

### Commissioner of Taxation

24 October 2001

---

*Previous draft:*

Not previously issued in draft form

- eligible termination payments components

*Related Rulings/Determinations:*

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

*Legislative references:*

- TAA 1953 Part IVAAA  
- ITAA 1936 27A(1)  
- ITAA 1936 27E  
- ITAA 1936 27E(1)(a)  
- ITAA 1936 27E(1)(b)  
- ITAA 1936 27E(1)(c)

*Subject references*

- approved early retirement scheme payments;  
- eligible termination payments

# CR 2001/55

- |                            |                            |
|----------------------------|----------------------------|
| - ITAA 1936 27E(1)(a)(i)   | - ITAA 1936 27E(1)(b)(iii) |
| - ITAA 1936 27E(1)(a)(ii)  | - ITAA 1936 27E(1)(b)(iv)  |
| - ITAA 1936 27E(1)(a)(iii) | - ITAA 1936 27E(1)(b)(v)   |
| - ITAA 1936 27E(1)(a)(iv)  | - ITAA 1936 27E(1)(b)(vi)  |
| - ITAA 1936 27E(1)(a)(v)   | - ITAA 1936 27E(4)         |
| - ITAA 1936 27E(1)(b)(i)   | - ITAA 1936 27E(5)         |
| - ITAA 1936 27E(1)(b)(ii)  |                            |
- 

## ATO References

NO T2001/017236

ISSN: 1445 2014