



CR 2002/35 - Income tax: Approved Early Retirement Scheme - Australian Provincial Newspapers Limited and Subsidiary Companies

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Class Ruling

Income tax: Approved Early Retirement Scheme - Australian Provincial Newspapers Limited and Subsidiary Companies

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Preamble

*The number, subject heading, and the **What this 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.
2. Broadly, this Ruling approves the particular early retirement scheme and acknowledges the availability of tax concessions for persons receiving payments under the scheme. There are many conditions attached to this Ruling and readers should be careful to ensure that these conditions are met before relying on this Ruling.

Tax law(s)

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

Class of persons

4. The persons to whom this Ruling applies is all employees of Australian Provincial Newspapers Limited and its subsidiary companies (the APN Group):

- who are engaged in production work, editorial work or in support or supervisory functions associated with production or editorial;

- who are at least 50 years of age and less than 64 years of age; and
- who have at least 9 years of service,

and receive a payment under the arrangement described below in paragraphs 13 to 24.

5. For the purposes of this Ruling, the subsidiary companies of Australian Provincial Newspapers Limited are:

- The Daily Examiner Pty Limited;
- North Coast News Pty Limited;
- Northern Star Limited;
- The Tweed Newspaper Company Pty Ltd;
- The Bundaberg Newspaper Company Pty Ltd;
- Capricornia Newspapers Pty Ltd;
- Gladstone Newspaper Company Pty Ltd;
- Gympie Times Pty Limited;
- Queensland Times Pty Ltd;
- The Mackay Printing and Publishing Company (Pty) Limited;
- The Maryborough Hervey Bay Newspaper Co Pty Ltd;
- Sunshine Coast Newspaper Co Pty Ltd;
- Toowoomba Newspaper Pty Ltd;
- The Warwick Newspaper Pty Limited;
- Border Newspapers Pty Ltd;
- The Central Queensland Newspaper Publishing Co;
- The Central Telegraph Pty Limited;
- Chinchilla Newspapers Pty Ltd;
- Dalby Herald Pty Ltd;
- Gatton Star Pty Limited;
- Western Star Pty Limited;
- South Burnett Times Pty Limited;
- Balonne Beacon Newspaper Co; and
- Adhoc Pty Ltd.

Qualifications

6. The Commissioner makes this Ruling based on the precise arrangement identified in this Ruling.
7. The class of persons defined in this Ruling may rely on its contents provided the arrangement actually carried out is carried out in accordance with the arrangement described below at paragraphs 13 to 24 in this Ruling.
8. 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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10. A copy of this Ruling must be given to all employees eligible to participate in the approved early retirement scheme.

Date of effect

11. This Ruling applies from 30 April 2002 unless and until it is withdrawn (see paragraph 12 of this Ruling). However, this 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 this Ruling (see paragraphs 21 to 22 of Taxation Ruling TR 92/20). Furthermore this Ruling applies to the extent that the relevant tax laws are not amended.

Withdrawal

12. This Ruling is withdrawn and ceases to have effect after 31 December 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.

Arrangement

The Scheme

13. 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 a representative of Australian Provincial Newspapers Limited dated 18 April 2002;
- record of telephone conversation with a representative of Australian Provincial Newspapers Limited on 16 May 2002;
- e-mail from a representative of Australian Provincial Newspapers Limited on 28 May 2002; and
- e-mail from a representative of Australian Provincial Newspapers Limited on 12 June 2002.

14. The APN Group is seeking approval for an early retirement scheme.

15. The APN Group is implementing a package of measures aimed at rationalisation of its operations to achieve acceptable business outcomes. The specific objective of the rationalisation is to alter the make up of the workforce with a view to changing the structure of basic non-core processes so as to more efficiently perform tasks. The early retirement scheme is to be implemented to facilitate this structural change in basic non-core processes.

16. The payment under the scheme is six months basic pay.

17. The employees will also receive the following payments but these do not form part of the approved early retirement scheme payment:

- accrued annual leave;
- long service leave; and
- superannuation.

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 that 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 (ETP) 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 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.

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.

Ruling

25. The early retirement scheme offered by Australian Provincial Newspapers Limited and its subsidiary companies is an approved early retirement scheme for the purposes of section 27E of the ITAA 1936.

26. 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

27. Where a scheme satisfies the requirements of section 27E of the ITAA 1936 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 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 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).

31. The class of employees to whom the scheme is proposed to be offered is all employees of Australian Provincial Newspapers Limited and its subsidiary companies:

- who are engaged in production work, editorial work or in support or supervisory functions associated with production or editorial;
- who are at least 50 years of age and less than 64 years of age; and
- who have at least 9 years of service.

32. This class of employees does not come within any of 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 the employer. 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 however, that the APN Group retains a limited right of veto to be applied to applications by key personnel who can not be readily replaced and whose loss would impair the efficiency of the APN Group's business operations. 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 rationalising or re-organising 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. Paragraph 15 describes the nature of the rationalisation and the reorganisation of the APN Group. In approving the objectives of the scheme, although the nature of the rationalisation and 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 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 subparagraphs 27E(1)(b)(vi).

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

36. The scheme is to operate from 30 April 2002 to 31 December 2002. 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. Based on the full circumstances of the application 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 8 months 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 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. For the year ended 30 June 2003, the tax-free amount is limited to \$5 623 plus \$2 812 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 total of the amount calculated in accordance with paragraph 16 qualifies as an approved early retirement scheme payment.

46. The total of the payments 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.

Detailed contents list

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

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Commissioner of Taxation

3 July 2002

Previous draft:

Not previously released in draft form.

- eligible termination payments components

*Related Rulings/Determinations:*CR 2001/1; TR 92/1; TR 92/20;
TR 97/16; TR 94/12*Legislative references:*- TAA 1953 Part IVAAA
- ITAA 1936 27A(1)
- ITAA 1936 27E
- ITAA 1936 27E(1)
- ITAA 1936 27E(1)(a)
- ITAA 1936 27E(1)(b)
- ITAA 1936 27E(1)(c)
- ITAA 1936 27E(1)(a)(i)*Subject references:*- approved early retirement scheme payments
- eligible termination payments

- ITAA 1936 27E(1)(a)(ii)
- ITAA 1936 27E(1)(a)(iii)
- ITAA 1936 27E(1)(a)(iv)
- ITAA 1936 27E(1)(a)(v)
- ITAA 1936 27E(1)(b)(i)
- ITAA 1936 27E(1)(b)(ii)
- ITAA 1936 27E(1)(b)(iii)
- ITAA 1936 27E(1)(b)(iv)
- ITAA 1936 27E(1)(b)(v)
- ITAA 1936 27E(1)(b)(vi)
- ITAA 1936 27E(2)
- ITAA 1936 27E(4)
- ITAA 1936 27E(5)

ATO References

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