



CR 2003/70 - Income tax: Approved Early Retirement Scheme - Department of Justice of Victoria - Victims Referral and Assistance Service

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 This document has changed over time. This is a consolidated version of the ruling which was published on *20 August 2003*



Class Ruling

Income tax: Approved Early Retirement Scheme – Department of Justice of Victoria - Victims Referral and Assistance Service

Contents	Para
What this Class Ruling is about	1
Date of effect	10
Withdrawal	11
Arrangement	12
Ruling	23
Explanation	26
Detailed contents list	47

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.
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 laws dealt with in this Ruling are sections 27A, 27E and 27CB of the *Income Tax Assessment Act 1936* (ITAA 1936).

Class of persons

4. The class of persons to which this Ruling applies is staff in the Victims Referral and Assistance Service in the Department of Justice of Victoria affected by the transition from the Victims Referral and Assistance Service to the new entity, Victorian Victims Support Agency, who receive a payment under the arrangement described in paragraphs 12 to 22.

Qualifications

5. The Commissioner makes this Ruling based on the precise arrangement identified in this Ruling.
6. 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 in paragraphs 12 to 22.
7. If the arrangement actually carried out is materially different from the arrangement that is described in this Ruling, then:
- (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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9. A copy of this Ruling must be given to all employees eligible to participate in the approved early retirement scheme.

Date of effect

10. This Ruling applies from 20 August 2003 unless and until it is withdrawn (see paragraph 11). 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

11. This Ruling is withdrawn and ceases to have effect after 30 June 2004. 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

12. The arrangement that is the subject of this 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 the Department of Justice of Victoria;
- record of telephone conversation with a representative of the Department of Justice of Victoria on 18 July 2003; and
- e-mail from a representative of the Department of Justice of Victoria on 21 July 2003.

13. The Department of Justice of Victoria is seeking approval for an early retirement scheme known as a Voluntary Departure Package (VDP).

14. The Government commissioned a review into Services for Victims of Crime in 2001. One of the recommendations of the review was the establishment of a new Victorian Victims Support Agency which will integrate the provision of victim services. The implementation of this recommendation indicated a necessary reduction in the Victims Referral and Assistance Service workforce numbers. The VDP will assist the transition from the Victims Referral and Assistance Service to the new entity Victorian Victims Support Agency.

15. The VDP Package comprises the following payments:
- (a) 4 weeks pay in lieu of notice;
 - (b) a lump sum voluntary departure incentive of up to \$10,000 for a full-time employee; and
 - (c) 2 weeks pay per year of continuous service up to a maximum of 15 years.

Payments made under the scheme

16. For a payment made under the above mentioned scheme to qualify as an approved early retirement scheme payment, the conditions set out in paragraphs 17 to 22 must be met. Please note, any payment made under the scheme that does not satisfy these requirements is not covered by this Ruling.

17. 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.

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

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

20. 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.

21. Where the employee and the employer are not dealing with each other at arm's length (e.g. 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.

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

Ruling

23. The Voluntary Departure Package offered by the Department of Justice of Victoria is an approved early retirement scheme for the purposes of section 27E of the ITAA 1936.

24. Accordingly, so much of the 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.

25. In addition, so much of the approved early retirement scheme payment as falls within the threshold calculated in accordance with subsection 27A(19) of the ITAA 1936 is non-assessable and is ignored in working out whether a capital gain has been made via the operation of section 27CB of the ITAA 1936.

Explanation

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

27. The Commissioner has issued Taxation Ruling TR 94/12: Income tax: approved early retirement scheme and bona fide redundancy payments which sets out guidelines on the application of section 27E.

28. 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)).

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

29. 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).

30. The class of employees to which the scheme is proposed to be offered is staff in the Victims Referral and Assistance Service in the Department of Justice of Victoria affected by the transition from the Victims Referral and Assistance Service to the new entity, Victorian Victims Support Agency.

31. 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).

32. It is noted, however, that the Department of Justice of Victoria retains a limited right of veto to be applied to applications by key personnel who cannot be readily replaced and whose loss would impair the efficiency of the Department of Justice's business operations. The limitation of the scheme in this way is acceptable to the Commissioner.

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

33. The proposed scheme must be implemented by the employer 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).

34. Paragraph 14 describes the nature of the rationalisation or re-organisation of the Department of Justice's operations. The proposed scheme meets the requirements set out in subparagraph 27E(1)(b)(iii). Accordingly the second condition for approval has been met.

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

35. The scheme is proposed to operate for a period from 20 August 2003 to 30 June 2004. Approval will be granted prior to implementation therefore the third condition is satisfied.

36. The scheme will be in operation for approximately 11 months which is within the period recommended in TR 94/12.

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 resignation or retirement 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):

- the payment must be an 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 (e.g. 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 employ the taxpayer after the date of termination.

39. 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'.
40. 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'.
41. For the year ending 30 June 2004, the tax-free amount is limited to \$5,882 plus \$2,941 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.
42. The total of the amount received on the termination of employment calculated in accordance with paragraph 15 qualifies as an approved early retirement scheme payment.
43. The total of the payments in the previous paragraph will be measured against the limit calculated in accordance with paragraph 41 to determine the 'tax-free amount'.
44. 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.
45. Any payment in excess of this limit will be an ordinary ETP and split up into the pre-July 1983 and post-June 1983 (untaxed element) components. This ETP can be rolled-over.
46. 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

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

	Paragraph
What this Class Ruling is about	1
Tax law(s)	3
Class of persons	4
Qualifications	5
Date of effect	10
Withdrawal	11
Arrangement	12
The scheme	12
Payments made under the scheme	16
Ruling	23
Explanation	26
The scheme must be offered to all employees within a class identified by the employer	29
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	33
The scheme must be approved by the Commissioner prior to its implementation	35
Other relevant information	37
Detailed contents list	47

Commissioner of Taxation

20 August 2003

Previous draft:

Not previously issued as a draft

- eligible termination payments
- eligible termination payments components

Related Rulings/Determinations:

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

Legislative references:

- ITAA 1936 27A
- ITAA 1936 27A(1)
- ITAA 1936 27A(19)
- ITAA 1936 27CB
- ITAA 1936 27E

Subject references:

- approved early retirement scheme payments

CR 2003/70

- ITAA 1936 27E(1)(a)
 - ITAA 1936 27E(1)(a)(i)
 - 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)
 - 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(1)(c)
 - ITAA 1936 27E(4)
 - ITAA 1936 27E(5)
 - TAA 1953 Part IVAAA
 - Copyright Act 1968
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ATO references

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