



CR 2003/9 - Income tax: Approved Early Retirement Scheme - CSR Emoleum Services Pty Ltd

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 This document has changed over time. This is a consolidated version of the ruling which was published on *1 March 2003*

Class Ruling

Income tax: Approved Early Retirement Scheme - CSR Emoleum Services Pty Ltd

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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.
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 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 employees of CSR Emoleum Services Pty Ltd who have completed more than 15 years of continuous service with CSR Emoleum Services Pty Ltd and are covered by the following Enterprise Agreements:

CSR Emoleum Road Services-Queensland Enterprise Agreement 2001;

CSR Emoleum (Western Australian Business Unit) Enterprise Agreement 2002;

CSR Emoleum (Victoria) Enterprise Agreement 2002;
CSR Emoleum (South Australian Business Unit) Enterprise Agreement 2002;
CSR Emoleum (South Australian Slurry Sealing Operations) Enterprise Agreement 2002;
CSR Emoleum (Northern Territory Business Unit) Enterprise Agreement 2000;
CSR Emoleum (Sydney Metropolitan Area) Enterprise Agreement 1999;
CSR Emoleum (Riverina Area) Enterprise Agreement 2002;
CSR Emoleum (Bathurst Depot) Certified Agreement 1998;
CSR Emoleum (Teralba Depot) Enterprise Agreement 1998;
CSR Emoleum (Forbes Depot) Certified Agreement 1998; and
CSR Emoleum Services Victorian Road Maintenance Enterprise Agreement 1999-2002.

receive a payment under the arrangement described below at paragraphs 12 to 22 in this Ruling.

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 below at paragraphs 12 to 22 in this Ruling.
7. If the arrangement actually carried out is materially different from the arrangement that is described in this Ruling:
 - (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 1 March 2003 unless and until it is withdrawn (see paragraph 11 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

11. This Ruling is withdrawn and ceases to have effect after 29 February 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 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 CSR Emoleum Services Pty Ltd dated 9 December 2002;

- record of telephone conversation with a representative of CSR Emoleum Services Pty Ltd on 14 January 2003;
- facsimile from a representative of CSR Emoleum Services Pty Ltd dated 24 January 2003; and
- facsimile from a representative of CSR Emoleum Services Pty Ltd dated 10 February 2003.

13. CSR Emoleum Services Pty Ltd is seeking approval for an early retirement scheme. CSR Emoleum Services Pty Ltd provide services in relation to the construction of roadworks. Due to a decrease in overall government funding, the amount of roadworks undertaken has also decreased. As a result, it is necessary for CSR Emoleum Services Pty Ltd to reduce the number of roadwork employees it employs.

14. CSR Emoleum Services Pty Ltd wishes to give long serving employees, who have completed more than 15 years of continuous service, the opportunity of retiring from its employment. Continuous service includes periods of unpaid leave such as parental leave. First opportunity will be given to those employees between 55 and 62 years of age. Offers will only be made to employees under 55 years of age if there are insufficient acceptances of the first offer.

15. The payments under the scheme are:

- for employees with over 15 years of service, 10 weeks pay plus 1 weeks pay per year of completed service in excess of 15 years;
- for employees with over 20 years of service, 15 weeks pay plus 1 weeks pay per year of completed service in excess of 20 years;
- for employees with over 25 years of service, 20 weeks pay plus 1 weeks pay per year of completed service in excess of 25 years; or
- for employees with over 30 years of service, 25 weeks pay plus 1 weeks pay per year of completed service in excess of 30 years.

The maximum payment an employee can receive under the proposed scheme is 26 weeks pay.

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 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.

21. 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.

22. 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

23. The early retirement scheme offered by CSR Emoleum Services Pty Ltd 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.

Explanations

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 titled: '*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)).'

1. 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:

- employees of CSR Emoleum Services Pty Ltd who have completed more than 15 years of continuous service with CSR Emoleum Services Pty Ltd and are covered by the Enterprise Agreements in paragraph 4.

31. 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 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 CSR Emoleum Services Pty Ltd 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 CSR Emoleum Services Pty Ltd'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

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 13 describes the nature of the rationalisation or re-organisation of CSR Emoleum Pty Ltd'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.

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

35. The scheme is proposed to operate for a period from 1 March 2003 to 29 February 2004. Approval will be granted prior to implementation therefore the third condition is satisfied.

36. The scheme will be in operation for 12 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) of the Act):

- 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 (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.

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 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. The \$5,623 and \$2,812 limits will be indexed to rise in each subsequent year in line with increases in average weekly ordinary time earnings.

42. The total of the amount received on 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 83 and post-June 83 (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:

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Commissioner of Taxation

19 February 2003

<i>Previous draft:</i>	- ITAA 1936 27E(1)(a)(i)
Not previously released in draft form	- ITAA 1936 27E(1)(a)(ii)
	- ITAA 1936 27E(1)(a)(iii)
<i>Related Rulings/Determinations:</i>	- ITAA 1936 27E(1)(a)(iv)
CR 2001/1; TR 92/1; TR92/20;	- ITAA 1936 27E(1)(a)(v)
TR 97/16; TR 94/12	- ITAA 1936 27E(1)(b)
	- ITAA 1936 27E(1)(b)(i)
<i>Subject references:</i>	- ITAA 1936 27E(1)(b)(ii)
- approved early retirement scheme	- ITAA 1936 27E(1)(b)(iii)
payments	- ITAA 1936 27E(1)(b)(iv)
- eligible termination payments	- ITAA 1936 27E(1)(b)(v)
- eligible termination payments	- ITAA 1936 27E(1)(b)(vi)
components	- ITAA 1936 27E(1)(c)
	- ITAA 1936 27E(4)
<i>Legislative references:</i>	- ITAA 1936 27E(5)
- ITAA 1936 27A(1)	- TAA 1953 Part IVAAA
- ITAA 1936 27A(19)	- Copyright Act 1968
- ITAA 1936 27CB	
- ITAA 1936 27E	
- ITAA 1936 27E(1)(a)	

ATO References

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