



CR 2006/21 - Income tax: Approved Early Retirement Scheme - Department of Sustainability and Environment

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Class Ruling

Income tax: Approved Early Retirement Scheme – Department of Sustainability and Environment

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① This Ruling provides you with the following level of protection:

This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, we must apply the law to you in the way set out in the ruling (or in a way that is more favourable for you if we are satisfied that the ruling is incorrect and disadvantages you, and we are not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

What this Ruling is about

1. This Ruling sets out the Commissioner's opinion on the way in which the relevant taxation provision(s) identified below apply to the defined class of entities, who take part in the scheme to which this Ruling relates.

2. This Ruling approves the particular early retirement scheme and acknowledges the availability of tax concessions for entities 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.

Relevant taxation provision(s)

3. The relevant tax provisions dealt with in this Ruling are:

- section 27A of the *Income Tax Assessment Act 1936* (ITAA 1936);
- section 27CB of the ITAA 1936; and
- section 27E of the ITAA 1936.

Class of entities

4. The class of entities to which this Ruling applies is employees of the Department of Sustainability and Environment (DSE) in the Land Stewardship and Biodiversity (LSB) functional group who receive a payment under the scheme described in paragraphs 12 to 34.

Qualifications

5. The Commissioner makes this Ruling based on the precise scheme identified in this Ruling.

6. The class of persons defined in this Ruling may rely on its contents provided the scheme actually carried out is carried out in accordance with the scheme described in paragraphs 12 to 34.

7. If the scheme actually carried out is materially different from the scheme that is described in this Ruling, then:

- this Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled; and
- 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 5 April 2006 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. Furthermore this Ruling applies to the extent that the relevant tax provisions are not amended.

Withdrawal

11. This Ruling is withdrawn and ceases to have effect after 30 June 2006. The Ruling continues to apply, in respect of the relevant tax provisions ruled upon, to all entities within the specified class who enter into the specified scheme during the term of the Ruling. Thus, the Ruling continues to apply to those entities, even following its withdrawal, for schemes entered into prior to withdrawal of the Ruling. This is subject to there being no change in the scheme or in the entities' involvement in the scheme.

Scheme

12. The scheme 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 scheme are:

- correspondence from representatives of the DSE; and
- records of telephone conversations with representatives of the DSE.

13. The DSE is seeking approval for an early retirement scheme known as a Voluntary Departure Package (VDP) relating specifically to staff in Victoria.

14. The class of employees to be offered a VDP will be all eligible ongoing staff employed within the DSE in the LSB functional group.

15. The LSB functional group is commencing a re-organisation following a decrease in the 2005/06 budget. The group is undergoing a formal organisational change program to identify the new business framework and organisational structure, which will result in a change in the future skill mix required in the workforce.

16. Some of the most significant structural changes have been within forestry, with the separation of commercial forestry into a separate statutory corporation and the transfer of responsibility for wildfire and other emergency management matters within the department to the regional arm of its management structure.

17. Other changes are also necessary as the group changes its resource allocation and focus in certain areas of Natural Resources Management in response to changes in government focus.

18. Activities that are generally similar will be managed by a single group within the structure rather than by separate groups within each division.

19. The purpose of offering the VDP is to re-organise the operations of the employer with an identified purpose in mind, that is, to allow LSB to reduce its workforce to meet a reduced budget and align the workforce profile to meet the changed organisational business needs. This is to ensure the availability of critical and specialist expertise into the future with some roles generally becoming less specialist in nature.

20. The DSE has identified LSB employees that will not be permitted to participate in the VDP program. These are:

- staff on unpaid leave of any description;
- staff aged 65 or greater;
- staff on probation or other trial arrangements;
- staff employed on a fixed term contract period, including Executive Officers and Principal Scientists;
- staff on weekly non medical payments under WorkCover;
- staff of the Fire and Emergency Management (F&EM) group identified to transfer to another organisational group within the department; and
- staff who fill the following critical roles in fire management: Incident Controllers levels 2 and 3, Operations Officers (all levels), Situation Officers, Mapping Officers, Fire Weather Officers, Aircraft Officers, Air Attack or general fire fighters in regional operations.

Where any of these critical roles require accreditation, staff holding current accreditation cannot participate in the scheme.

Where these critical roles do not require accreditation, staff are not eligible to participate in the scheme if they have filled any of the roles within the last three years from the date the offer is open.

21. All the remaining ongoing LSB staff who are on the payroll on the date the scheme commences and remain on the payroll thereafter, are eligible to participate in the scheme.

22. The number of employees at each classification category who can retire under the scheme will be limited.

23. In the case where more employees in a classification category wish to retire than the number of packages available under the scheme, the package will be given to those employees with the longest period of service in the Victorian Public Service.

24. If additional funding is available the DSE may extend the program to secure further packages. These packages will be offered to employees in each classification category on a rotating basis until funds cease to be available, with the longest period of service in each classification category used to determine the order.

25. The period the scheme will be open to employees is from 5 April 2006 to 30 June 2006.

26. All employees who retire under the scheme will terminate employment and receive the payment before 1 July 2006.

27. The VDP payment for eligible employees who accept the offer is as follows:

- a) 4 weeks payment in lieu of notice;
- b) 2 weeks pay for each year of continuous service up to 15 years (30 weeks pay); and
- c) lump sum incentive of up to \$10,000 (for a full-time employee).

For part-time employees, payments a) and c) will be calculated at the part-time rate. For employees who have a period of part-time employment in the most recent years of continuous service, payment b) will be a pro-rata payment.

Where an employee who is offered a VDP has less than one years service they will receive a corresponding fraction of the VDP they would have been paid at one year.

Payments made under the Scheme

28. For a payment made under the above mentioned scheme to qualify as an approved early retirement scheme payment, the conditions set out in paragraphs 29 to 34 must be met. Please note, any payment made under the scheme that does not satisfy these requirements is not covered by this Ruling.

29. 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.

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

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

32. 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.

33. 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.

34. 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

35. The early retirement scheme known as a VDP offered by the Department of Sustainability and Environment is an approved early retirement scheme for the purposes of section 27E of the ITAA 1936.

36. 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.

37. 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.

Appendix 1 – Explanation

❶ *This Appendix is provided as information to help you understand how the Commissioner's view has been reached. It does not form part of the binding public ruling.*

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

39. 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.

40. Paragraph 14 of TR 94/12 states that:

Three conditions must 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)).

These three conditions are discussed below.

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

41. 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).

42. The class of employees to whom early retirement will be offered is set out in paragraph 14.

43. This class of employees does not come within any of the categories specified in 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).

44. It is noted, however, that the DSE retains a limited right of veto to be applied as set out in paragraphs 22 to 24. 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

45. 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).

46. Paragraphs 15 to 19 of this Ruling describe the nature of the rationalisation or re-organising of the LSB group operations. In approving the scheme, the Commissioner has had regard to the changes in the operations and nature of the workforce of the employer. It is therefore considered that the scheme is to be implemented by the employer with the view to rationalising or re-organising the operations of the employer for the purposes of subparagraph 27E(1)(b)(vi). Accordingly, the second condition for approval has been met.

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

47. The scheme is proposed to operate for a period from 5 April 2006 to 30 June 2006. Approval was granted prior to implementation therefore the third condition is satisfied.

48. The scheme will be in operation for approximately 3 months which is within the period recommended in TR 94/12.

Other relevant information

49. 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.

50. 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 (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 employ the taxpayer after the date of termination.

51. The term 'agreement' is defined in subsection 27A(1) as meaning 'any agreement, scheme or understanding whether formal or informal, whether express or implied and whether or not enforceable, or intended to be enforceable by legal proceedings'.

52. 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'.

53. For the year ending 30 June 2006, the tax-free amount is limited to \$6,491 plus \$3,246 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.

54. The total of the amount received on the termination of employment calculated in accordance with paragraph 27 qualifies as an approved early retirement scheme payment.

55. The total of the payments in the previous paragraph will be measured against the limit calculated in accordance with paragraph 53 to determine the 'tax-free amount'.

56. 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.

57. 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.

Appendix 2 – Detailed contents list

58. The following is a detailed contents list for this Ruling:

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References

Previous draft:

Not previously issued as a draft

Related Rulings/Determinations:

TR 94/12

Subject references:

- approved early retirement scheme payments
- eligible termination payments
- eligible termination payments components

Legislative references:

- TAA 1953
- ITAA 1936 27A
- ITAA 1936 27A(1)
- ITAA 1936 27A(19)
- ITAA 1936 27CB

- ITAA 1936 27E
 - 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)
 - Copyright Act 1968
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ATO references

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