

# ***CR 2006/4 - Income tax: Approved Early Retirement Scheme - NCR Australia Pty Limited***

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⚠ This document has changed over time. This is a consolidated version of the ruling which was published on *8 February 2006*



## Class Ruling

### Income tax: Approved Early Retirement Scheme – NCR Australia Pty Limited

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#### **ⓘ This Ruling provides you with the following level of protection:**

This publication (excluding appendices) 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 under-paid 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

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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 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 those employees of NCR Australia Pty Limited (NCR) who receive a payment under the scheme described in paragraphs 12 to 30.

## Qualifications

5. The Commissioner makes this Ruling based on the precise scheme identified in this Ruling.
6. The class of entities 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 30.
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

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10. This Ruling applies from 8 February 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 (see paragraphs 21 to 22 of Taxation Ruling TR 92/20). Furthermore this Ruling applies to the extent that the relevant tax provisions are not amended.

## Withdrawal

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11. This Ruling is withdrawn and ceases to have effect after 30 June 2006. The Ruling continues to apply, in respect of the tax provision(s) 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

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### The 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 a representative of NCR; and
- records of telephone conversations with a representative of NCR.

13. NCR is seeking approval for an early retirement scheme (ERS) in relation to a group of employees as part of changes to its Customer Engineering workforce.

14. The Customer Engineering workforce is dispatched by NCR's Call Management Operations Centre in a manner designed to meet NCR's contractual commitments for either response or repair times with its customers.

15. NCR wants to realign the Customer Engineering workforce by increasing the proportion of generalist roles whilst reducing specialist roles, and associated costs, in that workforce.

16. Employees in generalist roles should have a general understanding of Information Technology and Electronics maintenance practices, without having specific expertise in the underlying solution, or a specialist level of expertise in niche products. Employees in generalist roles will be qualified to an A+ level (entry level Hardware and Software Certification) and/or Network+ (entry level Network Certification).

17. Employees in specialist roles have undertaken additional product specific training or accumulated an equivalent level of direct experience. Employees in these roles perform higher-end/more involved tasks and activities.

18. A significant proportion of NCR's field service workload has moved to being of a more general nature due to:
- (i) changes in the IT services market;
  - (ii) the commoditisation of products;
  - (iii) the emergence of Warrant Service Model for the life of equipment;
  - (iv) items which formerly required service support are now considered throw-away items; and
  - (v) a downturn in the IT industry resulting in an increased amount of idle time in the overall workplace.
19. Due to their experience older employees tend to occupy specialist roles and NCR would like to replace them with new employees, with 1 to 10 years experience in the IT industry, to perform generalist roles.
20. The class of employee who will be made an offer of early retirement is those employees of NCR who:
- (i) are 55 years of age or over as at 30 April 2006;
  - (ii) are employed as Customer Engineers;
  - (iii) have 10 or more years service with NCR; and
  - (iv) are employed in NCR's Worldwide Customer Services area.
21. NCR will offer early retirement to all employees who fall in the class and employees will have 30 days to inform NCR if they accept the offer.
22. Employees who formally accept the offer of early retirement, will have their employment terminated on a date determined by NCR but no later than 45 days after their formal acceptance of the offer.
23. The payment employees will receive under the ERS will comprise the following:
- (a) 2.5 weeks base salary for each completed year of service with NCR up to the agreed termination date; and
  - (b) 2.5 weeks base salary for the current year to employees whose anniversary of service falls within one month of the agreed termination date.

## **Payments made under the Scheme**

24. For a payment made under the above mentioned scheme to qualify as an approved early retirement scheme payment, the conditions set out in paragraphs 25 to 30 must be met. Please note, any payment made under the scheme that does not satisfy these requirements is not covered by this Ruling.

25. 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.
26. The payment must not be made from an eligible superannuation fund.
27. The payment must not be made in lieu of superannuation benefits.
28. 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.
29. 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.
30. 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**

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31. The early retirement scheme offered by NCR Australia Pty Limited (NCR) is an approved early retirement scheme for the purposes of section 27E of the ITAA 1936.
32. 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.
33. 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 through the operation of section 27CB of the ITAA 1936.

## Appendix 1 – Explanation

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**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.*

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

35. 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.

36. 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)).

These three conditions are discussed below.

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

37. 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).

38. The class of employees to whom early retirement will be offered is set out in paragraph 20.

39. 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).

**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**

40. 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).

41. Paragraphs 15 to 19 of this Ruling describe the nature of the rationalisation or re-organisation of NCR's operations. The proposed scheme meets the requirements set out in subparagraph 27E(1)(b)(i). Accordingly the second condition for approval has been met.

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

42. The scheme is proposed to operate for a period from 8 February 2006 to 30 June 2006. Approval was granted prior to implementation therefore the third condition is satisfied.

43. The scheme will be in operation for approximately 5 months which is within the period recommended in TR 94/12.

**Other relevant information**

44. 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.

45. 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.

46. 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'.

47. 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'.

48. 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.

49. The total of the amount received on the termination of employment calculated in accordance with paragraph 23 qualifies as an approved early retirement scheme payment.

50. The total of the payments in the previous paragraph will be measured against the limit calculated in accordance with paragraph 48 to determine the 'tax-free amount'.

51. 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.

52. 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.

## **Appendix 2 – Detailed contents list**

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53. The following is a detailed contents list for this ruling:

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## References

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

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### ATO references

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