


CR 2017/66 - Income tax: the 'National Roads and Motorists Association Limited Early Retirement Scheme 2017'

 This cover sheet is provided for information only. It does not form part of *CR 2017/66 - Income tax: the 'National Roads and Motorists Association Limited Early Retirement Scheme 2017'*



Class Ruling

Income tax: the ‘National Roads and Motorists Association Limited Early Retirement Scheme 2017’

Contents	Para
LEGALLY BINDING SECTION:	
Summary – what this Ruling is about	1
Date of effect	6
Scheme	7
Ruling	25
NOT LEGALLY BINDING SECTION:	
Appendix 1: Explanation	28
Appendix 2: Detailed contents list	49

📌 This publication 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, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is 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.

Summary – what this Ruling is about

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

Relevant provision(s)

2. The relevant provisions dealt with in this Ruling are:

- section 83-170 of the *Income Tax Assessment Act 1997* (ITAA 1997)
- section 83-180 of the ITAA 1997.

All legislative references are to the ITAA 1997 unless otherwise indicated.

Class of entities

3. The class of entities to whom this scheme applies is those employees of the National Roads and Motorists’ Association (NRMA) shown at paragraph 12 of this Ruling who receive a payment under the scheme described under the heading *Scheme*.

Qualifications

4. 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 under the heading *Scheme*.
5. If the scheme actually carried out is materially different from the scheme that is described in this Ruling, then:
 - the Ruling has no binding effect on the Commissioner because the scheme entered into is not the scheme on which the Commissioner has ruled, and
 - the Ruling may be withdrawn or modified.

Date of effect

6. This Ruling applies from 1 September 2017 to 31 December 2018. The Ruling continues to apply after 31 December 2018 to all entities within the specified class who entered into the specified scheme during the term of the Ruling. However, the Ruling will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of the Ruling (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

Scheme

7. NRMA is seeking the Commissioner's approval to implement an early retirement scheme in accordance with section 83-180.
8. The scheme will be titled the '**National Roads and Motorists' Association Limited Early Retirement Scheme 2017**', hereafter referred to as 'the Scheme'.
9. The Scheme will be made available to certain eligible employees, namely all employees engaged as Patrols under the NRMA PATROL Enterprise Agreement 2014 in NSW and ACT who will have fifteen or more years' service as at 1 September 2017.
10. NRMA is undertaking a management plan that allows the re-organisation of the business with the aim of refreshing the workforce and the rebalancing of skill sets between technical and non-technical. These changes will not impact the number of roles required, but will necessitate the recruitment of new employees with the specific skillsets to enable NRMA to implement these initiatives.
11. Therefore, the purpose of the Scheme is to allow NRMA to rationalise and re-organise its operations for the purposes outlined in paragraph 10 above.

12. The class of employees to whom the Scheme applies are all those employees of NRMA who:

- engaged as Patrols under the NRMA PATROL Enterprise Agreement in 2014 in NSW and ACT, and
- will have fifteen or more years' service as at 1 September 2017.

13. All eligible employees who retire under the Scheme will receive a voluntary departure package (VDP) as follows:

- five weeks' pay in lieu of notice of cessation, plus
- a lump sum payment of \$45,000 for full-time employees, pro-rated for part-time employees.

14. All eligible employees who retire under the Scheme will also receive their statutory entitlements. However, these payments will not form part of the payment made under the Scheme.

15. Participation in the Scheme is entirely voluntary.

16. The Scheme will be open to eligible employees from 1 September 2017 and will be implemented as follows:

- Employees will be invited to provide an expression of interest (EOI) to participate in the Scheme.
- Employees will have four weeks to express their interest in the Scheme.
- If there is insufficient take-up by Employees during the initial expression of interest period, a second round opportunity will be made after 1 January 2018.
- Employees will have four weeks to express their interest in the Scheme during the second round.
- NRMA will notify all individuals of the outcome of their applications within two weeks after the submission deadline for expressions of interest.
- Employees who accept the offer to retire under the Scheme will terminate employment and receive payment of the Package by 31 December 2018. The actual date of termination will be discussed between NRMA and each Eligible Employee and finally determined by NRMA in accordance with NRMA's operation requirements.

17. NRMA will limit the maximum numbers of offers to be made to Eligible Employees under the Scheme. Should the number of Eligible Employees who make an expression of interest exceed the number of Packages available under the Scheme, the offer will be made firstly to those Eligible Employees aged 55 or over, then Eligible Employees aged 50 or over.

18. Additionally, NRMA must ensure that it has sufficient Patrol staff across NSW and ACT to maintain service levels. NRMA will take into account the geographic location of Eligible Employees seeking access to the Scheme when assessing expressions of interest, and will allow no more than 50% of Eligible Employees to retire in any particular service region under the Scheme.

19. The payment made under the Scheme is in excess of any superannuation and any other benefits to which eligible employees would otherwise be entitled.

20. Any employee who terminates their employment other than under the proposed Scheme will not be entitled to receive the Scheme payment.

21. Payments made under the Scheme will be at arm's length.

22. The retirement of employees who receive a payment under the scheme will occur before they turn 65 years of age.

23. There is no agreement in place between any eligible employee and NRMA, or between NRMA and another person to employ the eligible employee after retirement under the Scheme.

24. Participation in the Scheme is entirely voluntary.

Ruling

25. The *National Roads and Motorists' Limited Early Retirement Scheme 2017* is an early retirement scheme for the purposes of section 83-180.

26. Accordingly, so much of the payment received by an eligible employee that exceeds the amount that could reasonably be expected to be received by the employee in consequence of voluntary termination of their employment at the time of the retirement will be an early retirement scheme payment.

27. In addition, so much of the early retirement scheme payment as falls within the threshold calculated in accordance with section 83-170 is not assessable income and is not exempt income.

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.*

28. A scheme will be an early retirement scheme if it satisfies the requirements of subsections 83-180(3) or (4).

29. Subsection 83-180(3) states that:

A scheme is an **early retirement scheme** if:

- (a) all the employer's employees who comprise such a class of employees as the Commissioner approves may participate in the scheme; and
- (b) the employer's purpose in implementing the scheme is to rationalise or re-organise the employer's operations by making any change to the employer's operations, or the nature of the work force, that the Commissioner approves; and
- (c) before the scheme is implemented, the Commissioner, by written instrument, approves the scheme as an early retirement scheme for the purposes of this section.

These three conditions are now considered.

All employees within a class approved by the Commissioner may participate in the scheme

30. In order to satisfy the first condition, the scheme must be offered to all employees in a class approved by the Commissioner under paragraph 83-180(3)(a).

31. The class of employees to whom early retirement will be offered under the Scheme is set out in paragraph 12 of this Ruling.

32. The Commissioner considers that this is an appropriate class of persons for the Scheme to be offered to. 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 paragraph 83-180(3)(a).

CR 2017/66

The employer's purpose in implementing the scheme is to rationalise or re-organise the employer's operations in a way approved by the Commissioner

33. The proposed scheme must be implemented by the employer with a view to rationalising or re-organising the operations of the employer as described in paragraph 83-180(3)(b).

34. Paragraphs 10 and 11 of this Ruling describe the nature of the rationalisation or re-organisation of the employer's operations. In approving the Scheme, the Commissioner has had regard to the changes in the operations and nature of the work force of the employer. It is 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 paragraph 83-180(3)(b).

35. Accordingly, the second condition for approval has been met.

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

36. The Scheme is proposed to operate for a period from 1 September 2017 to 31 December 2018. The approval to be provided by the class ruling will have been granted prior to implementation therefore, for the purposes of paragraph 83-180(3)(c), this condition is satisfied.

37. The Scheme will be in operation for approximately fifteen months. This is considered appropriate due to the circumstances of the re-organisation.

38. As all the conditions for approval under subsection 83-180(3) have been met, consideration of subsection 83-180(4) is not required.

Other relevant information

39. Under subsection 83-180(1), an early retirement scheme payment is the amount:

- an employee receives because they retired under an early retirement scheme, and
- that exceeds what the employee could have reasonably expected to receive in consequence of the voluntary termination of their employment at the time of termination.

40. It should be noted that, in order for a payment to qualify as an early retirement scheme payment, it must also satisfy the following requirements (as set out in subsections 83-180(2), (5) and (6)):

- the retirement occurred before the employee turned age 65 or such earlier date on which the employee's employment would have terminated under the terms of employment because of the employee attaining a

certain age or completing a particular period of service (as the case may be)

- if 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 the amount that could reasonably be expected to be made if the retirement was at arm's length
- at the time of retirement there was no arrangement between the employee and the employer, or between the employer and another person, to employ the employee after the retirement
- the payment must not be made in lieu of superannuation benefits, and
- it is not a payment mentioned in section 82-135 (apart from paragraph 82-135(e)).

41. The term 'arrangement' is defined in subsection 995-1(1) as meaning '*any arrangement, agreement, understanding, promise or undertaking, whether express or implied, and whether or not enforceable (or intended to be enforceable) by legal proceedings*'.

42. In accordance with section 83-170, an early retirement scheme payment that falls within the specified limit is referred to as the 'tax-free' amount and will not be assessable income and will not be exempt income.

43. For the 2017-18 income year, the tax-free amount is limited to \$10,155 (base amount) plus \$5,078 (service amount) for each whole year of completed employment service to which the early retirement scheme payment relates. It should be noted that six months, eight months or even eleven months do not count as a whole year for the purposes of this calculation.

44. The total of the amount received on the termination of employment calculated in accordance with paragraphs 13 and 14 of this Ruling may qualify as an early retirement scheme payment.

45. The total payment calculated in accordance with paragraphs 13 and 14 of this Ruling will be measured against the limit in accordance with the formula mentioned in paragraphs 43 and 44 of this Ruling to determine the tax-free amount of the early retirement scheme payment.

46. The tax-free amount will:

- not be an employment termination payment (ETP), and
- not be able to be rolled-over into a superannuation fund.

47. Any payment in excess of this limit will be an ETP and will be split into tax-free and taxable components. The tax-free component of an ETP includes the pre-July 83 segment of the payment. The tax-free component is not assessable income and is not exempt income.

CR 2017/66

48. The taxable component of the ETP will be taxed at various rates depending on the person's age. It should be noted that the '*whole of income cap*' does not apply to any part of the early retirement scheme payment.

Appendix 2 – Detailed contents list

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

	Paragraph
Summary – what this Ruling is about	1
Relevant provision(s)	2
Class of entities	3
Qualifications	4
Date of effect	6
Scheme	7
Ruling	25
Appendix 1 – Explanation	28
All employees within a class approved by the Commissioner may participate in the scheme	30
The employer's purpose in implementing the scheme is to rationalise or re-organise the employer's operations in a way approved by the Commissioner	33
The scheme must be approved by the Commissioner prior to its implementation	36
Other relevant information	39
Appendix 2 – Detailed contents list	49

References

- Previous draft:*
- ITAA 1997 83-180(1)
- Not previously issued as a draft
- ITAA 1997 83-180(2)
 - ITAA 1997 83-180(3)
- Related Rulings/Determinations:*
- ITAA 1997 83-180(3)(a)
 - ITAA 1997 83-180(3)(b)
- TR 2006/10
- ITAA 1997 83-180(3)(c)
 - ITAA 1997 83-180(4)
- Legislative references:*
- ITAA 1997
 - ITAA 1997 82-135
 - ITAA 1997 82-135(e)
 - ITAA 1997 83-170
 - ITAA 1997 83-180
 - ITAA 1997 83-180(5)
 - ITAA 1997 83-180(6)
 - ITAA 1997 995-1(1)
 - TAA 1953
-

ATO references

NO: 1-B567ERF

ISSN: 2205-5517

ATOlaw topic: Income tax ~~ Assessable income ~~ Employment related
~~ Employment termination payments – early retirement
scheme

**© AUSTRALIAN TAXATION OFFICE FOR THE
COMMONWEALTH OF AUSTRALIA**

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).