



explains

## redundancy payments

Ceasing employment can be a confusing and stressful event, particularly if you are leaving work as a result of retrenchment. Understanding the variety of lump sum payments and how these payments are taxed can help enormously as you plan your transition to new employment, or even retirement.

### what are they?

You may receive a retrenchment package as a result of termination of employment due to genuine redundancy or as part of an approved early retirement scheme.

### how does it work?

Your redundancy package may comprise up to five lump sum amounts:

1. Payment for unused annual leave.
2. Payment for unused long service leave.
3. A tax-free redundancy payment.
4. A taxable redundancy payment, known as an 'employment termination payment' ('ETP').
5. Unused sick leave may also be paid by some employers, but this is rare.

### what are the tax implications?

The following information only applies when you are leaving work as a result of redundancy. Different tax rates apply if you leave work as a result of resignation or retirement.

#### unused annual leave

The total amount of your unused annual leave is added to your assessable income and taxed at a maximum of 31.5% (including Medicare levy).

#### unused long service leave

The total amount of your unused long service leave is added to your assessable income and taxed as follows:

period of accrual	tax treatment
before 16 August 1978	5% taxed at marginal tax rate (plus Medicare levy)
after 15 August 1978	100% taxed at maximum of 31.5% (including Medicare levy)

### **tax-free redundancy payment**

This is calculated as \$4,624 for each completed year of service plus \$9,246.

### **ETP**

This is any amount in excess of the tax-free redundancy payment. If your service commenced prior to 1 July 1983, your ETP will consist of both a tax-free component and a taxable component (based on your service period before and after 1 July 1983). The tax implications are as follows:

component	tax treatment
tax-free component	tax-free
taxable component (under age 55)	(a) first \$180,000 taxed at a maximum of 31.5% (b) balance taxed at 46.5%
taxable component (over age 55)	(a) first \$180,000 taxed at a maximum of 16.5% (b) balance taxed at 46.5%

### **what other payments may be affected?**

Any redundancy payments taken in cash are included in your assessable income and may affect your Family Tax Benefit, child support payments, eligibility for superannuation co-contributions, Medicare levy surcharge and other benefits and taxes.

### **what are the Centrelink implications?**

In addition to normal waiting periods before Centrelink benefits become payable, receipt of redundancy payments will generally result in Centrelink benefits being delayed for an amount of time equivalent to the amount of time covered by the redundancy payments (eg. unused annual leave of two months will delay any Centrelink benefits by two months).