

# Redundancies



Hywood Partners

# Redundancies

A very topical point at the moment is that of redundancies.

A week wouldn't go by where I'm not speaking to a client regarding the possibility of a redundancy.

Monies received by way of a redundancy are concessional tax provided the redundancy is genuine in the eyes of the Australian Tax Office (ATO). In brief the termination has to be initiated by the employer as a result of a particular position/job no longer being required. The termination cannot arise due to particular issues with an individual employee.

# Unused Annual Leave

Any unused Annual Leave you may have owing is paid out as a lump sum. The maximum tax payable on these funds is 30% plus the Medicare Levy. Thus if your taxable income in the financial year you receive the redundancy is above \$37,000 you will only pay 30% tax as opposed to your marginal rate of tax (which could be as high as 47% if your taxable income is above \$180,000).

These funds are paid to you direct; they can't be rolled into superannuation.

# Unused Long Service Leave

Unused Long Service Leave is also paid to you direct, i.e. cannot be rolled into superannuation.

Funds received for unused long service leave are also favourably taxed when paid due to genuine redundancy, similar to annual leave with a slight twist for those who have accrued long service leave prior to 15 August 1978 (38 years ago).

If you've been in the workforce long enough to have accrued long service leave dating back prior to 15 August 1978 then only 5% of the amount you receive as unused long service which represents this period of employment is added to your taxable income and taxed at your marginal tax rate (plus Medicare).

That's a bit long winded so to give you an example; say you started work on 1<sup>st</sup> January 1977, was made redundant on 30 June 2016, and had \$30,000 of unused long service leave owing to you. The calculation is based on days and in this case the number of days between 1 Jan 1977 and 15 August 1978 is 591 and the total number of days employed is 14,425 (i.e. between 1 Jan 1977 and 30 June 2016).

Therefore the amount representing the employment period prior to 15 August 1978 is \$1,229.12 (i.e.  $591/14,425 \times \$30,000$ ). The tax implications would be that 5% of the \$1,229.12 (or \$61.46) would be added to your taxable income and taxed at your marginal tax rate.

The rest of any unused long service leave is taxed the same way as unused annual leave, i.e. at a maximum rate of 30% plus Medicare levy.

## Tax Free Amount

If you are paid a genuine redundancy (and are under age 65) a portion of the benefit may be tax free. For the current financial year, i.e. 2016/17, the tax free amount is equal to \$9,936 plus \$4,969 for every full year of service completed (note the emphasis on full year).

Thus if we use our previous example the number of full years is 39, therefore the tax free amount would be \$203,727 [ $\$9,936 + (39 \times \$4,969)$ ].

If your redundancy payment is less than the tax free amount, the total redundancy is tax free.

# Employment Termination Payments

Should you receive a redundancy payment greater than the tax free amount the tax treatment of these funds depends on your age. The tax treatment is set out below:

Age	Tax Treatment
<b>Under Preservation Age (currently 56)</b>	
Tax Free Component (as per above)	Tax free
Taxable Component up to \$195,000	30% plus Medicare levy
Taxable Component over \$195,000	47% plus Medicare levy
<b>Reached Preservation Age (56 or over)</b>	
Tax Free Component (as per above)	Tax free
Taxable Component up to \$195,000	15% plus Medicare levy
Taxable Component over \$195,000	47% plus Medicare levy

Again, neither the tax free nor taxable component can be rolled into superannuation.

Receiving a redundancy can involve significant amounts of money, especially for people who have been with an employer for a long period of time. How to deal with these funds and other possible implications (i.e. Centrelink) make the obtaining of quality financial advice essential to ensure you use this one off ‘bonus’ to maximise your position.

Work hard. Play hard. Plan hard.

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Disclaimer:

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