

Tax – Redundancy payments

If your employment is terminated, there are a number of payments you may receive when your employment arrangement comes to an end. Where your termination occurs because of a genuine redundancy, you may be entitled to concessional tax treatment on certain types of payments.

How it works

A genuine redundancy may occur when your employer decides that the job you are doing no longer exists and terminates your employment. A genuine redundancy may also occur where a company you work for closes down. Termination payments made under these circumstances are generally entitled to concessional tax treatment where part of the payment may be tax free. If you simply retire or resign, the concessional tax treatment does not apply. You also generally need to be under your age pension age for your situation to be considered a genuine redundancy and to benefit from the concessional tax rates that may apply. Your age pension age depends on your date of birth and can be up to age 67 (see below).

Your employer is required to provide you with a payment summary within 14 days of making your termination payment. The payment summary sets out the amount paid and the amount of tax withheld.

Your termination payment may include a lump sum for unused leave entitlements you had accrued, and you may also be paid an extra 'redundancy' amount which is determined according to the terms of your employment contract and sometimes workplace legislation. The redundancy amount will be tax-free up to a limit, with any excess being taxed as an employment termination payment (ETP). Unused long service leave and annual leave are subject to different rates of tax.

Unused leave entitlements

In the case of a genuine redundancy, any payments received for unused annual and long service leave are concessionally taxed. These payments are subject to tax at a maximum rate as shown below. These payments are included in your assessable income and can therefore impact your entitlements to certain benefits, concessions or entitlements which may be based on your assessable or taxable income.

Type of leave	Service period	Taxation*
Annual leave	Any	100% included in assessable income and taxed at the maximum rate of 30%
Long service leave	To 15 August 1978	5% included in assessable income and taxed at your marginal tax rate
	From 16 August 1978	100% included in assessable income and taxed at the maximum rate of 30%

* Medicare and other levies may also apply

Genuine redundancy tax-free amount

A portion of a genuine redundancy amount (not including the leave payments) will be tax-free if you meet the definition of a genuine redundancy. The tax-free amount is based on the years of completed service with your employer. For 2020/21, the genuine redundancy tax-free amount is calculated as:

$\$10,989 + (\$5,496 \times \text{each completed year of service})$

If your redundancy amount is less than the result of this formula, it will be entirely tax-free and you only pay tax on the leave payments.

Employment termination payment (ETP)

If your redundancy amount is greater than the tax-free amount, the balance is generally called an Employment Termination Payment (ETP).

Most ETPs consist of only taxable component. However, a tax-free component exists if you commenced working for your employer before 1 July 1983 or you are terminating employment due to invalidity.

Your employer will withhold lump sum tax from the taxable component of the ETP depending on your age and the amount of the ETP. Lump sum tax rates for the taxable component of an ETP in 2019/20 are as follows:

Age at the end of the financial year	Amounts up to \$215,000*	Amounts over \$215,000*
Under preservation age	30%	45%
Preservation age and over^	15%	45%

* Rates and thresholds apply for 2020/21 financial year. Medicare and other levies may also apply.

^ Applies if payment is received after preservation age or preservation age is reached by the end of the financial year.

Preservation age is 55 for those born before 1 July 1960 and gradually increases to age 60 depending on your date of birth.

Age pension age

Your age pension age depends on your date of birth (see table below):

Date of birth	Eligible age
Before 1 July 1952	65.0
1 July 1952 to 31 December 1953	65.5
1 January 1954 to 30 June 1955	66.0
1 July 1955 to 31 December 1956	66.5
On or after 1 January 1957	67.0

Risks and Consequences

- The taxable component of the ETP is added to your assessable income and may impact your eligibility for certain Government entitlements, concessions and benefits.
- Any payments you receive upon termination of your employment may impact your entitlement to certain social security benefits. You might also need to serve a waiting period or other periods in some circumstances, before you become entitled to receive certain payments.
- You must receive entitlements paid upon termination in cash. They cannot be automatically rolled into superannuation but if you are eligible, you may be able to contribute into superannuation with the benefits you have received.

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