

If you have been made redundant, it is important to understand the financial issues involved, your entitlements, and how to make the most of your redundancy payment.

If you have been made redundant, you may be entitled to receive certain tax concessions<sup>1</sup> that would not normally be available if you were leaving on other grounds.

Generally a redundancy payment is made up of a few different components, with each component receiving its own tax treatment. The table below shows the main components that generally make up a redundancy payout, the tax treatment of these and how you can use these funds. As you can see, the type of payment also determines what you can do with it and under what conditions.

## Genuine redundancy payments

For a payment to be considered a 'genuine redundancy payment' for tax purposes, it must meet the following criteria:

- recipient under 65 years of age
- the duties performed are no longer required
- no arrangement for future employment with the company can be made
- the amount paid must not exceed an amount for a dismissal that is reasonable on an arm's length basis.<sup>2</sup>

Depending on the amount of your genuine redundancy payment, it may be made up of either (or often both) a tax-free amount and a taxable amount. The taxable component is any money in excess of the tax-free amount of the genuine redundancy payment and is known as the employment termination payment (ETP).

## Tax-free amount

The tax-free amount is calculated using a formula set in legislation. This consists of a base amount and a further amount, which is multiplied by the number of completed years you have worked for your employer. The base amount and the further amount are indexed each year in line with average weekly ordinary time earnings (AWOTE).

The tax-free amount is not an ETP and is simply taken tax-free. Taxable amount (ETP)

Any payments in excess of the tax-free amount will be treated as an ETP and will be taxed accordingly. Strict conditions apply to what can and can't be considered an ETP. Some of these items are included in the table below.

Note that an ETP may itself have a tax-free component (if you started work for your employer before 1 July 1983) and a taxable component.

Component	Tax treatment	Your options
Genuine redundancy payment – tax-free amount (includes unused sick leave) up to a prescribed limit	Tax free	Must be cashed out
Genuine redundancy payment – employment termination payment (ETP) (includes unused sick leave) up to a prescribed limit	Taxed	Under standard rules – must be cashed out Under transitional rules <sup>3</sup> your choice to cash out or contribute directly to super <sup>4</sup>
Unused annual leave and long service leave	Taxed	Must be cashed out
Superannuation benefit	Depends on age of recipient and taxation components of super fund	Can be rolled over or cashed out if you satisfy a condition of release for super

1. These tax concessions also apply to 'early retirement schemes'.
2. An arm's length transaction is one carried out by two parties with no connection between them, resulting in fair market value.
3. Transitional provisions operate in cases where you are entitled to a payment on termination of employment under a written contract, law or agreement in effect before 10 May 2006. These transitional provisions only apply until 30 June 2012.
4. If you satisfy a condition of release, you may also use it to purchase an annuity or allocated pension.

## Unused annual leave and long service leave payments

Lump sum payments you receive for any annual or long service leave you had not taken when your employment was terminated are not a genuine redundancy payment. They cannot be rolled over into super and must be cashed out and is subject to tax. However, once you have cashed out the payment, the net amount can be contributed to your superannuation if you are under age 65.

If you are 65 or over, you will need to satisfy the work test (ie be gainfully employed for 40 hours within 30 consecutive days in the financial year).

If you have been made redundant, concessional rates of tax apply, depending on when the leave was accrued and your marginal tax rate. Your employer should withhold tax when these amounts are paid to you.

## Unused sick leave

Any unused sick leave owing to you when your employment terminates may be included in the redundancy package. It can fall into either the tax-free or taxable category.

## Superannuation benefit

When you leave your job, some or all of your superannuation benefit may be released, giving you access to those benefits. Alternatively, your superannuation benefit may be fully preserved. This will depend on your age, how your super is classified and whether you satisfy a condition of release.

Remember that unless you satisfy a condition of release, you can only withdraw your super once you reach your preservation age (between 55 and 60 depending on your date of birth). All withdrawals from super are tax-free once you reach 60 (applies to taxed funds only).

If you are able to access your super, you should consider the various tax and social security implications before you decide whether or not to cash it out. When you are made redundant, you may need to move your super out of the employer fund to a fund of your choice.

If you are contributing some or all of your redundancy payment to super, you will need to consolidate your redundancy payment with your existing super benefit and move them to a new fund. If you have insurance with your existing super fund, it's important to make sure you can receive equal cover from your new fund.

## Social security

If you have been made redundant, you may wish to apply for a Centrelink benefit such as Newstart Allowance. However, accessing social security benefits is not as simple as just walking into a Centrelink office. First you will have to prove your eligibility through the assets and income tests. You may then be required to serve one or more waiting periods before receiving your first payment.

### Considered an ETP

- Unused rostered days off (RDOs)
- Payments in lieu of notice
- Unused sick leave (if it does not form part of the tax-free genuine redundancy payment)
- A gratuity or 'golden handshake'
- Genuine redundancy payments in excess of the tax-free amount
- Compensation for loss of job or wrongful dismissal

### Not an ETP

- Genuine redundancy payments within the tax-free amount
- Unused annual leave or leave loading
- Unused long service leave
- Salary, wages and allowances owing to the employee for work done or leave already taken
- Compensation for personal injury
- Payment for restraint of trade
- An advance or loan
- Deemed dividends

## Speak to us for more information...

If you would like to know more about maximising your redundancy payment, contact our office and talk to us at LifeTime Financial Group. We can give you more detailed information on the best approach for your situation.

This general advice has been prepared without taking into account your particular financial needs circumstances or objectives, and is based on Advice Evolution Pty Ltd understanding of current law as at August 2010 and its continuance unless stated otherwise. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. You should obtain professional financial advice before acting on the information contained in this publication.

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