

FACT SHEET


Redundancy

Leave payments upon redundancy

Most people will receive a payment for leave entitlements accrued up to the date of their redundancy.

Generally these payments will consist of unused annual leave, leave loading and long service leave.

In certain cases the overall redundancy package will also include a commitment to pay out any unused sick leave and Rostered Days Off (RDOs).



It is important to understand the different ways in which the leave payments are treated for both taxation and Centrelink (social security) purposes.

One fact many people are not aware of is that leave payments received upon genuine redundancy are concessional taxed. They would not receive this concessional treatment if they were simply paid out upon voluntary resignation or retirement.

Your basic leave entitlements

Accrued Annual Leave

Resignation/retirement	Tax Rate
To 17/08/1993 From 18/08/1993	31.5% marginal rate
<i>Bona fide redundancy / invalidity / early retirement</i>	31.5%

Centrelink:
Counts towards your waiting period for Centrelink Allowances.

Accrued Long Service Leave

Resignation/retirement	Tax Rate
To 15/08/1978 From 16/08/1978 to 17/08/1993 From 18/08/1993	5% at marginal rate 31.5% marginal rate
<i>Bona fide redundancy / invalidity / early retirement</i> To 15/08/1978 From 16/08/1978	5% at marginal rate 31.5%

Centrelink:
Counts toward your waiting period for Centrelink Allowances.

Bona fide Redundancy Payments

The following payments can be considered to be part of your bona-fide redundancy payment:

- Payments in lieu of notice
- Severance payments based on years of service
- Lump sum gratuitous or golden handshake payments
- Payments for unused sick leave and rostered days off.

The Government allows you to receive your bona-fide redundancy payment as a tax-free lump sum up to a certain limit based on the number of completed whole years of service with your employer. For the 2009/2010 Financial Year it is a flat \$7,732 plus \$3,867 for each completed year of service.

Shown below is what the tax-free limits are for up to 20 completed years of service:

Completed years of service	Tax free limits
1	\$11,599
2	\$15,466
3	\$19,333
4	\$23,200
5	\$27,067
6	\$30,934
7	\$34,801
8	\$38,668
9	\$42,535
10	\$46,402
11	\$50,269
12	\$54,136
13	\$58,003
14	\$61,870
15	\$65,737
16	\$69,604
17	\$73,471
18	\$77,338
19	\$81,205
20	\$85,072

It is important to note that the tax-free limit is based on **completed years of service**. Unlike your actual redundancy package, the limit is not pro-rated for part years of service.



What if the payment I receive is greater than the Tax Free limit?

The amount of your redundancy payment that is above the tax-free limit is taxed as an Employment Termination Payment.

Your employer is required to provide you with an ETP Pre-Payment Statement that sets out both the amount of your ETP and the various components of that benefit.

Transitional Arrangements

Employment Termination Payments can be rolled over to super or taken as cash between 1/7/2007 and 30/6/2012. To qualify, the payment amount (or formula) must have been specified in either a written contract, law or workplace agreement as at 9/5/2006.

Employees have 30 days from receiving a pre-payment statement to elect to rollover* the transitional payment. The Taxable component will be taxed in the super fund at 15% and the Taxable component above \$1 million will count towards the employee's Concessional Contribution (CC) cap.

* To rollover, the employee must be eligible to contribute to super (ie. under age 65 there is no restriction, age 65 – 70 employee must meet work test: employed for at least 40 hours over 30 consecutive days during the financial year).

Example

Michael has been working at Fine Cheeses incorporated for 15 years. On the 1st of July 2009 he is offered a redundancy package consisting of:

- 4 weeks pay, per year of service, calculated on a current wage of \$1,100 per week PLUS
- 5 weeks pay in lieu of notice.

Michael's overall entitlement is \$71,500 consisting of:

- Tax Free Component of \$65,737*
- Excess Component of \$5,763.

In regard to the excess component, Michael can choose to rollover this amount to a complying superannuation or rollover fund under the transitional arrangements ie. the payment amount (or formula) has been specified in a written contract, law or workplace agreement as at 9/5/2006.

If the transitional arrangements do not apply, Michael cannot rollover the excess component as it must be taken in cash with the tax treatments applying above.

* The Tax Free Component of \$65,737 cannot be rolled over.

Non-Transitional Arrangements

Recipients of employment termination payments must cash out their benefits and the following tax treatment applies:

Age at end of financial year	Component	Tax Rate
<i>Under 55</i>	Tax Free	Tax Free
	Taxable	First \$150,000* at 31.5% Excess at 46.5%
<i>55 and over</i>	Tax Free	Tax Free
	Taxable	First \$150,000* at 16.5% Between \$150,000 and \$1 million at 31.5% Excess at 46.5%

*Indexed to AWOTE in \$5,000 increments.

This is an annual limit which applies to all non-transitional termination payments received in a financial year (or related to that year).

Note: the Tax Free component will comprise a Pre-July 1983 segment (crystallised at date of payment) and an invalidity segment, where applicable.

Superannuation

It may be possible for you to access some of your superannuation upon being made redundant.

Your benefit will generally consist of three components:

1. Unrestricted Non Preserved Benefit

This part of your benefit can be cashed out at any time.

2. Restricted Non Preserved Benefit

This part of your benefit can be released before you reach retirement age, provided you have satisfied a 'condition of release'. In a situation where you are made redundant this condition of release would have been met.

For most employees their Restricted Non Preserved Benefit will consist of their own member contributions and those made by their employer that exceeded the minimum statutory requirement.

In all cases these contributions would need to have been made prior to the 1st July 1999 in order to form part of the Restricted Non Preserved Benefit.

3. Preserved Benefit

A Preserved Benefit cannot be accessed (except in extremely limited circumstances) until you retire after age 55 (please note that persons not meeting a full condition of release but over their preservation age may start a Transition To Retirement (TTR) income stream).

If you were born after the 1st July 1960 then your minimum retirement age could be later than 55 years of age.

Preservation ages

Date of birth	Preservation age
Before 1/7/60	55
1/7/60 – 30/6/61	56
1/7/61 – 30/6/62	57
1/7/62 – 30/6/63	58
1/7/63 – 30/6/64	59
After 30/6/64	60

All contributions to a fund made after the 1 July 1999 have to be treated as Preserved Benefits.

Taxation of superannuation benefits

Benefits paid from taxed super funds (lump sum or account based income streams) to members aged 60 and over are tax free and therefore non assessable.

The table below shows the tax rates applicable to lump sum benefits paid to members under age 60.

Component	Age	Tax Rate
Tax Free	Any	Tax Free
Taxable	< 55	21.5%
	55 - 59	First \$150,000* at 0% Excess at 16.5%

* Indexed to AWOTE in \$5,000 increments.

Tax Free Component

Incorporates non concessional contributions such as personal contributions, spouse contributions and CGT exempt components.

Taxable Component

Incorporates concessional contributions such as employer and salary sacrifice contributions.

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