Facing a redundancy?

You may be feeling overwhelmed and uncertain about the future.

This fact sheet guides you through the redundancy process and can help you decide your next steps.

Your entitlements

When you accept early retirement or redundancy as part of a negotiated agreement with your employer, you'll be entitled to a lump sum termination payment. This type of payment is generally made up of the following:

- leave payments, including:
  - annual leave and leave loading (if applicable)
  - long service leave
- a redundancy payment, including:
  - any payment in lieu of notice
  - unused sick leave, and
  - rostered days off (if applicable).

Tax on your termination payment

The various parts of your lump sum termination payment receive different tax treatments.

Leave payments

Leave payments received upon a genuine redundancy attract special tax treatment (as opposed to payments received upon a voluntary resignation or retirement). Your employer must deduct tax at the rate of 30% (plus the Medicare levy) from your leave payment amount.

Table 1

Accrued annual leave payments	
Cause	**Tax rate**
Resignation/retirement	Marginal tax rate
Genuine redundancy	Maximum 30%*

*Plus the Medicare levy.

We're here to help

Our financial advisers can provide you with information and advice about your entitlements and your super and pension arrangements. We can visit you at home or at work. Call us on **1300 130 780**.

Table 2

Accrued long service leave payments	
Cause	**Tax rate**
Resignation/retirement to 15 August 1978	5% of total at marginal tax rate
from 16 August 1978 **to** 17 August 1993	30%*
from 18 August 1993	Marginal tax rate
Genuine redundancy to 15 August 1978	5% of total at marginal tax rate
from 16 August 1978	30%*

*Plus the Medicare levy.

If your marginal tax rate (see Table 3) is less than 30%, any excess tax you've paid will be refunded to you when you complete your next tax return. However, if your marginal tax rate is higher than 30%, tax on your leave payment will be capped at 30%.

Your marginal tax rate is the highest tax rate payable according to your taxable income. For example, if your taxable income for the year was $60,000, then your marginal tax rate would be 32.5% (plus the Medicare levy).

Table 3

Income tax table 2018/19		
Taxable income	**Marginal tax rate***	**Tax payable**
$0 – $18,200	0%	Nil
$18,201 – $37,000	19%	19c for each $1 over $18,200
$37,001 – $90,000	32.5%	$3,572 + 32.5c for each $1 over $37,000
$90,001 – $180,000	37%	$20,797 + 37c for each $1 over $90,000
$180,001 +	45%	$54,097 + 45c for each $1 over $180,000

*Plus the Medicare levy.

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Redundancy payments

Your genuine redundancy payment is a lump sum payment made up of the following as they apply to you:

- payments in lieu of notice
- severance payments based on years of service
- extra lump sum payments
- payments for unused sick leave and rostered days off.

A genuine redundancy payment is tax-free up to a certain limit, based on the number of whole years of service you've completed with your employer (see Table 4).

For the 2018/19 financial year, the limit is $10,399 plus $5,200 p.a. for each complete year of service.

Unlike severance payments, the tax-free limit on genuine redundancy payments isn't calculated on a pro-rata basis for years of service.

Table 4

Completed years of service	Tax-free limit
0	$10,399
1	$15,599
2	$20,799
3	$25,999
4	$31,199
5	$36,399
6	$41,599
7	$46,799
8	$51,999
9	$57,199
10	$62,399
11	$67,599
12	$72,799
13	$77,999
14	$83,199
15	$88,399
16	$93,599
17	$98,799
18	$103,999
19	$109,199
20	$114,399

If you're over 65, you don't qualify for the tax-free component of the redundancy payment. Instead, the total amount is considered an employee termination payment and is taxed as outlined in Table 5.

Employee termination payments

Your employer is required to provide you with an employee termination payment (ETP) pre-payment statement detailing the various components of your ETP and redundancy payment. Where the total amount of your redundancy payment exceeds the tax-free limits (outlined in Table 4), any amount you receive above that limit is taxed as an ETP. This is detailed in Table 5.

Table 5

Age	Component	Tax rate
Under preservation age	Tax-free	Tax-free (as per Table 4)
	Taxable	• First $205,000# at 30%* • Excess at 45%*
Preservation age to 64	Tax-free	Tax-free (as per Table 4)
	Taxable	• First $205,000# at 15%* • Excess at 45%*
65 or over	Taxable	• First $205,000# at 15%* • Excess at 45%*

#For the 2018/19 financial year. This amount is indexed annually.
*Plus the Medicare Levy.

Example

Michael is 46 and has been working at Fine Cheeses Incorporated for 15 years. On 1 July 2018, he was offered a redundancy package consisting of:

- 4 weeks' pay per year of service, calculated on a current wage of $1,500 per week

PLUS

- 5 weeks' pay in lieu of notice.

Michael's overall entitlement is $97,500 consisting of:

- a tax-free component of $88,399
- an excess component of $9,101.

Because he's under his preservation age, Michael's overall tax liability will be $2,730.30 (plus the Medicare levy). If he was his preservation age or over, his overall tax liability would be $1,365.15 (plus the Medicare levy).

Need more information?

Contact us on **1300 130 780**. Alternatively, call the Australian Taxation Office on 13 28 65 or visit ato.gov.au.

Whole-of-income cap

The following payments are subject to the whole-of-income cap test:

- non-genuine redundancy payments
- severance pay
- payments in lieu of notice period
- payment of unused sick leave and unused rostered days off.

The whole-of-income cap is $180,000 less any of the above payments and any taxable income you received in the relevant financial year. If the whole-of-income cap applies to your ETP, your cap will be the lesser of either the ETP cap or the amount calculated under the whole-of-income cap. Tax will be applied on that basis.

Access to your super

If you've been made redundant, you might be able to access some of your super depending on its classification. Your super is classified as either preserved, restricted non-preserved or unrestricted non-preserved. Various rules and taxes apply when cashing out your super.

It's important to note that all contributions made to super since 1 July 1999, together with any interest earned on those contributions, are considered to be preserved. Preserved benefits generally cannot be accessed until you've reached your preservation age (see Table 6).

Table 6

Preservation age	
Date of birth	**Preservation age**
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Restricted non-preserved benefits can be accessed before you reach preservation age, provided you have satisfied a condition of release.

Unrestricted non-preserved benefits can be cashed out at any time.

Tax on super

If you're 60 or over, any super withdrawn as a lump sum or through a pension income scheme is tax-free. However, if you're under 60, tax rates (as detailed in Table 7) apply.

Table 7

Component	Age	Tax rate
Tax-free	Any	0%
Taxable	Under preservation age	20%*
	Preservation age to 59	First $205,000# at 0% Excess at 15%*
	60 and over	0%

*Plus the Medicare levy.

#For the 2018/19 financial year. This amount is indexed annually.

The tax-free and taxable components in the table above refer to the type of contributions which were made.

Transition to retirement (TTR) pension

Our TTR pension can be used to save on tax while you continue to grow your super. It can also be used to provide extra income as you scale back from full-time employment.

If you've been retrenched after reaching your preservation age (currently 57) and want to keep working full-time or part-time, this arrangement may be right for you.

Call **1300 130 780** and speak to one of our friendly financial advisers to find out more.

Accessing Centrelink support payments

If you've been made redundant you should immediately register with Centrelink regardless of any lump sum payment you may receive. While you might quickly find alternative employment and not require an income support payment (e.g. the Newstart Allowance), various waiting periods and asset tests apply when you've received a redundancy payment before you're considered eligible to receive benefit payments.

In particular, you'll need to disclose to Centrelink details of your redundancy payment and any other liquid assets you own.

A **Health Care Card** is issued to people who are accessing income support payments and provides access to concessions on prescription pharmaceuticals, public transport and household costs.

Visit humanservices.gov.au for more information about accessing Centrelink payments and the waiting periods that apply.

Centrelink waiting periods

You may be subject to a waiting period before you receive any Centrelink payments.

Ordinary waiting period

If you're claiming the Newstart Allowance, you must wait seven days from the date of your claim before you can be paid. This waiting period can be waived for people who are experiencing severe financial hardship or who are in receipt of a Centrelink income support payment from the previous 13 weeks.

Income maintenance waiting period

When you leave your employer and receive a redundancy payment, Centrelink will want to know the number of weeks of paid leave included in the lump sum payment (including sick leave, annual leave, long service leave and paid maternity leave). This information will be contained within your employment separation certificate.

The number of weeks of paid leave you received will be included in the assessment of your income under the income test. This will normally mean that you may not be eligible for any income support for the period of your leave entitlements cover and/or the number of weeks any redundancy payment represents. In these circumstances, careful consideration should be given to calculating how long the money in the payment will fund your normal living expenses (rather than reducing or paying off debt) during this period of no income.

If you spend your leave entitlements or termination payment(s) on expenses that are considered unavoidable, such as essential medical expenses or essential repairs to your home or car, your waiting period may be reduced.

The liquid assets test waiting period

If your liquid assets (cash or shares) at the time of your claim for Newstart or Sickness Allowance exceed $11,000 for a couple, or $5,500 for a single without dependants, you may also have to serve a liquid assets test waiting period before your income support payments can commence.

The duration of the waiting period in weeks is calculated as:

Couple	(Total liquid assets – $11,000) /$1,000	=	Total waiting period
Single, no dependants	(Total liquid assets – $5,500) /$500	=	Total waiting period

Example

When Joanne was made redundant she was being paid a gross salary of $800 per week. Her lump sum retrenchment package included payments for:

- $9,600 – redundancy package representing 12 weeks' pay
- $8,000 – representing 10 weeks' of leave payments.

Joanne and her husband's liquid assets at the time of her claim for Newstart Allowance totalled $20,000 in a bank account. Her waiting period under the liquid assets test was calculated as: ($20,000 – $11,000)/$1,000 = 9 weeks).

Her waiting period under the income maintenance waiting period was 22 weeks (i.e. 12 weeks' pay for redundancy + 10 weeks of leave payments).

As both the income maintenance and the liquid assets waiting periods are served concurrently, Joanne's total waiting period is the longer of the two periods above, plus the ordinary waiting period of one week, making a total waiting period of 23 weeks.

Seasonal work preclusion period

If you or your partner finished seasonal, contract or casual work in the six months before your claim, you may need to wait for a period of time before you can receive your payment. This preclusion period is applied to: Austudy, Carer Payment, Disability Support Pension, Newstart Allowance, Parenting Payment, Partner Allowance, Sickness Allowance, Widow Allowance and Youth Allowance.

The seasonal work preclusion period will depend on how much you earned from your work and how long you were working for. The duration is based on how long it would take an average wage earner to earn the same amount as a person engaged in contract, seasonal or casual work as defined below.

- **Seasonal work** – work is only available for a part of the year (e.g. fishing, agriculture and tourism).
- **Contract work** – work is performed under a contract for a specific function or period, including sub-contract work.
- **Casual work** – work is available from time to time, that can reasonably be predicted to end or not be available for a period, is less than a year and does not accrue leave entitlements (e.g. fruit picking, harvesting, shearing, fishing, and consultancy work).

Contact us
1300 130 780
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