

1 July 2017

If you are about to receive a redundancy payment, there are several issues you need to consider:

- You will need to be able to understand the various components of your employer redundancy payment and how it can be used to achieve your overall financial objectives.
- You may have to address some financial planning issues such as superannuation and the continuance of any insurance benefits as well as your ongoing investment strategy.
- You will need to understand your cash flow requirements. How are you going to fund your living expenses while you transition into new employment or retirement?
- You may need to get in touch with Centrelink. An unused leave entitlement in your redundancy payout could delay the payment of your benefit.

Depending on your situation, you may be entitled to all or some of the following lump sum payments:

1. Unused annual leave

An employer must pay out the annual leave that you have accrued, but have not taken. The total amount of the unused annual leave, paid out as a lump sum, is added to your taxable income in the financial year that you receive the payment. However, the tax you will generally pay on this amount is limited to a maximum of 30 per cent plus the Medicare levy. The after-tax unused annual leave will be paid into your bank account – it cannot be directly rolled over into a superannuation fund.

2. Unused long service leave

If you are entitled to long service leave, but have not yet taken it, your employer must pay your entitlement as a lump sum. The after-tax amount for unused long service leave will be paid into your bank account – it cannot be rolled over into a superannuation fund. It is important to confirm your entitlement to long service leave, as it varies from state to state.

The amount of tax you will pay on genuine redundancy depends on when you started your employment:

Period of accrual	Tax rate applied
To 15 August 1978	5% at marginal tax rate plus Medicare levy
From 16 August 1978	30% plus Medicare levy

Note: the Medicare levy rate increased is 2 per cent.

3. Tax-free amount

You will only be entitled to a tax-free amount if a genuine or bona fide redundancy is paid and you are under the age of 65. For the 2017/18 financial year, the tax-free amount is equal to \$10,155 plus an additional \$5,078 for every full year of service completed. Therefore, the tax-free portion for 10 years of completed service is \$60,935 [$\$10,155 + (\$5,078 \times 10)$]. This portion is paid directly to you. If the total of your redundancy payment is less than this amount, your entire payment is tax-free. While it does not need to be included in your tax return, it cannot be rolled into superannuation.

4. Employment termination payments

The remaining amount of your redundancy payment, if any, is called an employment termination payment (ETP). The ETP must generally be taken in cash – it cannot be rolled over to your superannuation fund. This portion of your payout will be taxed according to whether it is a genuine redundancy and the tax components, which will be listed on your redundancy payment statement. The following table outlines the taxation treatment of an ETP paid due to a genuine redundancy.

If you are under preservation age (under the age of 56)	Tax
Tax-free component	Tax-free
Taxable component up to \$200,000	30% + Medicare levy
Taxable component over \$200,000	45% + Medicare levy

If you have reached preservation age (the age of 56 or over)	Tax
Tax-free component	Tax-free
Taxable component up to \$200,000	15% + Medicare levy
Taxable component over \$200,000	45% + Medicare levy

Other issues to consider

There are some other issues that you will also need to consider:

- What will you do with your super? Can you remain in the employer fund or should you roll it over to a personal fund?
- Does the life insurance within your superannuation have a continuation option? Many employer superannuation funds offer such an option which avoids you having to go through the cumbersome process of applying for life insurance all over again. Make sure you exercise the option before it's too late and review your overall needs again.
- If you are looking for new employment; are you eligible for a Newstart Allowance from Centrelink?

Ask your Apt Wealth Partners financial planner for more information.

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