Redundancy

what you need to know

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 with the help of your adviser.

Components of a redundancy payment

If you have been made redundant, you may be entitled to receive certain tax concessions[1] 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 and the tax treatment of each.

Component	Tax treatment
Genuine redundancy payment (up to a prescribed limit)	Tax-free
Remaining redundancy payment (above prescribed limit)	Taxed
Unused annual leave and long service leave	Taxed

Genuine redundancy payments

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

- recipient is 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.[2]

A genuine redundancy payment does not include any amount paid in relation to unused annual or long service leave entitlements. However, it will include any payments in relation to unused sick leave or unused rostered days off.

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 amount is generally any money in excess of the tax-free redundancy amount of the genuine redundancy payment. This excess is known as an employment termination payment (ETP).

Unpaid salary or wages

This is the portion of exit payments that represents your normal salary or wages. It is taxable as ordinary income without any special treatment.

Unused annual leave and long service leave payments

You may be entitled to unused annual and/or long service leave payments. These will be paid out as a lump sum when you leave your employer. These amounts are taxable as lump sum leave payments and do not qualify for treatment as a tax-free redundancy payment nor as an employment termination payment (ETP).

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.

Tax-free redundancy amount

The tax-free redundancy 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). This amount is not an ETP and is simply taken tax-free.

Employment Termination Payment (ETP)

Any payments in excess of the tax-free redundancy amount will be treated as an ETP and will be taxed accordingly. If you had an employment service period which commenced on or before 30 June 1983, then the fraction of your ETP related to that service period will be treated as the tax-free component of the ETP. The residual amount is the taxable component of the ETP. Strict conditions apply to what can and can't be considered an ETP. See table below for details.

Considered an ETP	Not an ETP
■ Unused roster days off (RDOs) ■ Payments in lieu of notice ■ Unused sick leave	■ Genuine redundancy payments within the tax-free amount ■ Unused annual leave

Considered an ETP	Not an ETP
(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	or leave loading ■ Unused long service leave ■ Salary, wages and allowances owing to the employee for work done or leave already taken
■ Compensation for the loss of job or wrongful dismissal	■ Compensation for personal injury ■ Payment for restraint of trade ■ An advance or loan ■ Deemed dividends ■ Super benefits

Social security

If you have been made redundant, you may wish to apply for a Centrelink benefit such as Newstart Allowance. In order to access social security benefits – first you will need 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.

Your superannuation

When you leave your job you may satisfy a condition of release allowing access to some or all of your superannuation. Some common conditions of release include permanently retiring after preservation age (between 55 and 60 depending on your date of birth), or stopping work after age 60.

All withdrawals from super are tax-free once you reach 60 (this applies to taxed funds only), but some tax may apply if you withdraw your super while under age 60. 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.

You may also wish to consider contributing some or all of your redundancy payment to super. Please note standard contribution caps apply.

When you are made redundant, you may also 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 may wish 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 check you can receive equal cover from your new fund.

Getting help from your adviser

This time of change can also be a time of great opportunity. That's why good financial advice is so important. Making the right decisions now about how you deal with your redundancy can help you maximise your payment, minimise the amount of tax you pay and ensure you can access any social security benefits you might be entitled to.

The choices you make will depend on your age, lifestyle, the size of your payment, your debt levels and your future job prospects. This is where a financial adviser can guide you through the range of options available and help you select the best choice for your situation.

Things to consider:

- Take time to think through all your work and lifestyle options before making any immediate decisions.
- Get advice from your financial adviser before you finish work so they can help optimise your benefits and payout structure.
- Seek out experts in career transition who can provide specialist tools and resources to get you back on track and working sooner.

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.

Speak to us for more information

If you would like help managing your redundancy payment, talk to a Red Diamond Wealth Pty Ltd financial adviser. They can give you more detailed information on the best approach for your situation and risk profile.

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