

# Redundancy: The Basics

Redundancy can happen at any time and if it does you will have some important decisions to make. This fact sheet provides some information to help you.

## What is redundancy?

Redundancy happens when an employer no longer requires an employee's job to be completed by anyone or becomes bankrupt or insolvent. This may include where a business:

- introduces new technology (a role becomes redundant due to an automated system);
- experiences low sales or production;
- restructures due to a change in strategic direction, merger or takeover; or
- relocates to another location (interstate or overseas).

## What your payment may consist of

### Genuine redundancy

If you are under age pension age and were made redundant due to your role becoming obsolete, this is known as genuine redundancy and your payment may comprise of the following:

- a tax-free amount;
- an employment termination payment (ETP); and
- a payment for unused annual leave and long service leave.

If your redundancy does not meet the genuine redundancy conditions, or if you are over age pension age, the entire redundancy payment will be treated as an ETP (excluding unused leave).

### Tax-free amount

The tax-free portion of your lump sum redundancy payment is based on your years of completed service with your employer.

### Employment Termination Payment

An Employment Termination Payment (ETP) can include amounts above the tax-free portion. Other payments that are ETPs are as follows:

- unused rostered days off or sick leave;
- payment in lieu of notice; and
- a gratuity or golden handshake.

## Unused annual leave and long service leave

You may also receive a payment from your employer for any unused annual leave or unused long service leave.

## Tax treatment

### Tax-free amount

Genuine redundancy payments up to a set limit are tax-free based on your years of service with your employer.

Age	Tax-free limit
Under age pension age	For the 2021/22 financial year, the tax-free amount is \$11,341 plus \$5,672 for each completed year of service.
Over age pension age	No tax-free amount.

For example, if you have worked ten years:

$$\$11,341 + (\$5,672 \times 10) = \$68,061$$

Consideration should be made when you leave employment as it might be worthwhile waiting until after the end of the financial year as your marginal tax rate may be lower or entitlements higher.

## Employment Termination Payment

The ETP is taxed as shown below:

Age and payment amount <sup>1</sup>	Tax treatment <sup>2</sup>
<b>Under preservation age</b>	
■ Up to \$225,000	32%
■ \$225,000 and over	47%
<b>Preservation age and over</b>	
■ Up to \$225,000	17%
■ \$225,000 and over	47%

<sup>1</sup> Age on the last day of the financial year. For more information on preservation age, please refer to the table on page 2. Payment amounts are as at 2021/22.

<sup>2</sup> Inclusive of 2% Medicare levy.

Please note, some ETP payments may be assessed under the whole-of-income cap. The concessional tax treatment on these ETPs will only apply to part of the ETP that takes taxable income to \$180,000. Amounts above the \$180,000 whole-of-income cap will be taxed at 47% (including Medicare levy).

## Age Pension Age

Your birthdate	Your Age Pension age
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
On or after 1 January 1957	67 years

## Preservation age

Your 'Preservation age' is determined by your date of birth:

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
From 1 July 1964	60

## Unused annual leave and long service leave

Unused annual and long service leave will be taxed as follows:

Type of leave	Maximum tax treatment <sup>3</sup> under age pension age	Maximum tax treatment <sup>3</sup> over age pension age
Annual leave	32%	Marginal tax rate (up to 47%)
Long service leave - accrued on or after 16 August 1978	32%	Marginal tax rate (up to 47%)
Long service leave - accrued prior to 16 August 1978	5% of total at marginal rates	5% of total at Marginal rates

<sup>3</sup> Inclusive of 2% Medicare levy.

For further details about the tax treatment please visit the Australian Taxation Office (ATO) website [ato.gov.au](http://ato.gov.au).

### Seek professional advice


Redundancy is a complex issue and we recommend you seek expert financial advice.



Our financial planners provide advice over the phone, at our offices or at a location near you.

To book an appointment, please call **1300 369 901** or visit [eisuper.com.au/appointment](http://eisuper.com.au/appointment).

## We're here to help

 1300 369 901

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