

TAX ON TERMINATION PAYMENTS FROM 1/7/2014

Reason for Termination:

- Resignation
- Retirement
- Dismissal
- Refer to separate list for genuine redundancy / approved early retirement schemes / invalidity

TYPE OF PAYMENT	PAYG TAX CALCULATION	PAYMENT SUMMARY
ANNUAL LEAVE & LOADING:		
- Accrued up to 17/8/93	All taxed at 32%	Lump Sum Payment A
- Accrued from 18/8/93	All taxed at marginal rates	Gross Payment
LONG SERVICE LEAVE:		
- Accrued up to 15/8/78	5% assessable taxed at marginal rates	Lump Sum Payment B
- Accrued 16/8/78 to 17/8/93	All taxed at 32%	Lump Sum Payment A
- Accrued from 18/8/93	All taxed at marginal rates	Gross Payment
EMPLOYMENT TERMINATION PAYMENTS (ETPs)		
- Pre 1/7/83 component	Tax free	ETP Payment Summary
- Post 1/7/83 Component		
- Employee 55+ years	17% up to the threshold* thereafter 49%	ETP Payment Summary
- Employee less than 55 years	32% up to the threshold* thereafter 49%	ETP Payment Summary

*The lesser of the \$185,000 ETP cap or the whole of income cap \$180,000

ETPs: In order to qualify as an ETP, payment must usually be made within 12 months. Payments made outside 12 months should be taxed as ordinary income at 32% unless the ATO has granted an exception.

Please note that special tax arrangements apply when making payments after the death of an employee and payments should only be made when instructed by the employee's legal representative.

Special rules apply when the total of all amounts accrued from 18/8/93 to be taxed at marginal rates is less than \$300

This table is issued as a summary of termination taxation. To use this table correctly, the user must have a complete understanding of the ATO's termination procedures.

TAX ON TERMINATION PAYMENTS FROM 1/7/2014

Reason for Termination:

- **Genuine Redundancy**
- **Approved Early Retirement Scheme**
- **Invalidity**
- Refer to separate list for resignation / retirement / dismissal

TYPE OF PAYMENT	PAYG TAX CALCULATION	PAYMENT SUMMARY
ANNUAL LEAVE & LOADING: - All Payments	All taxed at 32%	Lump Sum Payment A
LONG SERVICE LEAVE: - Accrued up to 15/8/78	5% assessable taxed at marginal rates	Lump Sum Payment B
- Accrued from 16/8/78	All taxed at 32%	Lump Sum Payment A
GENUINE REDUNDANCY AND EARLY RETIREMENT SCHEME PAYMENTS: (not applicable for Invalidity Payments) Up to limit of \$9,514 + \$4,758 per completed year of service. (Excess is ETP - refer ETP Table below)	Tax free	Lump Sum Payment D
EMPLOYMENT TERMINATION PAYMENTS (ETPs)		
- Invalidity Component	Tax free	ETP Payment Summary
- Pre 1/7/83 component	Tax free	ETP Payment Summary
- Post 1/7/83 Component		
- Employee 55+ years	17% up to the threshold* thereafter 49%	ETP Payment Summary
- Employee less than 55 years	32% up to the threshold* thereafter 49%	ETP Payment Summary

*Use the lesser of the \$185,000 ETP cap or the whole of income cap \$180,000 if there are non-excluded ETPs to be paid. Use the \$185,000 ETP cap if no non-excluded ETPs are being paid.

ETPs: In order to qualify as an ETP, payment must usually be made within 12 months. Payments made outside 12 months should be taxed as ordinary income at 32% unless the ATO has granted an exception.

Please note that special tax arrangements apply when making payments after the death of an employee and payments should only be made when instructed by the employee's legal representative.

This table is issued as a summary of termination taxation. To use this table correctly, the user must have a complete understanding of the ATO's termination procedures.

TAX ON TERMINATION PAYMENTS

ETP \$180,000 whole-of-income cap

The threshold is the lesser of the \$185,000 ETP cap OR the whole-of-income \$180,000 cap.

Of course the employer may not be aware of the individual's whole income and can only consider the income paid by the employer. The individual's whole income will only be truly ascertained at tax time.

The information provided below is very much a summary of the new requirements. It's important that the employer make themselves familiar with the full extent of the regulations, available from the ATO tax table for employment termination payments (NAT 70980).

When considering the elements to include in the whole-of-income, the employer must add the sum of YTD taxable earnings and payment on termination, ie whole-of-income with the employer.

Here's an example:

Chris, over his preservation age, resigns his employment to go on his long dreamed of trip around Australia with his wife.

So far this financial year his has earned \$50,000. On his termination he will be paid \$50,000 in unused leave payments (all post '93 accruals). He will also be paid \$100,000 by his employer as an ex-gratia payment. He has no service before 1 July 1983.

	Whole of Income
	\$180,00
taxable wages paid YTD	-50,000
unused leave (paid on termination)	<u>-50,000</u>
	80,000

Only that part of his ETP that doesn't take him past the cap can be taxed at the low rate. The excess will be taxed at 49%

\$80,000 of the ETP will be taxed at 17%

\$20,000 of the ETP will be taxed at the highest marginal rate of 49%