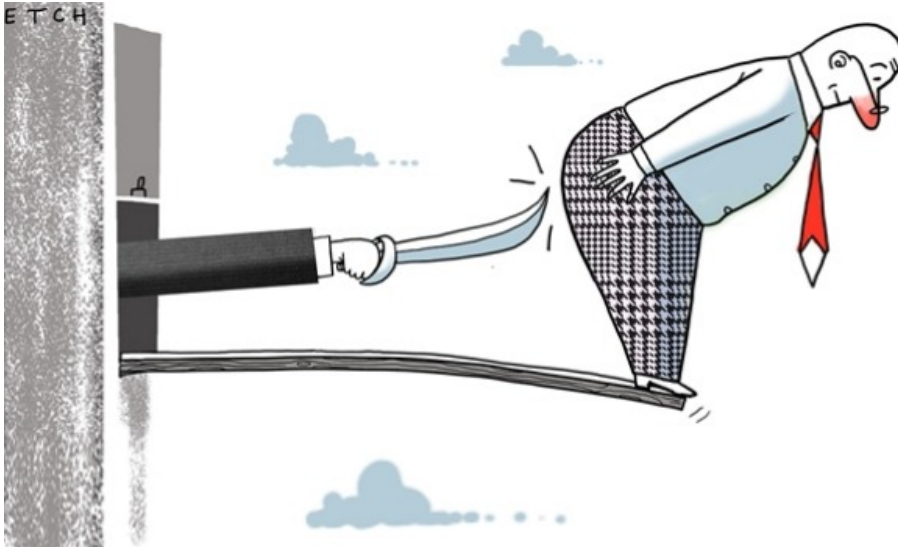


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Survivor's guide to redundancy



Simon Letch

by [Bina Brown](#)

Being given your [marching orders](#) is never easy. For Jean West*, redundancy was even more traumatic thanks to her role helping the company restructure.

As chief financial officer, she was only too aware of the financial situation of the organisation, along with some of the options it faced in terms of staff.

By the time she updated her resume (which she hadn't looked at for 11 years), she had lost all confidence and thought she had no skills.

"It took me about four weeks to get the confidence," she says. "I listed all the things I used to do in my role and what I had achieved. It made me realise that I was capable, I had skills and that I could move on."



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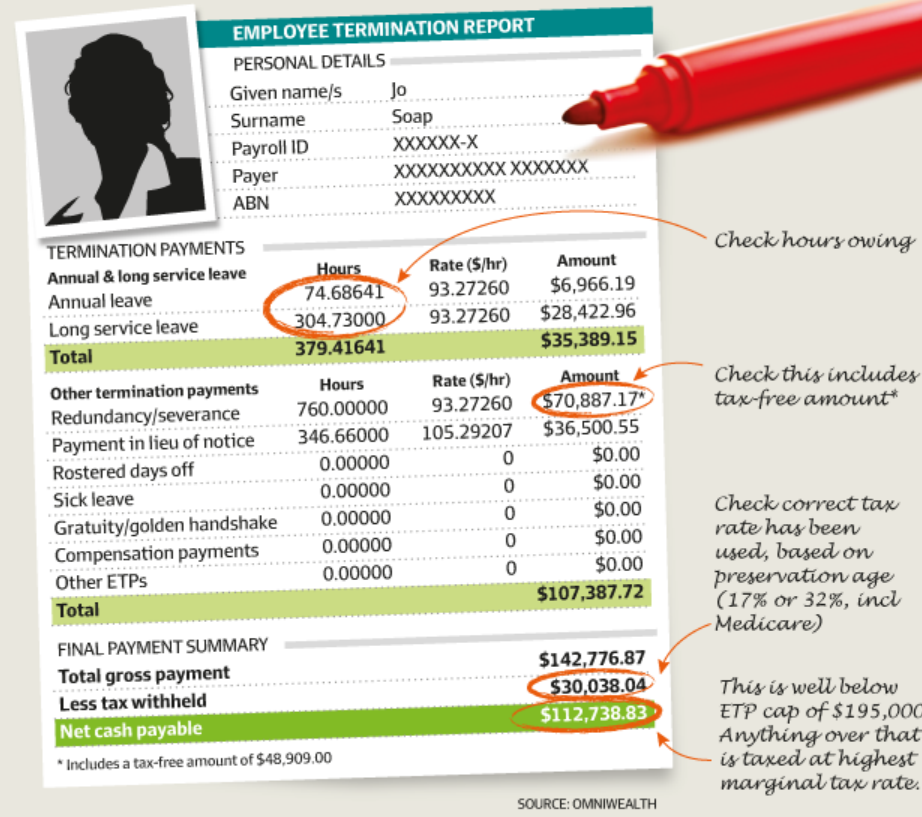
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Indicative redundancy payment summary, based on eight years' employment with the company



EMPLOYEE TERMINATION REPORT

PERSONAL DETAILS

Given name/s: Jo
Surname: Soap
Payroll ID: XXXXXX-X
Payer: XXXXXXXXXXXX XXXXXXXX
ABN: XXXXXXXXXX

TERMINATION PAYMENTS

	Hours	Rate (\$/hr)	Amount
Annual & long service leave			
Annual leave	74.68641	93.27260	\$6,966.19
Long service leave	304.73000	93.27260	\$28,422.96
Total	379.41641		\$35,389.15
Other termination payments			
Redundancy/severance	760.00000	93.27260	\$70,887.17*
Payment in lieu of notice	346.66000	105.29207	\$36,500.55
Rostered days off	0.00000	0	\$0.00
Sick leave	0.00000	0	\$0.00
Gratuity/golden handshake	0.00000	0	\$0.00
Compensation payments	0.00000	0	\$0.00
Other ETPs	0.00000	0	\$0.00
Total			\$107,387.72
FINAL PAYMENT SUMMARY			
Total gross payment			\$142,776.87
Less tax withheld			\$30,038.04
Net cash payable			\$112,738.83

* Includes a tax-free amount of \$48,909.00

SOURCE: OMNIWEALTH

Check hours owing

Check this includes tax-free amount*

Check correct tax rate has been used, based on preservation age (17% or 32%, incl Medicare)

This is well below ETP cap of \$195,000. Anything over that is taxed at highest marginal tax rate.

Indicative redundancy payment summary, based on eight years employment with the company.

West did find another job but her [experience is becoming increasingly common](#).

Australian Bureau of Statistics Labour Force figures released this week show about [150,000 people were made redundant every three months](#) in the year to May 2016. By the end of each quarter about 70,000 of those people had found another job.

Tax concessions

For many in this situation, the redundancy payout is crucial – whether it's forced or voluntary. So it's vital to ensure everything is correct, particularly since there are generous tax concessions.



"Anyone being made redundant should make sure they understand how the calculations have been done, and

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ensure they are right ... Don't assume HR know what they are doing."

Mistakes can happen in eligible termination payments (ETPs). These can be around how much leave you're owed, whether the payout includes the correct tax-free amount (based on years at the company) and if the correct tax rate is used.

HLB Mann Judd Sydney tax partner Peter Bembrick says it's up to the employer to work out how much is owed to an outgoing employee – and then how much tax to withdraw from the various components that make up an ETP.

"It might work itself out at the end of the tax year, but it's not a good thing for an employee to be liable for tax because an employer didn't take enough out at the time of the redundancy," he says.

ETPs and the tax treatment of the components will vary depending on its type, the options being: an early retirement scheme; genuine redundancy; invalidity or compensation for personal injury, unfair dismissal, harassment and discrimination.

Bembrick says for a payout to be classified as a genuine redundancy by the ATO, it must satisfy several criteria, including the person being terminated from employment because their position was made redundant.

Cause of dismissal

The employee must also be dismissed before the day they turn 65.

There must be no arrangement at the time of the termination to re-employ the dismissed person, either between them and the employer or between the employer and another person.

If the employee is dismissed because of a restructure, the ATO says "careful consideration needs to be given to determine what was the prevailing or most influential cause of dismissal".

Mistakes in ETPs are common, says Omniwealth accountant Cedomir Jesic, who urges anyone being offered a package to check the right tax is applied to the right component.

A genuine redundancy payment is tax-free up to a limit based on a formula which includes a base amount determined by the ATO. This is added to a service amount multiplied by the years of service.

The base rate for 2015-16 is \$9780 and the rate for each completed year of service is \$4891.

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For example, John is made redundant and has worked for 10 years and one month – the total tax-free redundancy payment he can receive in 2015-16 would be \$58,690.

The formula depends on completed years.

So if John left after nine years and 11 months, his tax-free limit would be reduced to \$53,799.

This makes timing a departure date another important factor in making the best of a redundancy payout.

Jesic says the types of payments where tax will be withheld by the employer may be unused long service leave, rostered days off, pay in notice of lieu or golden handshakes.

The tax withheld on, say, long service leave, would be either 17 per cent or 32 per cent (including Medicare) depending on your age when you were made redundant.

Payout cap

If you are over your preservation age (usually 55 and over) when you take redundancy you pay 15 per cent tax; for those who are younger it will be 30 per cent. These do not take into account Medicare.

Any amount that exceeds the tax-free limit is taxed based on your preservation age at the date of the redundancy and your marginal tax rate.

Crystal Wealth Partners director Louise Lakomy says there is an ETP cap, which for the 2015-16 year is \$195,000.

Once the \$195,000 cap is reached, the individual's marginal tax rate is applied, plus the Medicare levy, she says.

For example, if John received a total redundancy payment (excluding statutory leave entitlements) of \$200,000, this would represent a tax-free redundancy payment of \$58,690, and an ETP of \$141,310. As this is within the \$195,000 cap, the entire ETP would be subject to concessional tax treatment.

But if John's total payout was \$300,000, then his ETP would be \$241,310. The excess over the cap, being \$46,310, would be taxed at John's marginal tax rate.

"Anyone being made redundant should make sure they understand how the calculations have been done, and ensure they are right," says Lakomy. "Don't assume HR know what they are doing. My advice is seek advice to confirm they are accurate."

Where to invest

Just as important as when you take a redundancy – if there is a choice – is what to do with the proceeds, says Ominiweath Senior Financial Planner Andrew Zbik.

"A lot depends on whether you plan to go straight back into another job at a similar level or whether you plan to take some time off. Also whether you have mortgages to

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payout in the current financial year or delaying it until the next financial year when taxable income may be lower, he adds.

Paying down non-deductible debt such as a home loan or credit card should be a priority for any proceeds but it is important to consider longer term investment or savings plans.

Zbik says a common mistake is to use a large cash payment to pay down a home loan

and then to borrow the money back, say to invest in another property or buy shares.

"A better way would be to pay down the home loan and create a line of credit to invest. That way you are reducing the non-deductible debt and creating deductible debt," he says.

Decisions about super

A lump sum may be a good way to boost your superannuation balance but it depends on your age as to whether it makes sense to "lock it away".

"I would say if you are under 40 years, you need access to the money before retirement and so super may not be the best place," says Zbik. "If you receive a redundancy after 55, then contributions to super may make sense.

"If you just need to park the money while you work out your next career or lifestyle move, then any offset account to reduce interest makes good sense."

Decisions about your superannuation fund may also arise.

If you're contributing to an employer or corporate super fund which is generally open only to employees of your particular company, you may need to roll over your super entitlements to another fund. This means choosing another appropriate fund.

*Not her real name.

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