

## Tax on Redundancy payment

### **FS: What is a redundancy payment?**

CEO: 'Redundancy payment' means a bona fide lump sum payment, other than a retiring allowance on the occasion of the termination of employment. The employment is terminated by the employer wholly or mainly, to the fact that the position filled by that individual is, or will become, superfluous to the needs of the employer. (No longer exist in the new establishment or Staffing structure).

### **FS is this the same as retiring allowance?**

CEO: A redundancy payment is different from a retiring allowance. A severance payment may be a redundancy payment for tax purposes. A lump sum severance payment made to a permanent employee when a specific job or project is finished is a redundancy payment if the position of the employee has been fully terminated, and the position is no longer required by the employer. A retiring allowance may not necessarily be a redundancy as the position may not be abolished.

### **FS: Under which circumstances is the payout not a redundancy?**

CEO: The following are not redundancy payments, and are liable for PAYE FINAL:

- payment relating to a situation solely involving a seasonal lay-off; or
- payment contingent on the completion of either a fixed-term engagement or an engagement to complete work specified in a contract; or
- payment in lieu of notice terminating the employment of the employee; or
- any payment which, if it had not been made upon termination of employment, would, in the opinion of the CEO, have been paid so as to constitute monetary remuneration of the employee; or
- any payment made by a company pursuant to its articles of association to any of its directors; or
- any payment which in the opinion of the CEO is excessively large in relation to the earnings and length of service of the employee; and
- If the employee stays with the same employer on another job or project.

### **FS: What is the tax exemption on a redundancy payment?**

CEO: Employees who received a redundancy payment will be allowed tax exemption up to \$15,000 redundancy and any amount in excess of \$15,000 is subject to 15 percent tax deduction.

### **FS: What if the employer reengages the employee for a special project?**

CEO: To treat any payment as a redundancy payment, the person's employment must have been terminated. If employment is not terminated, the payment is liable for normal PAYE FINAL.

Employment is not terminated if the employee:

- is still employed by a company that is at least 50 percent owned by the same shareholders, or under the control of the same persons.
- is still employed by the same employer, even if the employer's business has changed
- is still with the same business, even if the ownership of the business has changed
- has remained in substantially the same employment. This means if the employee continues to work under a contract of employment with substantially the same employer.

### **FS: In calculating the redundancy pay is annual leave and sick leave included in the calculation which would be exempted from tax?**

CEO: The following two types of payment are not retiring allowances or redundancy payments, and are liable for normal PAYE FINAL:

- Payments for accumulated annual leave long-service leave and sick leave.

These are payments that don't relate to retirement or redundancy and these payments are subject to PAYE FINAL.

- Payments made as a result of a merger, takeover, amalgamation or reconstruction between two parties if the employee is rehired by any party to the transaction within six months of termination of employment and the employee's new job is substantially the same kind of employment they had before.