

# Taxation of employment related payments: 2019-20

Fact Sheet, August 2019

This guide to the taxation of Australian employment payments gives details of payment criteria for termination payments, preservation age, death benefits, annual leave and long service leave.

## Employment Termination Payments

### Life benefit employment termination payments

Component	Tax treatment
Tax free component	Tax-free
Taxable component	<p><b>*Preservation age and over</b></p> <ul style="list-style-type: none"> <li>+ Amount up to ETP cap amount* taxed at maximum rate of 17%</li> <li>+ Amount over ETP cap amount taxed at 47%.</li> </ul> <p><b>*Below preservation age</b></p> <ul style="list-style-type: none"> <li>+ Amount up to ETP cap amount taxed at maximum rate of 30%</li> <li>+ Amount over ETP cap amount taxed at 47%.</li> </ul>

\*ETP cap amount: \$205,000 (2018/19). The amount is indexed annually.

The whole of income cap for the 2018-19 income year and future years is \$180,000.00. This amount is not indexed.

### Preservation age

\*ETP cap amount: \$205,000 (2018/19)

### Genuine redundancy and early retirement scheme payments

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
After 30 June 1964	60

### Death benefit employment termination payments

Note there is an additional 'whole of income' cap that will work in addition to the existing ETP rules.

Income year	Base amount \$	Plus for each completed year of service
2019-2020	\$10,638	\$5,320

Component	Tax treatment
Tax free component	Tax-free
Taxable component	<p><b>Payment to a dependent (all ages)</b></p> <ul style="list-style-type: none"> <li>+ Amount up to ETP cap amount* tax-free</li> <li>+ Amount over ETP cap amount taxed at 47%.</li> </ul> <p><b>Payment to a non-dependent</b></p> <ul style="list-style-type: none"> <li>+ Amount up to ETP cap amount taxed at maximum rate of 32%</li> <li>+ Amount over ETP cap amount taxed at 47%.</li> </ul> <p><b>Payment to a trustee of a deceased estate*</b></p> <ul style="list-style-type: none"> <li>+ Taxed in the hands of the trustee, based on whether the beneficiary is a dependent or non-dependent (see above)</li> <li>+ This ETP must be shown in the Trust return, not the individual's tax return.</li> </ul>

From 1 July 2012, ETPs that are not related to genuine hardship (i.e. genuine redundancy, invalidity compensation or death) will be subject to the new 'whole of income' rule. The cap will operate by limiting the concessional treatments of ETPs to only that part of the ETP that takes the individual's income up to \$185,000.

Any part of the ETP that pushes an individual's taxable income over \$205,000 will be taxed at the individual's marginal tax rate (47%) regardless of whether they are still eligible for concessional rates under the 'existing lifetime benefit ETP cap' (\$205,000 in 2018/19 FY).

## Other Employment Payments

### Unused annual leave payment rules

Period of accrual of leave	Withholding rates (including Medicare levy)
General retirement or termination:	
+ Accrual before 18 August 1993	32%
+ Accrual on or after 18 August 1993	Marginal
Genuine redundancy amount, early retirement scheme amount or invalidity amount paid on or after 18 August 1993	32%

## Unused long service leave payment rules

Period of accrual of leave	Withholding rates (including Medicare levy)
General retirement or termination:	
+ Accrual before 16 August 1978	5% of total at marginal rates
+ Accrual on 16 August 1978 to 17 August 1993	32%
+ Accrual on or after 18 August 1993	marginal rates
Genuine redundancy amount, early retirement scheme amount or invalidity amount:	
+ Accrual before 16 August 1978	32% of total at marginal rates
+ Accrual on or after 16 August 1978	32%
+ Accrual on or after 18 August 1993	32%

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