

# Superannuation

# Super and your redundancy package

If you are taking a redundancy payment you will have several options on how to take it and you will also need to think about what to do with your super as this is part of the process.

It is vitally important to seek advice before you take your payment as the taxation implications are complex: some of it will be taxed – at varying rates, some components may be tax-free and part is taxed at concessional rates.

## Typical make-up of a redundancy package

Your redundancy package may comprise any or all of the following:

### Tax-free redundancy component

- ✧ This is usually based on the number of years you have been with your employer.
- ✧ It must be paid as cash and can't be rolled into your super, but you could put it in as an undeducted contribution.
- ✧ For the 2005-06 financial year the first \$6,491 of your payment plus \$3,246 for every year of completed service is tax-free.

### Your employer Eligible Termination Payment (ETP)

- ✧ This includes the portion of your payment that exceeds the tax-free redundancy component plus payments in lieu of notice, ex-gratia payments and unused sick leave (if your employer pays it).
- ✧ This amount can be rolled into your super.
- ✧ It counts towards your Reasonable Benefit Limit.
- ✧ Taxation is complicated depending upon whether you roll it over or take it as cash.
- ✧ It is assessable income when determining eligibility for government allowances such as family payments.

### Payment in lieu of unused annual leave and long service leave

- ✧ It can only be taken as a taxed cash payment.
- ✧ It can't be rolled into your super but you could put it in as an undeducted contribution.
- ✧ Unused annual leave is taxed at a maximum rate of 30% (plus the Medicare levy)
- ✧ Unused long service leave taxation rates differ depending upon when the leave accrued:
  - Accrued before 16 August 1978: 5% is taxed at your marginal rate (plus the Medicare levy)
  - Accrued after 15 August 1978: It is taxed at a maximum of 30% (plus the Medicare levy)
- ✧ If taken as cash it is assessable income when determining eligibility for government allowances such as family payments.

Your employer should also provide you with details about your superannuation benefit, some of which you may be able to access and some of which may be preserved.

### How should I take my payment?

If you receive a redundancy payment you have three choices on how to take it:

Put the payment into your super fund

- ✧ Take it as cash
- ✧ Take part in cash and rollover the rest into your super

How you decide to take your payment will depend on your individual circumstances. Before making a decision about how to take your payout, you need to think carefully about taxation and when you will be able to access your funds.

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If you roll over or deposit any amounts into your super fund you will generally not be able to access them until you reach your preservation age - a minimum age set by the government - and retire.

The taxation implications in particular are complex and if you cash your payment immediately you may pay more tax than you need to.

Be careful too about spending your entire cash component – even on paying off the mortgage – because you need money to live on and you don't know when you may get another job, and it may also affect your waiting period for Centrelink payments.

#### Tax on your employer ETP component

If you roll over an employer ETP component, taxation will vary depending upon whether it relates to your employment before

1 July 1983 (called the Pre-1 July 1983 component) or after 30 June 1983 (called the Post-30 June 1983 component). Your Pre-1 July 1983 component is not taxed until you withdraw it from your super fund but your Post-30 June 1983 component will be taxed at 15% when you roll it in.

The legislation applies to legally married couples only. De facto and same sex couples are not recognised under the Act.

It applies to any property settlements that were in progress (but not finalised) at 28 December 2002 and to any property settlements that commenced after this date.

However, property settlements entered into by way of Court Order or financial agreement prior to this date, or proceedings that have been finalised, are not covered by the legislation and the non-binding nature of these Orders will remain unchanged. Couples in these situations cannot seek a new settlement under the legislation.

If you take your employer ETP component in **cash**, five percent of your Pre-1 July 1983 component will be added to your assessable income and taxed at your marginal rate plus the Medicare levy. Taxation on the Post-30 June 1983 component will depend upon your age when you receive your payment as follows:

Your age	Tax
Under age 55	30% plus Medicare levy
Age 55 or more	
Up to \$129,751*	15% plus Medicare levy
Amounts over this	30% plus Medicare levy

\* For financial year 2005-06. The amount is indexed at 1 July each year.

#### Future Wealth Planners advice

Although the information contained in this fact sheet is of a general nature be aware that government legislation may be amended in the future and therefore it is vitally important that you seek advice before making any decisions.

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