



# Tax on redundancy payments explained

If you're made redundant, you may receive a lump sum payout. While this can provide financial breathing room, it's important to understand how that money is taxed. Not all parts of a redundancy payment are taxed the same and how it is taxed can make a big difference to what you actually take home.

If your position is terminated, you might receive various payments, including:

- » Unused annual or long service leave
- » Payment in lieu of notice
- » A severance payout
- » Additional "ex-gratia" or goodwill payments

Some of these are taxed as regular income, others may be taxed concessional and some may even be tax-free if it is treated as a 'genuine redundancy' amount.

## What is a ***genuine*** redundancy?

A redundancy is considered ***genuine*** if your role no longer exists and is not being replaced. You must also be under age 67 at the time of termination to access tax-free benefits. If you're dismissed due to poor performance or you resign voluntarily, it doesn't count as a genuine redundancy.

## Tax-free threshold for genuine redundancy

If your redundancy is genuine, part or all your payout can be received tax-free.

For the 2025–26 financial year, the tax-free amount is \$13,100 + \$6,552 for each full year of service.

For example, if you've worked 10 years, your tax-free threshold is:

$$\text{\$13,100} + (\text{\$6,552} \times 10) = \text{\$78,620}$$

Any payment above that amount may be taxed as an ***employment termination payment*** (ETP).

*continued overleaf* ➡

This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.

## Helping your kids buy their first home using super...

### Why use super to save for a home?

One advantage of using the FHSSS is the tax savings. Contributions made by way of personal deductible contributions or salary sacrifice reduce taxable income, which can mean less tax to pay.

In addition, any investment earnings on those contributions are taxed at only 15% inside super, compared to the saver's marginal tax rate. When the funds are withdrawn under the FHSSS, the assessable portion is taxed at the saver's marginal tax rate, but with a 30% offset applied. This means less tax and more savings to put toward a deposit. All this can mean more money is saved compared to saving in a regular bank account.

### How parents can help

If your child is working and has a super fund, you can give them money, which they can then contribute themselves to their super fund. They may claim a tax deduction on the contribution and this may boost their after-tax income. Alternatively, they may choose not to claim a tax deduction. If your child is earning a low income and makes a personal after-tax contribution to super, they may be eligible for a government co-contribution of up to \$500. Whilst this is a nice freebie, it cannot be withdrawn under the FHSSS, as it is not a personal contribution.

Important note: You cannot contribute directly on your child's behalf. The ATO requires the contribution to come from your child's own bank account to be eligible for the FHSSS withdrawal.

When your child is ready to buy their first home, they apply through myGov to find out the maximum amount they can access under the scheme. Once they have this determination from the ATO, they can then request to withdraw up to that amount to use as part of their deposit.

The FHSSS comes with strict eligibility rules and timeframes, so it's important to get the details right. If you're thinking about helping your child save a deposit this way, give us a call. With some forward planning and the right contribution strategy, your child could boost their savings, cut down their tax bill, and step into their first home sooner. 💰

## Tax on redundancy payments explained... cont

### How are ETPs taxed?

ETPs can include payments like severance pay, golden handshakes, or unused sick leave. How these are taxed depends on your age and how much you receive.

If you're under 60, payments under the ETP cap (\$260,000 in 2025–26) are taxed at up to 30%. If you're 60 or older, the rate drops to 15%. Anything above the cap is taxed at 45%.

On top of the ETP cap, there is also a 'whole-of-income cap' that applies to high income earners. This cap limits how much certain termination payments can qualify for concessional tax treatment.

### Unused leave is taxed differently

Payments for unused annual or long service leave are taxed at different rates depending on whether your termination is a genuine redundancy or not. Generally, these are taxed at a maximum rate of 30% if it is a genuine redundancy. If you resign or retire, your unused leave payments will generally be taxed at your marginal tax rate, plus Medicare levy.

### Some tips to reduce tax

You may be able to contribute part of your redundancy payment to super and claim a tax deduction, especially if you have unused concessional cap space from previous years. The catch-up rules allow you to use any unused portions of the concessional contributions cap (currently \$30,000) from the past five financial years, as long as your total super balance was under \$500,000 at the previous 30 June.

This strategy can help offset the taxable portion of your redundancy payment, lowering your overall tax bill while boosting your retirement savings.

### Key message

Redundancy payments can be complex, with different components taxed in different ways. Knowing the rules and using strategies like super contributions can make a big difference to what you keep. If you're facing redundancy and want to understand your options, give us a call. We can help you plan ahead, minimise tax, and make the most of your payout. 💰

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