

Redundancy Tax Matters

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Introduction

One of the outcomes of organisational restructuring is that redundancies may occur. At such a time, there are many matters for employees to consider, ***one of which is tax.***

Here, we comment on tax matters likely to be relevant in the event of a redundancy.



First steps – what are my entitlements?

You should first familiarise yourself with your employment agreement (or collective agreement) to gain a clear understanding of your entitlements. Depending on your agreement, the redundancy package should be structured to provide the best outcome for you. Human Resources or your Union representative should also be able to provide guidance on your entitlements.

What is the tax treatment of redundancy payments?

Redundancy payments are taxable. The amounts are treated as 'extra pay', and are currently taxed at 10.5%, 17.5%, 30% or 33%, depending on the amount of the lump-sum payment and the annualised value of wages received in the four weeks preceding redundancy.

Will I have to file a tax return due to my redundancy payment?

Receiving a redundancy payment will not automatically mean that you need to file a tax return. Whether you are required to file a tax return will depend on the tests in relation to other income and expenses that you may have.

You may wish to file a tax return if you believe that you will be due a refund of tax. Retaining details of your income will enable you to determine whether a refund is due.

What about holiday pay entitlements?

Holiday pay is taxed separately from redundancy payments as if it were part of your ordinary salary or wages, so is subject to PAYE (e.g. each week, fortnight or month of accrued holiday is subject to tax at your normal PAYE rate).

Will redundancy payments be subject to KiwiSaver contributions?

No—KiwiSaver contributions are based on your gross salary and wages, *excluding* redundancy payments.



If I am made redundant, can I access my KiwiSaver contributions?

Not automatically—you may be able to obtain a refund of contributions still held with the IRD (i.e. not yet passed on to the scheme provider), but only if you qualify for “serious hardship”. You will need to demonstrate an inability to meet your living expenses or mortgage payments.

What about my Working for Families entitlements?

Working for Families tax credits are based on your total gross income before tax. As redundancy payments are taxable, these may affect your entitlement for Working for Families tax credits. If you are currently receiving Working for Families payments on a weekly or fortnightly basis based on an estimated income for the tax year, it is important to advise the IRD at the earliest opportunity of the expected amount of your redundancy payment.

However, as part of a redundancy package, you may receive, or be given the option to receive, non-cash benefits. Although these benefits may be subject to FBT, which is payable by your employer, at present, the value will be excluded from your income for tax purposes. As the value of such benefits will not affect any Working for Families entitlement, this could be an important factor in structuring a redundancy package.

Can tax losses be used to reduce any tax liability on redundancy?

Yes – if you have tax losses (e.g. from a rental property), you should be able to use that to offset any tax liability on receipt of a redundancy payment. The redundancy payment will be taxed under the PAYE regime, and this PAYE may be refunded when you complete and file an individual tax return (“IR 3”).

If I am paid redundancy, how do I decide what to do with it?

Obviously, this would depend on your individual financial circumstances, and we recommend obtaining independent financial advice.

Support available

Work and Income New Zealand (“WINZ”)

WINZ offers a range of assistance to people who have been made redundant. Further details can be found on the WINZ website (www.workandincome.govt.nz).

How the redundancy process works

The Department of Labour’s website (www.dol.govt.nz) provides helpful advice on the redundancy process for both employers and employees.

What to do if you have been made redundant

The Career Services website (www.careers.govt.nz) provides information on what you can do upon redundancy, and includes links to various websites to help with financial planning, as well as career guidance.



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