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# Employment Termination Payments



## Definition

An ETP is generally part of a lump sum payment received when a person is:

- made redundant
- dismissed
- resigns, or
- retires or dies.



An ETP can include:

- payments for unused sick leave or unused rostered days off
- payments in lieu of notice
- a gratuity or 'golden handshake'
- an employee's invalidity payment (for permanent disability, other than compensation for personal injury)
- compensation for loss of job or wrongful dismissal
- genuine redundancy payments
- early retirement scheme payments that exceed the tax-free limit
- certain payments made after the death of an employee
- the market value of the transfer of property (less any consideration given for the transfer of this property)

Amounts  
included and  
excluded  
from an ETP



## ETPs don't include:

- Lump sum payments for unused annual or long service leave
- The tax-free part of a genuine redundancy payment or an early retirement scheme payment
- Superannuation benefits (for example, a lump sum or income stream from a super fund)
- Foreign termination payments

— Amounts included and excluded from an ETP



# Tax on Employment Termination Payment

ETPs have up to three tax treatments:

- tax-free
- concessionally taxed (generally taxed at a lower rate than your marginal tax rate)
- taxed at your marginal tax rate.

The rate of tax you pay depends on the components of payment you receive. The payment is usually taxed in the year you receive the payment. You can't roll over your ETP to your superannuation.



### Tax-free component of ETPs

An ETP has a tax-free component if part of the payment relates to:

- A pre-1983 component of employment
- An invalidity component
- The tax-free element of a genuine redundancy

The tax-free component may include all. The remainder of the ETP is the taxable component.

# Tax on Employment Termination Payment



An invalidity segment is part of an ETP that is paid because the employee sustained a permanent disability. It's tax free. An invalidity segment can be paid if both:

- employment ceased as a result of ill health
- two medical practitioners have certified that it is unlikely the employee can ever be gainfully employed in the capacity for which they are reasonably qualified.

The invalidity segment formula is:

Amount of ETP × days to retirement ÷ (employment days + days to retirement)

- employment days: the number of days from the start of that employment to the termination date (i.e., the service period to which the payment relates).
- days to last retirement day: the number of days from the termination date to the employee's last retirement day.

## Invalidity

# Employment before 1 July 1983

If part of the ETP relates to employment that occurred before 1 July 1983, the amount to include in the tax-free component is worked out as follows:

Step 1: Subtract the invalidity part (if any) from the ETP

Step 2: Multiply the amount at Step 1 by:

number of days of employment before 1 July 1983 ÷ total number of days of employment to which the ETP relates.



# Tax Free Limits

The tax-free limit for genuine redundancy and early retirement schemes is calculated as follows:

Base amount + (service amount × years of service)

The base amount and service amount are indexed annually.

2024–25 the tax-free limit is equal to \$12,524 (base amount), plus \$6,264 (service amount) multiplied by the years of service. Therefore, for 10 years' service, the tax-free limit for the year ending 30 June 2025 is:

$$\$12,524 + (\$6,264 \times 10) = \$12,524 + \$62,640 = \$75,164$$



## Taxable Component

The remainder of your ETP is concessionaly taxed up to certain limits, called 'caps'. The top rate of tax applies to amounts paid in excess of these caps.

The ETP cap amount for the 2024–25 income year is \$245,000. This amount is indexed annually.

The whole-of-income cap amount for the 2024–25 income year is \$180,000. This amount is not indexed. This cap is reduced by any other taxable income payments you receive in the income year.

Previous redundancy or ETP payments in earlier years may contribute to the cap amount. The combined payments cannot exceed the tax-free cap.



## Taxable Component

**The concessional tax rate is 17% if you've reached your preservation age and 32% if you haven't, up to the relevant cap. Amounts above the caps are taxed at 47%**

Date of birth	Preservation age
Before 1/7/1960	55
1/7/1960–30/6/1961	56
1/7/1961–30/6/1962	57
1/7/1962–30/6/1963	58
1/7/1963–30/6/1964	59
After 30/6/1964	60



## The 12-month rule

To receive concessional tax treatment an ETP must generally be paid within 12 months of termination.

Payments outside the 12-month period are included in your assessable income and taxed at your marginal tax rates.



# ETP payment statement code

When you receive your ETP payment summary, there are different codes.

Code 'R' represents a genuine redundancy.  
Code 'O' represents other types of redundancy or termination.

If the code appears incorrect, contact your employer to rectify it promptly. There is a limited timeframe to dispute this through the Fair Work Ombudsman or relevant commission.



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