

Simplified Superannuation

Fact Sheet – Employment Termination Payments

Key Points

- The taxation of Employment Termination Payments will be changed to reflect the removal of the Reasonable Benefit Limit system and benefits tax.

How will Employment Termination Payments be taxed?

Employment Termination Payments will comprise two components — the tax free component and the taxable component. The tax free component will be any post-June 1994 invalidity amount and the pre-July 1983 amount. This amount will not be taxed. The taxable component will be the remainder of the payment minus the tax free component. This will be taxed at 15 per cent for amounts up to a maximum of \$140,000 for recipients aged preservation age and over and at 30 per cent for those aged under preservation age. Amounts in excess of this will be taxed at the top marginal tax rate plus Medicare levy. These arrangements will apply per termination and any payment must be made within one year of termination.

As superannuation benefits paid to those over age 60 will be tax free, Employment Termination Payments will no longer be able to be contributed to superannuation.

What transitional arrangements will there be?

Transitional arrangements will be put in place for individuals with Employment Termination Payments specified in existing employment contracts as at 9 May 2006, provided payment is made prior to 1 July 2012. Under these arrangements, the taxable component will be taxed at 15 per cent up to a maximum of \$140,000 (30 per cent if under 55), 30 per cent up to \$1 million and the top marginal rate plus Medicare levy for any further amounts.

These Transitional Termination Payments may be contributed to superannuation until 1 July 2012 (where the contribution will be taxed at 15 per cent). However, any amounts above \$1 million that are contributed will be subject to the contribution caps and excess contribution taxes.