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Did you know?

On 10th May 2006, the Government announced a limit would be placed on the amount of undeducted contributions a person could place in superannuation. The limit, for the period 10th May 2006 to 30th June 2007, was \$1,000,000.

The Australian Taxation Office has received 217 requests from investors to allow contributions that exceeded the \$1m limit to be refunded. So far, \$228m of excessive contributions have been returned with the largest single excessive contribution being \$24.7m!

Source: *Australian Financial Review* – 21st November 2007

Facing retrenchment?



Retrenchment from a job is one of those things in life that is either looked upon with eager anticipation, or is something that is our worse nightmare. Our response to retrenchment will depend on our personal situation.

If we have always wanted to go out and do "our own thing" such as start a business, if we are close to retirement, and if we are otherwise financially secure, then retrenchment may give us the "push" we need. On the other hand, if we have a young family, mortgage, car loan, and other financial commitments, retrenchment will create additional unwelcome stress.

In this article we will be looking at the financial consequences of receiving a redundancy payment on termination of employment.

There are certain tax concessions where a lump sum is paid to a taxpayer as the result of a bona fide redundancy payment. To qualify for the concessional tax treatment, a redundancy payment must meet certain conditions.

A bona fide redundancy is said to have occurred when:

- The employer has made a definite decision that the job of an employee ceases to exist,
- the decision is not due to the ordinary and customary turnover of labour,
- the decision led to the termination of the employee's employment, and
- the termination is not on account of any personal act or default of the employee, or caused by any consideration peculiar to the employee, or is for personal or disciplinary reasons.

From this it can be seen that redundancy occurs when the job the employee was

doing becomes redundant. The employee does not become redundant.

When a person's employment ceases as a result of their position becoming redundant, they may be entitled to certain payments. These payments will generally be set out in their employment contract or the award covering their employment. In addition to payment of unused annual leave and long service leave, where appropriate, many terminated employees are eligible to receive an additional lump sum payment.

The amount of the payment is usually based on their length of service. For example, a redundancy payment may be made up of (say) four weeks salary, plus an additional two weeks pay for every year of completed service. So, on this basis, an employee that had been employed for ten years would receive 24 weeks pay as their lump sum redundancy payment. For long serving employees, the lump sum payment may be capped at a certain number of weeks. Unused leave entitlements are additional to the lump sum redundancy payment.

Lump sum payments made on the basis of genuine redundancy are subject to special tax treatment. The first \$7,020, plus \$3,511 for each completed year of service, of a redundancy payment is tax free. Let's go back to the example in the previous paragraph and assume our terminated employee was receiving a salary of \$1,000 per week. Their lump sum redundancy payment would be \$24,000.



By applying the tax-free redundancy payment formula, this individual would be eligible to receive a redundancy payment of up to \$42,130 tax free (i.e. \$7,020 + \$3,511 x 10). As their actual redundancy payment was \$24,000, the entire amount would be tax free.



In cases where a redundancy payment exceeds the relevant tax free threshold, the excess over the tax free amount is regarded as an Employment Termination Payment. Employment Termination Payments are subject to their own special tax treatment. The actual rate of tax payable is dependant on when the employee first commenced employment with their current employer, and their age. The taxable portion of an Employment Termination Payment that exceeds \$140,000 may be taxed at up to 45%, plus Medicare Levy.

In certain limited circumstances an employee may be able to elect to have their Employment Termination Payment rolled over to their superannuation fund.

Accrued annual leave and accrued long service leave paid in consequence of a bona fide redundancy may also attract concessional tax treatment. Once again, the actual tax payable on these components will be influenced by the length of employment. In most cases, tax on accrued annual leave and long services leave paid in these circumstances, is taxed at a maximum rate of 30%, plus Medicare Levy.

The taxation treatment of a genuine redundancy payment can be complex and the actual amount of tax payable will be influenced by a number of factors. If you are facing redundancy, it is important to seek financial planning advice prior to accepting any payment. This just may end up saving you a lot of tax.

Source: Peter Kelly – Professional Investment Services

Estate protection – don't increase the risks of retrenchment



A survey released by the Australian Bureau of Statistics back in August 2002 showed that 77% of people retrenched in the previous 3 years were given less than five weeks notice of



retrenchment, and 25% were given less than one day. Many people who receive a substantial retrenchment payout recognise the value of professional financial advice. Whether to put a bona fide redundancy payment into superannuation, what to do with your superannuation, and more generally, how to invest your redundancy sum, are decisions that need to be taken fairly quickly.

Just as important, but often overlooked, is the importance of life insurance at this time. Many company superannuation schemes include a life insurance component that provides a lump sum payment (in addition to the accumulated amount in the fund) to dependants in the event of the death of a worker.

On leaving employment, this cover could lapse. In some cases, the life insurance cover may be carried on with the same insurer, usually without the need to undertake any further medical assessment. The death or disability of a spouse or parent is traumatic whatever the circumstances. But the economic impact can be reduced if life insurance is in place.

This article gives only a brief insight into how quickly you can protect your wealth. You should seek advice on how to stay on track to meet your specific financial and lifestyle goals.

Source: Professional Investment Services

A word from the editor

This edition of Timely Tips is the final issue for 2007. It has been a monumental year with the ups and downs of investment markets, the sub-prime crisis in the US, a Federal Election in Australia, and of course, the changes to superannuation and Social Security benefits that took effect during the year.

We wish all readers a happy, safe and peaceful holiday period and trust it will be a time of rest, relaxation, and rejuvenation.

Timely Tips will return in January 2008.

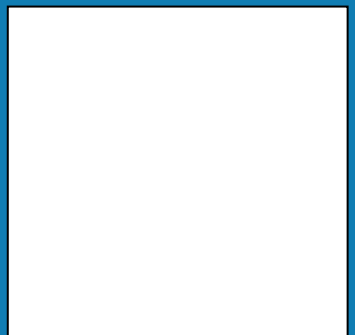
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