Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates 30 May – 1 June 2006

Question: bet 54

Topic: Early Retirement and Redundancy Payments To People Over The Age Of 65

Hansard Page: **Written**

Senator SHERRY asked:

An article by Peter Weekes dated 28 November 2005 (Attachment A) indicated that people over the age of 65 who are still working and offered redundancy payments by their employer will not be eligible for the tax free bona fide redundancy payout.

This appears to be supported by section 11-140 pgs 480-481 of the Australian Master Tax Guide under the heading "Conditions of Payment" (Attachment B).

1. Given Government policy that encourages people to stay in the workforce after the age of 65 (the so called work time you drop policy) isn't it reasonable to expect that people who work past the age of 65 years also have access to bona fide redundancy arrangements?

2. Please indicate the rationale for the current age restriction of 65 for such arrangements.

3. Is the department currently reviewing the operation of this provision?

Answer:

1. Redundancy payments can be made to a person of any age. However, the taxation treatment of these payments varies depending on the recipient's age and length of service, and whether the payment qualifies as a bona fide redundancy payment.

   All lump sum payments made by employers upon termination of employment are eligible for concessional tax treatment, particularly if the recipient is aged 55 or over.

   Where such payments qualify as bona fide redundancy payments, they are eligible for additional concessional tax treatment.

2. Payments made by employers to individuals aged 65 or more do not qualify as bona fide redundancy payments. This treatment has applied since 1985 and reflects that people aged 65 or over who are made redundant generally have ready access to other sources of income, such as the age pension.

3. No. On 9 May 2006, the Government announced *A Plan to Simplify and Streamline Superannuation*. The plan does not propose to change the taxation treatment for bona-fide redundancy payments.

   However the plan does propose new arrangements for the taxing of employer eligible termination payments (ETPs). Under the plan it is proposed that employer ETPs would be comprised of two components.

   Firstly, the exempt component would be made up of any post-June 1994 invalidity amount and any pre-July 1983 amount. This component would be exempt from tax.

   Secondly, the taxable component would be the post-June 1983 amount. This would be taxed at 15 per cent for amounts up to $140,000 for recipients aged 55 and over and at 30 per cent for those aged under 55. Amounts in excess of $140,000 would be taxed at the top marginal tax rate.