



How to withhold amounts from unused leave payments on termination of employment



The calculation of amounts to be withheld from unused leave payments depends on a number of factors. Check all dates and calculations carefully.



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INTRODUCTION

Under the pay as you go (PAYG) withholding system, you are required to withhold amounts from certain payments made to payees. These amounts must be sent to the Tax Office and are held against the person's expected tax liability.

This guide explains how to, on termination of employment, work out the amount to withhold from payments of unused:

- annual leave, and
- long service leave.

Historically, there have been a number of legislative changes that have determined how amounts withheld from payments of unused leave on termination of employment are calculated. These changes prescribed two dates as being critical to calculations:

- 16 August 1978, and
- 18 August 1993.

! All examples in this guide use figures taken from *Pay as you go (PAYG) withholding – Weekly tax table incorporating Medicare levy with and without leave loading* (NAT 1005), effective 1 July 2006, as the basis for the marginal rate calculations.

Payments where no tax file number is quoted

The information in this publication does not apply to payments made to a payee who does not quote a valid tax file number. If no tax file number is provided to you, withhold:

- 46.5% of any payment of unused leave to an Australian resident, or
- 45% of any payment of unused leave to a foreign resident.

Payments made after death

Payments for unused annual leave, leave loading and unused long service leave made after the death of a payee do not have an amount withheld from them. Such payments are not to be shown on the payment summary of any deceased payees.

! Definitions for a number of the commonly used terms in this guide are provided at the back for your convenience.

Payments of unused annual leave on termination of employment are subject to PAYG withholding.

To calculate the correct amount to be withheld from a payment of unused annual leave, you will need to know:

- how much of the payment relates to unused annual leave
- how much of the payment relates to a bonus or additional payment relating to that leave
- whether or not the payment is being made for early termination of employment:
 - through bona fide redundancy
 - through invalidity, or
 - as part of an approved early retirement scheme, and
- if the payment is **not** being made under any of the above, how much of the payment is for leave accrued on or after 18 August 1993.

! Payments for leave which had already been taken, but are being made at the time of termination of employment (used leave), are treated the same way as normal wage payments.

BONA FIDE REDUNDANCY, INVALIDITY OR AN APPROVED EARLY RETIREMENT SCHEME

If a payee is leaving your employment because of bona fide redundancy, invalidity or an approved early retirement scheme and:

- the termination time is before the time that retirement or termination would ordinarily have occurred (and in any event before the employee turns 65), and
- you have not been party to any agreement to employ the person later,

then payments for unused annual leave are to have amounts withheld as follows.

TABLE: Withholding rates

Payment type	Withholding rate
Leave	31.5% (30% + Medicare levy) of the total amount, disregarding any cents.
Leave loading	If the amounts withheld from a payee's salary and wage payments have been taken from column 2 ('With tax-free threshold with leave loading') of the tax table used to calculate those amounts, then do not withhold from the first \$320 of leave loading. Withhold 31.5% from this reduced amount of leave loading, disregarding any cents.

! The \$320 threshold for leave loading also applies when a payee claims the full or half Medicare levy exemption.

Where leave loading applies, the payee is entitled to ask you to ignore the \$320 threshold (ie, withhold an amount from the full amount of leave loading).

EXAMPLE 1: Leaving employment because of invalidity, leave loading threshold not applied

Ronnie is retiring early because of invalidity. He has amounts withheld using column 2 ('With tax-free threshold with leave loading') of the tax table used to calculate those amounts.

Ronnie is to be paid a lump sum of \$2,680.00 for unused annual leave which includes \$420.00 leave loading. He has not requested that the \$320.00 leave loading threshold be ignored so the first \$320.00 does not require an amount be withheld from it.

Total amount subject to withholding:
\$2,680.00 – \$320.00 = \$2,360.00

Amount withheld:
\$2,360.00 × 31.5% = \$743.00 (disregarding cents)

Completing payment summaries

Where a payment is being made to a payee for unused annual leave on termination of employment because:

- of bona fide redundancy
- of invalidity, or
- they have accepted an offer under an approved early retirement scheme

the total amount of the payment (unused annual leave and leave loading, if applicable) should be shown at 'Lump Sum Payment' **A**. The amount withheld from the payment should be included with any other withheld amounts at 'Total tax withheld'.

LEAVING EMPLOYMENT FOR OTHER REASONS

There are payments of unused annual leave made on termination of employment that occur for other reasons such as:

- voluntary resignation
- termination due to inefficiency, or
- retirement.

The different withholding requirements for these payments are shown below.

Calculating the pre-18 August 1993 payment component

Any part of a payment for unused annual leave that accrued before 18 August 1993 has different withholding requirements to payments of unused annual leave accrued on or after this date. Payers need to calculate the portion (if any) of the payment relating to service before 18 August 1993 using the following formula:

$$\text{Payment} \times \frac{\text{Number of days that accrued before 18 August 1993}}{\text{Number of days in total period of service}}$$

! The number of days in the total period of service is the number of whole days over which the unused annual leave accrued; assuming that this leave accrued in accordance with the payee's ordinary conditions of employment.

EXAMPLE 2: Resignation with annual leave accrued before and after 18 August 1993

Helen resigns from her job on 17 September 2006 after 14 years of service and receives a payment of \$85,000 for 56 weeks of unused annual leave. Under the conditions of her employment, Helen is entitled to four weeks of annual leave for each year of service. Therefore, the total number of days in the accrual period of Helen's unused annual leave is 5,113 days (the period from 18 September 1992 to 17 September 2006).

The number of days in the accrual period that occurred before 18 August 1993 is 334 (from 18 September 1992 to 17 August 1993). Therefore, the amount of Helen's payment which accrued before 18 August 1993 is:

$$\$85,000 \times (334 \div 5113) = \$5,553.00$$

The payment for service on or after 18 August 1993 is:

$$\$85,000 - \$5,553.00 = \$79,447.00$$

* The amount to be withheld would then be calculated according to the tables on the following page.

EXAMPLE 3: Resignation with annual leave accrued after 18 August 1993

Debbie resigns from her job on 31 October 2006 after 28 years of service and receives a payment of \$2,000.00 for four weeks of unused annual leave. Under the conditions of her employment Debbie is entitled to four weeks annual leave for each year of service. Therefore, the accrual period of Debbie's annual leave is 1 November 2005 to 31 October 2006.

As the whole period is after 18 August 1993, all of Debbie's payment is for service on or after 18 August 1993.

Calculating the amount to be withheld

If a payee's employment is **not** being terminated because:

- of bona fide redundancy
- of invalidity, or
- they have accepted an offer under an approved early retirement scheme,

then payments of unused annual leave are to have amounts withheld as shown on the following page.

TABLE: Withholding rate for amount accrued before 18 August 1993

Payment type	Withholding rate
Leave	31.5% of the total amount, disregarding any cents.
Leave loading	31.5% of the total amount, disregarding any cents.

TABLE: Withholding rate for amount accrued on or after 18 August 1993

Payment type	Withholding rate
Leave	<p>Step A Add in the leave loading subject to withholding (see below).</p> <p>Step B If the total of unused annual leave (and unused long service leave) in respect of service on or after 18 August 1993 is less than \$300.00, withhold 35.5% of the total amount, disregarding any cents.</p> <p>If the total of unused annual leave (and unused long service leave) is \$300.00 or more:</p> <p>Step 1 using the relevant PAYG withholding tax tables, work out the amount to withhold from the payee's normal gross earnings for a regular pay period (for example, weekly, fortnightly or monthly)</p> <p>Step 2 divide the post-17 August 1993 leave amount by the number of normal pay periods in 12 months (for example, 12 monthly payments, 26 fortnightly payments or 52 weekly payments)</p> <p>Step 3 disregard any cents for the amount calculated at step 2</p> <p>Step 4 add the amount at step 3 to the normal gross earnings for a single pay period</p> <p>Step 5 use the PAYG withholding tax tables used at step 1 to work out the amount to withhold from the amount calculated at step 4</p> <p>Step 6 subtract the amount calculated at step 1 from the amount calculated at step 5, and</p> <p>Step 7 multiply the result from step 6 by the number of normal pay periods in 12 months to obtain the amount to withhold from the unused annual leave amount.</p>
Leave loading	<p>If your payee has had amounts withheld from salary and wage payments taken from column 2 ('With tax-free threshold with leave loading') of the tax table used to calculate those amounts, then do not withhold from the first \$320.00 of leave loading.</p> <p>Add the leave loading that is subject to withholding to the annual leave amount (see above) for calculation of the amount to be withheld.</p>

EXAMPLE 4: Resignation

Max, who resigned on 24 March 2007, is to be paid a lump sum of \$2,340.00 for four weeks of unused annual leave, which includes \$340.00 of leave loading.

Under the conditions of his employment, Max is entitled to four weeks annual leave per year of service. Max's normal gross earnings are \$500.00 per week.

Max is not leaving because of redundancy, invalidity, or under an approved early retirement scheme.

Amount of payment accrued before 18 August 1993

No unused annual leave accrued before 18 August 1993.

Amount of payment accrued on or after 18 August 1993

The total amount that accrued on or after 18 August 1993 is \$2,340.00.

Step	Instruction	Result
1	Work out amount to be withheld from normal gross earnings for a single pay period (\$500.00 per week).	\$71.00
2	Reduce the total amount of unused annual leave and leave loading (\$2,340) by the amount of leave loading not subject to withholding (\$2,340.00 – \$320.00 = \$2,020.00). Divide \$2,020.00 by the 52 normal pay periods in one year (\$2,020.00 ÷ 52).	\$38.85
3	Disregard cents.	\$38.00
4	Add amount at step 3 to normal gross earnings for a single pay period (\$500.00 + \$38.00).	\$538.00
5	Calculate the amount to be withheld from step 4.	\$83.00
6	Subtract the amount withheld from normal gross earnings from the amount at step 5 (\$83.00 – \$71.00).	\$12.00
7	Multiply the amount at step 6 by the number of normal pay periods in one year (\$12.00 × 52).	\$624.00

The amount to be withheld from Max's \$2,340.00 of unused annual leave and leave loading is **\$624.00**.

Completing payment summaries

Where a payment of unused annual leave and leave loading is being paid on termination of employment, the amount that accrued **before** 18 August 1993 should be shown at 'Lump Sum Payment' **A**.

Any amounts of unused annual leave and leave loading that accrued **on or after** 18 August 1993 should be included at 'Gross payments' along with any other amounts.

All the amounts that are being withheld must be included with other withheld amounts at 'Total tax withheld'.

Payments for unused long service leave on termination of employment are subject to PAYG withholding.

A payee does not normally become entitled to long service leave until the end of an initial period of service. Additional long service leave can then accrue over the term of employment. The period of time over which long service leave has accrued is known as the 'eligible service period'.

The amount to be withheld from a payment of unused long service leave depends on a number of factors. These include the date that:

- the eligible service period started
- whether any long service leave has already been taken, and
- whether the payee accrued the leave during full-time or part-time service.

BONA FIDE REDUNDANCY, INVALIDITY OR AN APPROVED EARLY RETIREMENT SCHEME

When the payee is leaving employment because of bona fide redundancy, invalidity or an approved early retirement scheme and:

- the termination time is before the time that retirement or termination would ordinarily have occurred (and in any event before the employee turns 65), and
- you have not been party to any agreement to employ the person later

the amount to be withheld will depend on the period in which the leave was accrued. To calculate the amount to be withheld in cases where the payee's eligible service period commenced before 16 August 1978*, a payer will need to divide the payment into the:

- pre-16 August 1978 component, and
- post-15 August 1978 component.

➤ For instructions on how to calculate these amounts, please refer to 'Calculating payment components' on this page.

LEAVING EMPLOYMENT FOR OTHER REASONS

There are payments if unused long service leave made on termination of employment that occur for other reasons such as:

- voluntary resignation
- termination due to inefficiency, or
- retirement.

In these cases the employer will need to divide the payment into the:

- pre-16 August 1978 component (where the eligible service period commenced before 16 August 1978)
- post-15 August 1978 component (where the eligible service period commenced before 18 August 1993), and
- post-17 August 1993 component.

➤ For instructions on how to calculate these amounts, please refer to 'Calculating payment components' below.

CALCULATING PAYMENT COMPONENTS

When making a payment of unused long service leave on termination of employment you need to calculate certain payment components that have different withholding requirements. These components are:

- pre-16 August 1978
- post-15 August 1978, and
- post-17 August 1993.

Where a payee's eligible service period started after 15 August 1978, the whole payment relates to post-15 August 1978 service. A calculation of the pre-16 August component is not required.

Where the eligible service period started before 16 August 1978, you will need the following information to calculate the post-15 August 1978 and pre-16 August 1978 components:

- A: the total amount being paid for unused long service leave
- B: the number of whole days of unused long service leave
- C: the number of whole days in the eligible service period after 15 August 1978
- D: the number of whole days previously taken as long service leave
- E: the number of whole days in the eligible service period, and
- F: the lesser of the number of days of long service leave used after 15 August 1978 and the amount calculated by the formula $C \div (B + D) \times E^*$.

* See Introduction on page 1 for more information.

* For example, if you took 40 days long service leave after this date, but the formula calculates that you were only due 24 days for this period, then use 24.

Situations may arise where a previously part-time employee has moved onto full-time service during their employment with a payer. These payers, when making a payment of unused long service leave on termination of this payee's employment, need to separate the full-time and part-time service periods, but only where the eligible service period of the employee commenced **prior** to 16 August 1978. Then, the long service leave entitlement for each period is calculated separately.

Where the employee's eligible service period commences **after** 15 August 1978, there is no requirement to split the full-time and part-time service periods.

Calculating the post-15 August 1978 component

The formula for calculating the post-15 August 1978 component of the unused long service leave payment is:

$$\frac{A}{B} \times \left(\frac{C(B+D)}{E} - F \right)$$

You round down when working out the second part of the formula. So, if $[C \times (B + D) \div E - F] = 117.8$, then use 117.

If you get a negative answer using the formula then the post-15 August 1978 component of the payment is nil.

Calculating the pre-16 August 1978 component

To calculate the pre-16 August 1978 component, simply deduct the post-15-August component calculated above from the total payment of unused long service leave.

If the payment is being made due to:

- bona fide redundancy
- invalidity, or
- under an approved early retirement scheme

then no more components need to be calculated.

However, if the payment is not being made under these circumstances, you will need to calculate a post-17 August 1993 component. The post-15 August 1978 component is then reduced by the amount of the post-17 August 1993 component.

Calculating the post-17 August 1993 component

The amount of the post-17 August 1993 component is calculated using the same formula used to calculate the post-15 August 1978 component but you simply substitute references to '15 August 1978' with '17 August 1993'.

To calculate the amount of this component, you need to know:

- G: the total amount being paid for unused long service leave
- H: the number of whole days of unused long service leave
- I: the number of whole days in the eligible service period after 17 August 1993
- J: the number of whole days previously taken as long service leave
- K: the number of whole days in the eligible service period
- L: the lesser of the number of days of long service leave used after 17 August 1993 and the amount calculated by the formula $I \times (H + J) \div K^*$.

The formula for calculating the post-17 August 1993 component of the unused long service leave payment is:

$$\frac{G}{H} \times \left(\frac{I(H+J)}{K} - L \right)$$

You round down when working out the second part of the formula. So, if $[I \times (H + J) \div K - L] = 117.8$, then use 117.

If you get a negative answer using the formula, then the post-17 August 1993 component of the payment is nil.

Recalculating the post-15 August 1978 component

To recalculate this component, you simply subtract the post-17 August 1993 component from the post-15 August 1978 component previously calculated.

If you get a negative answer then the post-17 August 1993 component is reduced by this negative amount.

*For example, if you took 40 days long service leave after this date, but the formula calculates that you were only due 24 days for this period, then use 24.

CALCULATING AMOUNT TO BE WITHHELD

Leaving employment because of bona fide redundancy, invalidity, or an approved early retirement scheme

Once the component values have been calculated, specific withholding rates are applied to each, as shown in the following table.

TABLE: Withholding rates

Component	Withholding
Pre-16 August 1978	5% of total at marginal rate, disregarding any cents.
Post-15 August 1978	31.5%, disregarding any cents.

Leaving employment for other reason

Once the component values have been calculated, specific withholding rates are applied to each, as shown in the following table.

TABLE: Withholding rates

Component	Withholding
Pre-16 August 1978	5% of total at marginal rate, disregarding any cents.
Post-15 August 1978	31.5%, disregarding any cents.
Post-17 August 1993	<p>If this unused long service leave component (and unused annual leave) is less than \$300.00, withhold 35.5% of the total amount, disregarding any cents.</p> <p>If this unused long service leave component (and unused annual leave) is \$300.00 or more:</p> <p>Step 1 add 5% of the pre-16 August 1978 component to this component</p> <p>Step 2 divide the amount by the number of regular periods in a financial year (52 weeks, 26 fortnights or 12 months)</p> <p>Step 3 disregard any cents</p> <p>Step 4 using the regular PAYG withholding tax table used to calculate the amount to be withheld, obtain the amount to be withheld from the figure calculated at step 3</p> <p>Step 5 subtract the amount calculated at step 4 from the amount withheld from the payee's normal gross earnings, and</p> <p>Step 6 multiply the amount calculated at step 5 by the number of regular pay periods in a financial year.</p>

COMPLETING PAYMENT SUMMARIES

Leaving employment because of bona fide redundancy, invalidity, or approved early retirement scheme

If the payment is being made due to the above, the amount that accrued **before** 16 August 1978 should be shown at 'Lump Sum Payment' **B**.

Any amounts of unused long service leave that accrued **after** 15 August 1978 should be shown at 'Lump Sum Payment' **A** with any other amounts.

All amounts withheld are to be included with other withheld amounts at 'Total tax withheld'.

Leaving employment for other reason

Where a payment of unused long service leave is being paid on termination of employment, the amount that accrued **before** 16 August 1978 should be shown at 'Lump Sum Payment' **B**.

Any amounts of unused long service leave that accrued **after** 15 August 1978 should be shown at 'Lump Sum Payment' **A** with any other amounts.

Any amounts of unused long service leave that accrued **after** 17 August 1993 should be shown at 'Gross payments' with any other amounts.

All amounts withheld are to be included with other withheld amounts at 'Total tax withheld'.

WORKING EXAMPLES

EXAMPLE 5: Bona fide redundancy, no long service leave used, no pre-16 August 1978 service

Robyn is made redundant on 14 January 2007. She has not yet reached normal retirement age and there is no agreement between her and the payer to employ her later.

Robyn has just over 10 years of service, starting her employment with the payer on 1 January 1997. She qualified for long service after 10 years, with further leave accruing on each complete year of service.

On termination of employment she is going to be paid an amount for unused long service leave of \$8,000.00, which is equal to 40 days of unused leave.

Her normal weekly earnings are \$600.00. She has quoted her tax file number and has claimed the tax-free threshold.

Total eligible service period

Step	Instruction	Result
1	Calculate the number of days from 1 January 1997 – 14 January 2007	3666
2	Calculate the number of days in the eligible service period after 15 August 1978	3666
3	Calculate the number of days of leave used	0

Calculation of components

Post-15 August 1978 component

As the eligible service period commenced after 15 August 1978, all of the payment relates to service after 15 August 1978. A calculation of the pre-16 August component is not required. Therefore the post-15 August component is **\$8,000.00**.

Pre-16 August 1978 component

Nil.

Post-17 August 1993 component

As the payment is being made on bona fide redundancy, there is no need to calculate the post-17 August 1993 component.

Amount to be withheld

Post-15 August 1978 component
 = \$8,000.00 x 31.5%
 = **\$2,520.00**

EXAMPLE 6: Retirement, no long service leave used, pre-16 August 1978 service

Matt retires on 31 December 2006. He has exactly 30 years of service, starting with his employer on 1 January 1977. He qualified for long service leave after 10 years, with further leave accruing on each completed year of service.

He is not leaving because of bona fide redundancy, invalidity or under an Approved Early Retirement Scheme.

On termination of employment he is to be paid an amount of \$40,000.00 for unused long service leave, which is equal to 270 days of long service leave.

His normal weekly wage is \$600.00. He has quoted his tax file number and has amounts withheld calculated using column 3 – ‘With tax-free threshold and no leave loading’.

Total eligible service period

Step	Instruction	Result
1	Calculate the number of days from 1 January 1977 – 31 December 2006	10,957
2	Calculate the number of days in the eligible service period after 15 August 1978	10,365
3	Calculate the number of days in the eligible service period after 17 August 1993	4,884
4	Calculate the number of days of leave used	0

Calculation of components**Post-15 August 1978 component**

$$\frac{A}{B} \times \left(\frac{C(B+D)}{E} - F \right)$$

$$= \$40,000.00 \div 270 \times [10,365 \times (270 + 0) \div 10,957 - 0]$$

$$= \$148.15 \times 255.41$$

$$= \$148.15 \times 255 \text{ (rounded down)}$$

$$= \mathbf{\$37,778.25}$$

Pre-16 August 1978 component

Total lump sum payment minus post-15 August 1978 component

$$= \$40,000.00 - \$37,778.25$$

$$= \mathbf{\$2,221.75}$$

Post-17 August 1993 component

$$\frac{G}{H} \times \left(\frac{I(H+J)}{K} - L \right)$$

$$= \$40,000.00 \div 270 \times [4,884 \times (270 + 0) \div 10,957 - 0]$$

$$= \$148.15 \times 120.35$$

$$= \$148.15 \times 120 \text{ (rounded down)}$$

$$= \mathbf{\$17,778.00}$$

Recalculated post-15 August 1978 component

Initial value calculated above minus post-17 August 1993 component

$$= \$37,778.25 - \$17,778.00$$

$$= \mathbf{\$20,000.25}$$

EXAMPLE 6 (continued)

Amount to be withheld		
Step	Instruction	Result
1	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: $\$2,221.75 \times 5\%$	\$111.09
2	Calculate the amount to be withheld from the recalculated post-15 August 1978 component (disregarding any cents): $\$20,000.25 \times 31.5\%$	\$6,300.00
3	Add amount calculated at step 1 to the post-17 August 1993 component: $\$111.09 + \$17,778.00$	\$17,889.09
4	Divide amount calculated at step 3 by number of normal pay periods in a financial year (as Matt receives weekly payments, there are 52 pay periods): $\$17,889.09 \div 52$	\$344.02
5	Add amount from step 4 (disregarding any cents) to normal gross earnings for regular pay period: $\$344.00 + \600.00	\$944.00
6	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Matt's normal gross earnings, calculate the amount required to be withheld from the amount calculated at step 5	\$209.00
7	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Matt's normal gross earnings of \$600.00	\$100.00
8	Subtract the amount at step 7 from the amount at step 6: $\$209.00 - \100.00	\$109.00
9	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$109.00 \times 52$	\$5,668.00
10	Add the amount calculated at step 2 to the amount calculated at step 9: $\$6,300.00 + \$5,668.00$	\$11,968.00

The amount to be withheld from Matt's \$40,000.00 payment of unused long service leave on termination of employment is **\$11,968.00**.

EXAMPLE 7: Retirement, large amount of long service leave used after 15 August 1978, pre-16 August 1978 service

Sali retires on 31 December 2006. He has exactly 40 years of service, starting with his employer on 1 January 1967. He qualified for long service leave after 10 years, with further leave accruing over the remainder of his employment.

He is not leaving because of bona fide redundancy, invalidity or under an Approved Early Retirement Scheme.

He is to be paid an amount of \$4,000.00 for unused long service leave on termination of employment, which is equal to 20 days of long service leave. Over his employment, Sali took 250 days of long service leave.

His normal weekly wage is \$800.00. He has quoted his tax file number and has amounts withheld calculated using column 3 – ‘With tax-free threshold and no leave loading’.

Total eligible service period

Step	Instruction	Result
1	Calculate the number of days from 1 January 1967 – 31 December 2006	14,610
2	Calculate the number of days in the eligible service period after 15 August 1978	10,365
3	Calculate the number of days in the eligible service period after 17 August 1993	4,884
4	Calculate the number of days of leave used	250

Calculation of components**Post-15 August 1978 component**

$$\frac{A}{B} \times \left(\frac{C(B + D)}{E} - F \right)$$

$$= \$4,000.00 \div 20 \times [10,365 \times (20 + 250) \div 14,610 - 192]$$

$$= \$200.00 \times 0$$

= **NIL**

! If you get a negative answer, then the post-15 August 1978 component is NIL.

Pre-16 August 1978 component

Total lump sum payment minus post-15 August 1978 component

$$= \$4,000.00 - \text{NIL}$$

$$= \mathbf{\$4,000.00}$$

Post-17 August 1993 component

As none of the payment relates to service after 15 August 1978 (ie, there is no post-15 August 1978 component), then there is no post-17 August 1993 component.

Recalculated post-15 August 1978 component

Not necessary.

EXAMPLE 7 (continued)

Amount to be withheld		
Step	Instruction	Result
1	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: $\$4,000.00 \times 5\%$	\$200.00
2	Calculate the amount to be withheld from the recalculated post-15 August 1978 component (disregarding any cents): $\$NIL \times 31.5\%$	\$NIL
3	Add amount calculated at step 1 to the post-17 August 1993 component: $\$200.00 + \NIL	\$200.00
4	Divide amount calculated at step 3 by number of normal pay periods in a financial year (as Sali receives weekly payments, there are 52 pay periods): $\$200.00 \div 52$	\$3.85
5	Add amount from step 4 (disregarding any cents) to normal gross earnings for regular pay period: $\$3.00 + \800.00	\$803.00
6	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Sali's normal gross earnings, calculate the amount required to be withheld from the amount calculated at step 5	\$164.00
7	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Sali's normal gross earnings of \$800.00	\$163.00
8	Subtract the amount at step 7 from the amount at step 6: $\$164.00 - \163.00	\$1.00
9	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$1.00 \times 52$	\$52.00
10	Add the amount calculated at step 2 to the amount calculated at step 9: $\$0.00 + \52.00	\$52.00

The amount to be withheld from Sali's \$4,000.00 payment of unused long service leave on termination of employment is **\$52.00**.

EXAMPLE 8: Retirement, long service leave used after 17 August 1993, pre-16 August 1978 service

Patricia retires on 30 September 2006. She has over 34 years of service, starting with her employer on 1 January 1972. She qualified for long service leave after 10 years, with further leave accruing over her time with her employer.

She is not leaving because of bona fide redundancy, invalidity or under an Approved Early Retirement Scheme.

She is to be paid an amount of \$50,000.00 for unused long service leave on termination of employment, which is equal to 210 days of long service leave. Patricia has taken 73 days of long service leave, all of which was taken after 17 August 1993.

Her normal weekly wage is \$750.00. She has quoted her tax file number and has amounts withheld calculated using column 3 – ‘With tax-free threshold and no leave loading’.

Total eligible service period

Step	Instruction	Result
1	Calculate the number of days from 1 January 1972 – 30 September 2006	12,692
2	Calculate the number of days in the eligible service period after 15 August 1978	10,273
3	Calculate the number of days in the eligible service period after 17 August 1993	4,792
4	Calculate the number of days of leave used	73

Calculation of components**Post-15 August 1978 component**

$$\frac{A}{B} \times \left(\frac{C (B + D)}{E} - F \right)$$

$$= \$50,000.00 \div 210 \times [10,273 \times (210 + 73) \div 12,692 - 73]$$

$$= \$238.10 \times 156.06$$

$$= \$238.10 \times 156 \text{ (rounded down)}$$

$$= \mathbf{\$37,143.60}$$

Pre-16 August 1978 component

Total lump sum payment minus post-15 August 1978 component

$$= \$50,000.00 - \$37,143.60$$

$$= \mathbf{\$12,856.40}$$

Post-17 August 1993 component

$$\frac{G}{H} \times \left(\frac{I (H + J)}{K} - L \right)$$

$$= \$50,000.00 \div 210 \times [4,792 \times (210 + 73) \div 12,692 - 73]$$

$$= \$238.10 \times 33.85$$

$$= \$238.10 \times 33 \text{ (rounded down)}$$

$$= \mathbf{\$7,857.30}$$

Recalculated post-15 August 1978 component

Initial value calculated above minus post-17 August 1993 component

$$= \$37,143.60 - \$7,857.30$$

$$= \mathbf{\$29,286.30}$$

EXAMPLE 8 (continued)

Amount to be withheld		
Step	Instruction	Result
1	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: $\$12,856.40 \times 5\%$	\$642.82
2	Calculate the amount to be withheld from the recalculated post-15 August 1978 component (disregarding any cents): $\$29,286.30 \times 31.5\%$	\$9,225.00
3	Add amount calculated at step 1 to the post-17 August 1993 component: $\$642.82 + \$7,857.30$	\$8,500.12
4	Divide amount calculated at step 3 by number of normal pay periods in a financial year (as Patricia receives weekly payments, there are 52 pay periods): $\$8,500.12 \div 52$	\$163.46
5	Add amount from step 4 (disregarding any cents) to normal gross earnings for regular pay period: $\$163.00 + \750.00	\$913.00
6	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Patricia's normal gross earnings, calculate the amount required to be withheld from the amount calculated at step 5	\$199.00
7	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Patricia's normal gross earnings of \$750.00	\$148.00
8	Subtract the amount at step 7 from the amount at step 6: $\$199.00 - \148.00	\$51.00
9	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$51.00 \times 52$	\$2,652.00
10	Add the amount calculated at step 2 to the amount calculated at step 9: $\$9,225.00 + \$2,652.00$	\$11,877.00

The amount to be withheld from Patricia's \$50,000.00 payment of unused long service leave on termination of employment is **\$11,877.00**.

EXAMPLE 9: Retirement, long service leave used before and after 16 August 1978 and after 17 August 1993, pre-16 August 1978 service

Ian retires on 31 October 2006. He has exactly 40 years of service, starting with his employer on 1 November 1966. He qualified for long service leave after 10 years, with further leave accruing over his time with his employer.

He is not leaving because of bona fide redundancy, invalidity or under an Approved Early Retirement Scheme.

He is to be paid an amount of \$37,000.00 for unused long service leave on termination of employment, which is equal to 130 days of long service leave. Over his employment, Ian has taken 230 days of long service leave.

His normal weekly wage is \$1,500.00. He has quoted his tax file number and has amounts withheld calculated using column 3 – ‘With tax-free threshold and no leave loading’.

Total eligible service period

Step	Instruction	Result
1	Calculate the number of days from 1 November 1966 – 31 October 2006	14,610
2	Calculate the number of days in the eligible service period after 15 August 1978	10,304
3	Calculate the number of days in the eligible service period after 17 August 1993	4,823
4	The number of days of leave used	230
5	The number of days of leave used before 16 August 1978	80
6	The number of days of leave used after 15 August 1978 (including 40 days used after 17 August 1993)	150
7	The number of days of leave used after 17 August 1993	40

Calculation of components**Post-15 August 1978 component**

$$\frac{A}{B} \times \left(\frac{C(B+D)}{E} - F \right)$$

$$= \$37,000.00 \div 130 \times [10,304 \times (130 + 230) \div 14,610 - 150]$$

$$= \$284.62 \times 103.90$$

$$= \$284.62 \times 103 \text{ (rounded down)}$$

$$= \mathbf{\$29,315.86}$$

Pre-16 August 1978 component

Total lump sum payment minus post-15 August 1978 component

$$= \$37,000.00 - \$29,315.86$$

$$= \mathbf{\$7,684.14}$$

Post-17 August 1993 component

$$\frac{G}{H} \times \left(\frac{I(H+J)}{K} - L \right)$$

$$= \$37,000.00 \div 130 \times [4,823 \times (130 + 230) \div 14,610 - 40]$$

$$= \$284.62 \times 78.85$$

$$= \$284.62 \times 78 \text{ (rounded down)}$$

$$= \mathbf{\$22,200.36}$$

Recalculated post-15 August 1978 component

Initial value calculated above minus post-17 August 1993 component

$$= \$29,315.86 - \$22,200.36$$

$$= \mathbf{\$7,115.50}$$

EXAMPLE 9 (continued)

Amount to be withheld		
Step	Instruction	Result
1	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: $\$7,684.14 \times 5\%$	\$384.21
2	Calculate the amount to be withheld from the recalculated post-15 August 1978 component (disregarding any cents): $\$7,115.50 \times 31.5\%$	\$2,241.00
3	Add amount calculated at step 1 to the post-17 August 1993 component: $\$384.21 + \$22,200.36$	\$22,584.57
4	Divide amount calculated at step 3 by number of normal pay periods in a financial year (as Ian receives weekly payments, there are 52 pay periods): $\$22,584.57 \div 52$	\$434.32
5	Add amount from step 4 (disregarding any cents) to normal gross earnings for regular pay period: $\$434.00 + \$1,500.00$	\$1,934.00
6	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Ian's normal gross earnings, calculate the amount required to be withheld from the amount calculated at step 5	\$570.00
7	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Ian's normal gross earnings of \$1,500.00	\$390.00
8	Subtract the amount at step 7 from the amount at step 6: $\$570.00 - \390.00	\$180.00
9	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$180.00 \times 52$	\$9,360.00
10	Add the amount calculated at step 2 to the amount calculated at step 9: $\$9,360.00 + \$2,241.00$	\$11,601.00

The amount to be withheld from Ian's \$37,000.00 payment of unused long service leave on termination of employment is **\$11,601.00**.

EXAMPLE 10: Retirement, long service leave used after 16 August 1978, pre-16 August 1978 service, negative component amount

Leassa retires on 21 March 2007 after starting with her employer on 22 May 1971. She qualified for long service leave after 10 years, with further leave accruing over her time with her employer.

She is not leaving because of bona fide redundancy, invalidity or under an Approved Early Retirement Scheme.

She is to be paid an amount of \$34,799.26 for unused long service leave on termination of employment, which is equal to 166 days of long service leave. Over her employment, Leassa has taken 156 days of long service leave.

Her normal weekly wage is \$900.00. She has quoted her tax file number and has amounts withheld calculated using column 3 – ‘With tax-free threshold and no leave loading’.

Total eligible service period

Step	Instruction	Result
1	Calculate the number of days from 22 May 1971 – 21 March 2007	13,088
2	Calculate the number of days in the eligible service period after 15 August 1978	10,445
3	Calculate the number of days in the eligible service period after 17 August 1993	4,964
4	Calculate the number of days of leave used	156
5	Calculate the number of days of leave used after 15 August 1978	156
6	Calculate the number of days of leave used after 17 August 1993	0

Calculation of components**Post-15 August 1978 component**

$$\frac{A}{B} \times \left(\frac{C(B+D)}{E} - F \right)$$

$$= \$34,799.26 \div 166 \times [10,445 \times (166 + 156) \div 13,088 - 156]$$

$$= \$209.63 \times 100.98$$

$$= \$209.63 \times 100 \text{ (rounded down)}$$

$$= \mathbf{\$20,963.00}$$

Pre-16 August 1978 component

Total lump sum payment minus post-15 August 1978 component

$$= \$34,799.26 - \$20,963.00$$

$$= \mathbf{\$13,836.26}$$

Post-17 August 1993 component

$$\frac{G}{H} \times \left(\frac{I(H+J)}{K} - L \right)$$

$$= \$34,799.26 \div 166 \times [4,964 \times (166 + 156) \div 13,088 - 0]$$

$$= \$209.63 \times 122.13$$

$$= \$209.63 \times 122 \text{ (rounded down)}$$

$$= \mathbf{\$25,574.86}$$

Recalculated post-15 August 1978 component

Initial value calculated above minus post-17 August 1993 component

$$= \$20,963.00 - \$25,574.86$$

$$= \mathbf{-\$4,611.86}$$

Recalculated post-17 August 1993 component

Initial value calculated above reduced by negative recalculated post-15 August 1978 component

$$= \$25,574.86 - \$4,611.86$$

$$= \mathbf{\$20,963.00}$$

EXAMPLE 10 (continued)**Amount to be withheld**

Step	Instruction	Result
1	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: $\$13,836.26 \times 5\%$	\$691.81
2	Calculate the amount to be withheld from the recalculated post-15 August 1978 component (disregarding any cents): $\$0.00 \times 31.5\%$	\$0.00
3	Add amount calculated at step 1 to the recalculated post-17 August 1993 component: $\$691.81 + \$20,963.00$	\$21,654.81
4	Divide amount calculated at step 3 by number of normal pay periods in a financial year (as Leassa receives weekly payments, there are 52 pay periods): $\$21,654.81 \div 52$	\$416.44
5	Add amount from step 4 (disregarding any cents) to normal gross earnings for regular pay period: $\$461.00 + \900.00	\$1,316.00
6	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Leassa's normal gross earnings, calculate the amount required to be withheld from the amount calculated at step 5	\$326.00
7	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Leassa's normal gross earnings of \$900.00	\$195.00
8	Subtract the amount at step 7 from the amount at step 6: $\$326.00 - \195.00	\$131.00
9	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$131.00 \times 52$	\$6,812.00
10	Add the amount calculated at step 2 to the amount calculated at step 9: $\$6,812.00 + \0.00	\$6,812.00

The amount to be withheld from Leassa's \$34,799.26 payment of unused long service leave on termination of employment is **\$6,812.00**.

DEFINITIONS

Bona fide redundancy

Genuine or 'bona fide' redundancy has the following characteristics:

- the employee must have been dismissed from a job, not left voluntarily,
- the employee must have been made redundant (where the employee's particular work has ceased or tapered off, or the workplace has relocated or closed), and
- the dismissal must have occurred before the employee had to retire (for example, before the age of 65, or before a set period of service).

Invalidity

Invalidity is where physical or mental capacity stops a payee from continuing in their present line of work, forcing them to leave employment early (and in any event, before the age of 65).

Since 1 July 1994 invalidity has required certification from two qualified medical practitioners.

Approved early retirement schemes

A payer-devised early retirement scheme offers incentive payments encouraging staff to retire early or resign. The payer must submit the scheme's details to us and, if it meets certain criteria, we will approve it as an 'approved early retirement scheme'. Under the scheme, certain payments become eligible termination payments with a concessional component. You can find detailed information about approved early retirement schemes in *Eligible termination payments – A guide for employers on redundancy of an employee* (NAT 2702).

! Payments for unused annual leave paid as part of an approved early retirement scheme are **not** eligible termination payments.

Normal gross earnings

Normal gross earnings include all payments, except those relating to termination payments, received in the last full period of employment (this includes taxable allowances, overtime, bonuses etc). Therefore, a payee's normal gross earnings is those earnings relating to the last full pay period worked.

Where a payee's pay fluctuates significantly over a number of pay periods, we will accept an average of gross taxable earnings for the financial year to date over the number of pays received.

MORE INFORMATION

If you need more information about withholding amounts from payments of unused leave on termination of employment, you can:

- visit our website at www.ato.gov.au
- phone **13 28 66**, from 8.00am to 6.00pm, Monday to Friday,
- obtain a fax by phoning **13 28 60**, or
- write to us at:
PAYG withholding
Australian Taxation Office
PO Box 332
MOONEE PONDS VIC 3039

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

