

Can I package my termination pay?

The question often asked by employees preparing to leave their employer is can they salary package their Employment Termination Payment. A fair question, but the ATO has strict guidelines which largely preclude this and here is why.



RESIGNATION

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Salary Packaging is an ATO-governed arrangement between employer and employee. When an employee enters a salary sacrifice agreement, they agree to forgo future earnings to have some of their living expenses and other eligible payments paid for using pre-tax money from their salary.

When an employee decides to terminate their current employment with an employer, the pay for termination which wages or accrued leave payments for unused annual leave and long service leave cannot be legally salary sacrificed in line with ATO guidelines.

Given the fundamental agreement to forgo future earnings it is understandable then that the ATO does not permit Employment Termination Payments to be salary packaged.

You can find a complete list of inclusions and exclusions for Employment Termination Payments on the ATO website at ato.gov.au or feel free to contact Eziway for further information.

Two tips to the wise

1. Maximise and save

If you know you are leaving employment in advance, we suggest you contact your Eziway CSO who will advise whether there are sufficient pay cycles remaining to maximise deductions and receive the greatest tax benefit. It's worth a shot!

2. Payment Cards

Your Eziway Payment Card will be cancelled when your Payroll advises us to cancel your salary packaging account. At this point any outstanding funds on the card will be sent back to Payroll to be taxed. We suggest you spend surplus funds on the card before this happens.

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