



## Leaving the workforce

If you're leaving the workforce because you are retiring, there are a range of options for making the transition.

### Planning to retire

Find out what you need to consider when planning to retire.  
Consider when you can access your super and the tax payable.

### Transition to retirement

Find out how you may be able to reduce your working hours without reducing your income.

### Accessing your super to retire

Find out how and when you can access your super to fund your retirement.

### Approved early retirement schemes

Find out how an early retirement scheme encourages certain groups or classes of employees to retire early or resign.

QC 27129

## Planning to retire

Find out what you need to consider when planning to retire. Consider when you can access your super and the tax payable.

**Last updated** 28 October 2024

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## Before you retire

If you're planning to retire, you need to consider:

- your age, including if you have reached your preservation age
- your super
- how much tax you will pay on amounts you receive
- if good leaver conditions apply if you are part of an [employee share scheme](#)
- if the retirement capital gains tax concession applies if you sell your small business.

Special rules apply if you receive an employment termination payment, genuine redundancy payment or payments from an approved early retirement scheme.

If you're leaving your job for other reasons, such as termination, change of industry or leaving Australia, the tax on payments you receive may be different.

## Payments leading into retirement

If you receive a **lump sum payment** from your employer for unused annual or long service leave, you may pay tax on it at a lower rate than your other income. Your employer will report any lump sum payments at either 'Lump sum A' or 'Lump sum B' on your income statement or payment summary. You will need these details when you prepare your tax return.

A **redundancy payment** is a payment made to you when you are dismissed. This usually occurs because the job you have been doing has been abolished. Payments under redundancy are tax-free to a limit depending on the number of years you worked for that employer.

Your employer may offer staff an **early retirement scheme** to encourage certain groups of employees to retire early or resign. You may pay less tax on payments you receive under an early retirement scheme.

## After you retire

Once you retire, you can access a number of tax offsets, such as:

- seniors and pensioners tax offset
- superannuation income stream tax offset

If you have income from an Australian superannuation income stream, you may be able to claim a tax offset if you're:

- receiving a disability superannuation benefit
- receiving a death benefit income stream
- 60 or over.

## Employee share schemes

If you are a member of an employee share scheme (ESS), you need to consider the '**good leaver**' conditions. Good leaver conditions in an ESS may allow employees to retain ESS interests if they cease employment to retire from the workforce permanently during the forfeiture period.

Whether ESS interests acquired under an ESS with good leaver conditions are at a **real risk of forfeiture** will depend on the facts and circumstances. This includes how the ESS operates and the employee's personal circumstances.

## CGT retirement exemption for small business

If you are selling your small business assets, the **capital gains tax retirement concession** may apply. The retirement concession can exempt a capital gain on a business asset, up to a lifetime retirement exemption limit of \$500,000. This concession allows you to provide for your retirement.

If you choose the retirement exemption, there is no requirement to terminate any activity or cease business.

If you are under 55 years old just before you choose to use the retirement exemption, you must make a personal contribution equal to the exempt amount to a complying superannuation fund or a retirement savings account.

QC 31878

## Transition to retirement

Find out how you may be able to reduce your working hours without reducing your income.

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## Transition to retirement rules

Under the transition to retirement rules, when you reach your **preservation age**, you may be able to reduce your working hours without reducing your income. You can do this by choosing to start a transition to retirement income stream (TRIS).

The TRIS payment tops up your part-time income with a regular 'income stream' from your super savings. Previously, you could only access your super once you were 65 years old or retired.

For more information on the changes to transition to retirement income streams from 1 July 2017, see **GN 2019/1 – Changes to transition-to-retirement income streams**.

Under these rules, you can only access your super benefits as a 'non-commutable' income stream. A non-commutable income stream is one that you can't convert into a lump sum. This generally means you can't take your benefits as a lump sum cash payment while you are still working. You must take your super benefits as regular payments.

## **Super guarantee contributions and TRIS**

Employers still need to make compulsory super guarantee contributions for all their eligible employees. This includes people on a TRIS.

We recommend you seek financial advice when considering:

- **super withdrawal options**
- **how tax applies** to your retirement, transition to retirement or superannuation income streams.

If a TRIS is not in the retirement phase:

- the earnings from the assets supporting the TRIS will not be eligible for exempt current pension income (ECPI), and are taxed at the relevant tax rate
- it will not count towards your transfer balance cap (until it goes into the retirement phase).

A TRIS isn't in the retirement phase until you meet one of the following conditions of release:

- you're 65 years old or older
- retirement
- permanent incapacity
- terminal illness.

# Accessing your super to retire

Find out how and when you can access your super to fund your retirement.

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## When you can access your super

When you reach your preservation age and retire, you can access your super to fund your retirement.

You can also access your super:

- when you turn 65 years old
- under the **transition to retirement** rules (if you are eligible), while you continue to work.

You don't have to cash out your super just because you've reached a certain age. However, you need to check if the rules of your super fund specify otherwise.

## Preservation age

Your **preservation age** is not the same as your pension age. Your preservation age is the age you must reach before you can access your super and depends on when you were born.

If you are 60 years old or older your super payments may be tax free.

You may receive your super benefits as:

- a super income stream
- a super lump sum
- a combination of both.

If you're 60 years old or older and your only source of income is super benefits from a taxed source, you won't need to lodge a tax return.

You will need to lodge a tax return if you have income from other sources or if you have tax withheld on your PAYG *payment summary – superannuation income stream*. This includes investments or some public sector super funds.

## Tax on super benefits

The tax payable on super benefits depends on a number of things, including:

- your age
- the amount of the payment
- whether you receive your super benefits as a super income stream or a super lump sum
- whether your super comes from a taxed or untaxed source.

Some super benefits have a tax-free component and a taxable component. The tax-free component generally includes:

- amounts you have contributed to your super fund without claiming those amounts as a tax deduction
- certain other tax-free amounts you may have rolled into your super fund.

We recommend you seek financial advice when considering:

- super withdrawal options
- how tax applies to your retirement, transition to retirement or superannuation income streams.

# Approved early retirement schemes

Find out how an early retirement scheme encourages certain groups or classes of employees to retire early or resign.

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## What is an approved early retirement scheme?

An approved early retirement scheme is a payment which is tax-free to a limit. These schemes are put in place by employers to encourage certain groups or classes of employees to retire early or resign.

For employees to get special concessional tax rates, the Commissioner of Taxation must approve the scheme before payments start.

## Tax on an early retirement scheme payment

The tax-free amount of the early retirement scheme payments depends on the number of years you worked for your employer. The tax-free limit is a whole dollar amount, plus an amount for each whole year of service with that employer. Indexation changes the tax-free limit on 1 July each year.

The tax-free amount is not part of your employment termination payment (ETP). Any payment amount over the tax-free limit is treated



as an ETP.

The concessional taxation treatment for **genuine redundancy and early retirement scheme payments** now extends to individuals who are 65 years of age or older, if they are dismissed or retire before they reach pension age. This applies to payments made on or after 1 July 2019. Before 1 July 2019 this tax treatment only applied to individuals under 65 years old.

You need to be wary of **illegal super schemes** people offer to help you gain access to your super savings before you reach your **preservation age**. Heavy penalties apply if you participate in these schemes.

### **Genuine redundancy and early retirement scheme changes**



Find out if the genuine redundancy and early retirement scheme payment changes affect your tax-free payment amount.

QC 27131

## **Genuine redundancy and early retirement scheme changes**

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## Change in concessional tax treatment

From 29 October 2019, the concessional tax treatment for genuine redundancy and early retirement scheme payments includes payments made to individuals who are 65 years old or older if they are dismissed or retire before they reach pension age.

These changes apply to payments made on or after 1 July 2019.

This change may affect your eligibility for tax-free limits and the amount of tax you pay on your termination payment if you were:

- born between 1 January 1954 and 30 June 1955, and 65 years old but under 66 years old (the pension age from 1 July 2019) at the time of your termination
- born between 1 July 1955 and 31 December 1956, and 65 years old but under 66 years and 6 months old (the pension age from 1 July 2021) at the time of your termination.

You don't need to do anything, but if you don't you may pay more tax.

## Work out if the change affects your payment

To work out if this change affects your payment you will need either your:

- PAYG payment summary – employment termination payment
- income statement.

Work out the amounts to include in your 2020 tax return, using the steps below:

1. Were you born between 1 January 1954 and 30 June 1955 and were 65 years old, but under 66 years old (age pension age) at the time your employment was terminated?

**No** – you don't have to take any action. Use the pre-fill information in myTax or the information from your income statement or PAYG

payment summary – employment termination payment to complete your tax return.

**Yes** – go to step 2.

2. Use this table below to work out if your payment is affected.

**Table: Effect of change to age eligibility on the tax-free component of a genuine redundancy or early retirement scheme payment**

<b>Payment type shown on your income statement or your PAYG payment summary – employment termination payment</b>	<b>Effect of the change of age eligibility on your payment</b>	<b>Action you need to take</b>
ETP – type code <b>R</b>	Your employer has treated your payment as a genuine redundancy.	No action required. Use the pre-fill information in myTax or information on your income statement or PAYG payment summary – employment termination payment to complete your tax return.
Lump sum payment <b>D</b> Tax-free component of a genuine redundancy payment	Your employer has treated your payment as a genuine redundancy.	No action required. Use the pre-fill information in myTax or information on your income statement or PAYG payment summary – employment termination payment to

		complete your tax return.
ETP – type codes <b>D</b> , <b>B</b> , <b>N</b> and <b>T</b> Death benefit termination payment	The change will not apply to your payment	See <b>Death benefit employment termination payments</b>
ETP – type code <b>S</b> or <b>P</b> Employment was terminated in a prior year	The change will not apply to your payment	No action required. Use the pre-fill information in myTax or information on your income statement or PAYG payment summary – employment termination payment to complete your tax return.
ETP – type code <b>O</b>	Your payment may have been affected	<p>Did you receive a payment that meets all the requirements of a genuine redundancy payment except for the age test?</p> <p><b>Yes</b> – go to step 3</p> <p><b>No</b> – No action required. Use the pre-fill information in myTax or information on your income statement or PAYG payment summary – employment termination payment to complete your tax return.</p>

## Work out the tax-free limit and complete your 2019–20 tax return

The 2019–20 tax-free component of a genuine redundancy is \$10,638, plus \$5,320 for each complete year of service up to a maximum of \$210,000.

3. Work out your tax-free limit. You will need to know how long you worked for the employer who made the payment.

$$\$10,638 + (\$5,320 \times \text{years of service}) = \text{tax free limit}$$

4. Subtract the amount at step 3 (your tax-free component) from your ETP taxable component (shown on your income statement or PAYG payment summary – employment termination payment.)

Enter the amount at **ETP tax-free component** in your tax return and select the Employment Termination Payment Code **R**.

5. If your payment is more than your tax-free component (worked out in step 3) the remaining amount is shown at **ETP taxable component** in your tax return.

6. If your income statement or PAYG payment summary – employment termination includes an Employer lump sum A payment of unused leave, change the type code to **R** in your tax return.

7. Did you receive an amount for unused long service leave, or unused holiday pay that accrued after 17 August 1993 that was not described at step 6?

**No** – you don't have to take any further action.

**Yes** – go to step 8.

8. Work out the amount of unused leave accrued after 17 August 1993 that you have been paid. This may be on your last payslip or you could ask your employer.

This payment will have been included in the **gross payments** on your income statement or *PAYG payment summary – individuals non-business* and needs to be taxed differently as result of the change in law.

9. Subtract from **gross payments** any amounts that you have determined to be payments for unused leave accrued after 17 August 1993 at step 8.

10. Enter the amount from step 9 at:

- **Q1 Salary and wages** – on the paper return.
- **Gross payments** – in the 'Income statements and payment summaries' section if you are using myTax. If there is a pre-filled amount change it to the amount from step 9.

**Don't** change the tax withheld amount.

11. Enter the unused leave accrued after 17 August 1993 amount at:

- **Q3 Employer lump sum payments** – on the paper return
- **Lump sum A payments** with a type code **R** – in the 'Income statements and payment summaries' section in myTax.

### Example: work out payment amount after 29 October 2019

Jim was born on 31 January 1954 and was made redundant from XYZ Pty Ltd on 1 September 2019. Jim worked for XYZ Pty Ltd for 15 years and was paid \$95,000 with an ETP – type code **O** which was an amount in excess of what he would have received had he resigned.

As Jim was over the age limit of 65 years old when he was dismissed, the redundancy was non-genuine. XYZ Pty Ltd applied the ETP cap to his payment and tax was withheld at 17%. Jim also received a lump sum A payment for unused leave of \$5,400.

As a result of the changed age limits on 29 October 2019, Jim's payment now meets the requirements for a genuine redundancy payment and is tax free up to the limit based on his years of service.

Jim calculates his tax-free component as follows:

$$\$10,638 + (\$5,320 \times 15) = \$10,638 + \$79,800 = \$90,438$$

Jim's ETP taxable component on his income statement is \$95,000. Jim subtracts his tax-free limit from his ETP taxable component:

$\$95,000$  (ETP taxable component) –  $\$90,438$  (tax free component) =  $\$4,562$

Jim shows  $\$4,562$  at the taxable component and  $\$90,438$  at the tax-free component. Jim will select the Employment Termination code **R**.

Jim also needs to change his lump sum A type code for his unused leave from **T** to **R**.

QC 63049

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