Leaving your job

Find out about payments made to you when you leave your job, including redundancy and employment termination payments.

Employment termination payments for employees

Find out why you may receive an employment termination payment (ETP), how it is taxed and which amounts to report.

Your ETP end of year statement and your tax return

What to do when you receive your income statement or payment summary for your employment termination payment (ETP).

How ETP components are taxed

Find out how tax applies to the components of your employment termination payment (ETP).

Genuine redundancy payments

Certain redundancy payments are tax-free up to a limit depending on your years of service with that employer.

Death benefit employment termination payments

A payment you receive from a person's employer after their death is a death benefit employment termination payment.

QC 27125

Employment termination payments for employees

Find out why you may receive an employment termination payment (ETP), how it is taxed and which amounts to report.

Last updated 18 March 2025

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What is an ETP?

Tax treatment of an ETP

Tax on unused entitlements when you leave a job

What is an ETP?

When you leave work or change jobs, you may receive several lump sum payments. The tax you pay on these lump sum amounts is different to the tax you pay on your normal income. One lump sum may be an employment termination payment (ETP).

Your ETP amount may include:

- payments for unused sick leave or unused rostered days off
- payments in lieu of notice
- a gratuity or 'golden handshake'

- an employee's invalidity payment for permanent disability
- compensation for loss of job or wrongful dismissal
- **genuine redundancy payments** or early retirement scheme payments that exceed the tax-free limit
- certain payments made after the death of an employee
- the market value of the transfer of property (less any consideration given for the transfer of this property).

If you receive an ETP from a person's employer because of the cessation of their employment due to their death, see **Death benefit employment termination payments.**

ETPs **don't** include:

- lump sum payments for unused annual or long service leave
- the tax-free part of a genuine redundancy payment or an early retirement scheme payment
- superannuation benefits (for example, a **lump sum or income stream** from a super fund)
- foreign termination payments.

You may also pay tax on these amounts at a concessional rate.

You will receive one or more **end of year statements** that show the amounts you receive and the tax withheld. Use this information to complete your income tax return.

Tax treatment of an ETP

You usually pay a lower rate of tax on ETPs, if you receive the payment within 12 months of your termination.

ETPs have up to 3 tax treatments:

- **Tax-free**, if part of the payment is for invalidity or work done before 1 July 1983.
- **Concessionally taxed** up to a certain limit, known as a cap.
- Taxed at the top marginal rate of 45% plus Medicare levy (2%) on the amount over the relevant cap.

The rate of tax you pay depends on the components of payment you receive, see **How ETP components are taxed**.

For an ETP you receive more than 12 months after termination of employment, find out how **the 12-month rule** affects the tax you pay on the ETP.

You can't roll over your ETP to your superannuation.

Tax on unused entitlements when you leave a job

The tax you pay on unused leave, termination of employment or redundancy payments may be different to the tax you pay on your normal income. The tax you pay depends on both:

- the reason for leaving the job
- any unused entitlements you may have accrued, such as long service leave or sick leave.

If you receive any lump sum payments from your employer for unused annual leave or long service leave, you may pay **tax at a lower rate** than your other income. These lump sum payments will appear at either 'Lump sum A' or 'Lump sum B' on your income statement or payment summary.

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Your ETP end of year statement and your tax return

What to do when you receive your income statement or payment summary for your employment termination payment (ETP).

Last updated 9 June 2025

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What you will receive

Your employer will give you one or more **income statements** or payment summaries that shows the amounts you receive and the tax withheld.

We use the code on your income statement or payment summary to work out which cap to apply and the correct rate of tax for your situation. **ETPs are concessionally taxed** up to the cap.

If the code is **O** or **P**, your ETP is subject to the **whole-of-income cap**. This means if you earn more income after you leave work, you may pay more tax on your ETP when you lodge your tax return.

Your income statement or payment summary may also show a tax-free component. This is not assessable income. You do not need to include this amount in your tax return.

What you need to do

At the end of the income year, you will receive an income statement if your employer reports electronically. Otherwise, you will receive a PAYG payment summary.

Use the information in your income statement or payment summary to prepare your tax return.

Income statement

Once your employer finalises your tax and super information in **Single touch payroll** (STP), we will pre-fill your tax return and display the information as **Tax ready** in ATO online services.

Your income statement will include all lump sum amounts, taxable components, tax withheld and tax codes.

You can **access your income statement** in ATO online services. Make sure you review the pre-fill information before you submit your tax return.

PAYG payment summary

If your employer is not using STP, you will receive one or both of

- PAYG payment summary – individual non-business
- PAYG payment summary – employment termination payment.

PAYG payment summary – individual non-business

If you receive a *PAYG payment summary – individual non-business* (also known as a group certificate) you will need to declare the following amounts in your tax return:

- Lump sum A or B – unused annual leave and long service leave. These amounts are not part of your ETP, but you may pay tax on them at a concessional rate.
- Lump sum E – payments that relate to earlier income years and return-to-work payments.

You don't need to declare in your tax return amounts on your payment summary at:

- Lump sum D – tax-free component of a genuine redundancy or early retirement scheme payment.

This tax-free component is not part of your ETP and is not assessable income.

PAYG payment summary – employment termination payment

If your employer gives you a *PAYG payment summary – employment termination payment* it must be within 14 days of the payment date.

Your payment summary will show:

- the taxable component of your ETP
- the tax withheld
- a code for the type of ETP.

You will need to enter each of these amounts at Employment termination payments (ETP) in your tax return.

QC 72757

How ETP components are taxed

Find out how tax applies to the components of your employment termination payment (ETP).

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Tax treatment of an ETP

Tax-free amount

Taxable component

Concessional rates and caps

Tax treatment of an ETP

ETPs are generally fully taxable although in some cases they may also contain a tax-free amount.

After any tax-free amount is deducted from your payment, the balance is the taxable component. The taxable component of your ETP will be concessionally taxed up to certain limits, known as caps. The 'whole-of-income cap' or the 'ETP cap'.

Any amount over the relevant cap will be taxed at the top marginal rate of 45% plus Medicare levy of 2%.

Tax-free amount

A tax-free amount relates to:

- a pre-1983 component of employment

- an **invalidity** component
- the **tax-free element of a genuine redundancy**.

The tax-free component is **not**:

- assessable or exempt income (it is tax free) in all cases
- an amount you need to report in your return.

Taxable component

The type of termination payment will determine which cap applies to the taxable component and will fall into one of 2 payment categories:

- excluded
- non-excluded.

Excluded payments

The term 'excluded payments' refers to the following types of payments:

- genuine redundancy or early retirement scheme payments that exceed the tax-free limit
- invalidity
- compensation for personal injury, unfair dismissal, harassment or discrimination
- death benefit termination (see **Death benefit employment termination payments**).

The taxable component of these payments will be concessionally taxed up to the 'ETP cap'.

Non-excluded payments

The term 'non-excluded' may include the following payments:

- a ‘golden handshake’
- non-genuine redundancy payment
- severance pay
- a gratuity

- payment in lieu of notice
- unused sick leave
- unused rostered days off.

These payments are concessionally taxed up to the smaller of the ETP cap or the whole-of-income cap after they are reduced by your other amounts.

Your ETP is subject to the **whole-of-income cap**, if the code on your end of year statement is **O** or **P**.

Concessional rates and caps

The concessional tax rate is:

- 17% if you reach your **preservation age**
- 32% if you have not reached preservation age, up to the relevant cap.

Amounts above the relevant cap are taxed at the top marginal rate of 45% plus Medicare levy of 2% – see **Table A: Withholding rates for ETPs**.

The **ETP cap amount** for the 2024–25 income year is $245,000. This amount is indexed annually.

The **whole-of-income cap** is $180,000, this amount is not indexed. This cap is reduced by any other taxable income payments you receive in the income year.

The whole-of-income cap and your tax

Find out how the whole-of-income cap affects the amount of tax you pay on an employment termination payment.

The 12-month rule

What the 12-month rule for employment termination payments is and when it applies.

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The whole-of-income cap and your tax

Find out how the whole-of-income cap affects the amount of tax you pay on an employment termination payment.

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When the whole-of-income cap applies

How the whole-of-income cap works

How earning more income could affect your tax

When the whole-of-income cap applies

Your employer can tell you whether the whole-of-income cap applies to your ETP. Alternatively, if you've received an income statement or *PAYG payment summary – employment termination payment* from your employer, check the ETP code. If the code is **O** or **P,** the whole-of-income cap applies to your ETP.

If the whole-of-income cap applies to your ETP and you earn more income in the same income year you may need to pay more tax when you lodge your tax return. For example, if you get another job or earn investment income.

How the whole-of-income cap works

The whole-of-income cap is $180,000 minus other taxable income you earn throughout the income year. This amount is not indexed.

The taxable component of your ETP is taxed at either 17% or 32% up to your whole-of-income cap.

Any amounts over the whole-of-income cap are taxed at the top marginal tax rate of 45% plus Medicare levy of 2%.

Example: whole-of-income cap

Percival is a 51-year-old crane operator who earns $100,000 in wages. He decides to retire from his job in December 2024. Percival's employer pays him an ETP of $8,000 for unused rostered days off.

When working out the tax on Percival's ETP, his employer does the following:

Step 1: Calculates his whole-of-income cap as $80,000 (that is, $180,000 minus other taxable income of $100,000 wages).

Step 2: Calculates tax. As Percival's $8,000 ETP is less than his whole-of-income cap of $80,000, his employer taxes the whole $8,000 at 32%, which is $2,560.

Percival's income statement or *PAYG payment summary – employment termination payment* will show:

- the date of payment
- taxable component of $8,000
- tax-free component of $0
- total tax withheld of $2,560
- ETP code **O** indicating it is an ETP subject to the whole-of-income cap.

How earning more income could affect your tax

Your employer withholds tax from your ETP based on the taxable income they paid you before you left work. If you earn other taxable income in the same income year – for example, if you get another job – you may pay more tax on your ETP when you lodge your tax return.

This is because the other taxable income you earn will reduce your whole-of-income cap further.

Example: earning more income

Percival finds a new job as a crane operator in February 2025. He earns $75,000 in wages before the end of the income year.

He lodges his 2025 tax return and includes the details of his ETP using the information on his income statement or *PAYG payment summary – employment termination payment*.

We calculate Percival's whole-of-income cap using the taxable income he earned throughout the income year:

- $180,000
- minus $100,000 wages from his first job
- minus $75,000 wages from his second job
- equals $5,000 whole-of-income cap.

This means only $5,000 of Percival's $8,000 ETP is taxed at 32%. The remaining $3,000, which is over his whole-of-income cap, is taxed at the top tax rate. The additional tax owing on his ETP is:

- $5,000 at 32% = $1,600
- plus $3,000 at 47% = $1,410
- minus $2,560 tax withheld by his first employer
- equals $450.

Percival will receive a notice of assessment with an additional amount of $450 tax owing.

You can avoid the situation shown in this example. Before you earn other income and before the end of the income year, you can:

- seek professional advice from your tax agent or financial planner (visit the Tax Practitioners Board to find a registered tax agent)
- consider having additional tax withheld from wages from your second job to cover any increase of tax due to your ETP.

The 12-month rule

What the 12-month rule for employment termination payments is and when it applies.

Last updated 9 June 2025

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What is the 12-month rule

To receive concessional tax treatment an employment termination payment (ETP) must generally be paid within 12 months of termination.

You include payments outside the 12-month period in your assessable income and pay tax at your marginal tax rates.

The 12-month rule doesn't apply to the taxable component of genuine redundancy payments and early retirement scheme payments.

A payment that is made more than 12 months after termination can still be an ETP in the following circumstances:

- payments are covered by a legislative determination
- an exemption is granted.

Payments covered by a legislative determination

Check whether we've made a legislative determination that applies to your circumstances.

We have made legislative determinations that a termination payment received more than 12 months after termination of employment is to be treated as an ETP in any of the following circumstances:

- the delay is due to legal action that began within 12 months of the termination, provided the legal action concerned the entitlement to the payment or the amount of the entitlement
- the payment is made by a liquidator, receiver or trustee in bankruptcy of an entity that was otherwise liable to make the payment and the date of appointment of the liquidator, receiver or trustee is no later than 12 months after the termination of employment
- a payment is received from a redundancy trust in some cases.

For more on the tax determinations, see:

- ETP 2019/1 *Income Tax: Employment Termination Payments Redundancy Trusts (12-month rule) Determination 2019*
- ETP 2018/1 *Income Tax Employment Termination Payments (12-month rule) Determination 2018*

An exemption is granted

If you receive a termination payment more than 12 months after your employment was terminated, you can write to us and ask us to treat that payment as an ETP. This also applies if you receive an ETP due to the death of another person.

You need to provide enough information for us to work out whether the 12-month rule should be waived for a termination payment you receive.

You should include information about all of the following:

- the termination of the employment, including any dispute in relation to the termination
- the payment
- the person making the payment
- any other relevant circumstances.

To apply for an extension of time, you need to write to us and include all the relevant information (as above). There is no specific form to use.

Send your completed request to:

AUSTRALIAN TAXATION OFFICE
PO Box 3100

PENRITH NSW 2750

QC 72746

Genuine redundancy payments

Certain redundancy payments are tax-free up to a limit depending on your years of service with that employer.

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Genuine redundancy

Non-genuine redundancy

Amounts you include from a genuine redundancy

Amounts you exclude from a genuine redundancy

Genuine redundancy

A genuine redundancy payment is a payment made to you as an employee if your job is abolished and you no longer have a job. This means your employer has made a decision that your job no longer exists, and your employment is to be terminated.

Redundancy payments are a type of employment termination payment (ETP).

Your genuine redundancy payment is:

- **tax-free up to a limit** depending on your years of service
- concessionally **taxed as an employment termination payment (ETP)** above your tax-free limit
- taxed at your usual **marginal tax rate** for any amount above **certain caps.**

The tax-free amount of a genuine redundancy is not part of your ETP. Your employer will report any lump sum amounts on your income statement or *PAYG payment summary – individual non-business*.

Any amount over the tax-free limit is part of your ETP.

Changes to genuine redundancy and early retirement scheme payments

On 29 October 2019, changes to the age employees can access concessional tax treatment for **genuine redundancy and early retirement scheme payments** became law. The age-based limit of 65 years old has changed to the age pension age. You can check the age pension age on the Services Australia website.

This change applies to payments made to employees who are dismissed or retire on or after 1 July 2019.

Non-genuine redundancy

A non-genuine redundancy occurs when as an employee:

- your dismissal is because you reach normal retirement age
- you're age pension age or older on the day of dismissal
- you're leaving voluntarily
- you're leaving on termination of your contract
- your dismissal is for disciplinary or inefficiency reasons.

You pay tax on a non-genuine redundancy as part of your **ETP**. This means you generally pay tax at a lower rate than your normal income, if the payment doesn't exceed **certain caps**.

Amounts you include from a genuine redundancy

Depending on your employment conditions, a genuine redundancy payment may include:

- payment in lieu of notice
- severance payment of a number of weeks' pay for each year of service

- a gratuity or 'golden handshake'.

Any payments that meet the conditions of a genuine redundancy are tax-free up to a limit, depending on your years of service with your employer.

The tax-free limit is a whole dollar amount plus an amount for each year of service you complete in your period of employment with your employer. Indexation changes the tax-free limit on 1 July each year.

Your employer will report the tax-free amount as a lump sum on your income statement or *PAYG payment summary – individual non-business*.

Amounts you exclude from a genuine redundancy

You need to exclude the following payments from a genuine redundancy payment:

- salary, wages or allowances owing to you for work done or leave already taken for work completed
- lump sum payments of unused annual leave or leave loading paid on termination of employment
- lump sum payments of unused long service leave paid on termination of employment under a formal arrangement
- payments made in lieu of superannuation benefits.

QC 27128

Death benefit employment termination payments

A payment you receive from a person's employer after their death is a death benefit employment termination payment.

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Death benefit payment components

A death benefit employment termination payment (ETP) may have a tax-free and a taxable component.

The tax treatment of the taxable component depends on whether:

- you're a dependant of the deceased
- the payment exceeds the **ETP cap**.

ETP cap for death benefits

We index the ETP cap each year. The ETP cap in 2024–25 is $245,000.

The death benefit ETP cap amount is independent of the life benefit ETP cap amount. This means payments that count towards one cap will not count towards the other.

Meaning of dependant

You're a dependant of the deceased if, at the time of their death, you were one of the following:

- a surviving spouse
- a former spouse
- a child of the deceased who is less than 18 years old
- any other person who was financially dependent on the deceased

- any person who had an interdependency relationship with the deceased.

A **spouse** of the deceased includes another person (of any sex) who:

- was in a relationship with the deceased as registered under a prescribed state or territory law
- lived with the deceased on a genuine domestic basis in a relationship as a couple, although not legally married.

A **child** of the deceased includes:

- an adopted child, stepchild or ex-nuptial child
- a child of the deceased's spouse
- a child of the deceased within the meaning of the *Family Law Act 1975* (for example, a child who is considered to be a child of a person under a state or territory court order giving effect to a surrogacy agreement).

An **interdependency relationship** includes:

- a close personal relationship between 2 people who live together, where one or both provides for the financial and domestic support and personal care of the other
- a close personal relationship between two people who live together but do not satisfy one or more of the requirements mentioned in the previous dot point due to either or both of them suffering from a physical, intellectual or psychiatric disability.

Payment to a dependant

If you receive the ETP directly and not through a trust, tax is withheld (including Medicare levy) on the payment as follows:

- The tax-free component of the death benefit will not be subject to tax.
- The amount of the taxable component up to the ETP cap will be tax-free.
- Tax is withheld at 45% plus Medicare levy of 2% on the amount of the taxable component above the ETP cap.

You should receive a *PAYG payment summary – employment termination payment* from the deceased's former employer.

The taxable component above the ETP cap is the amount the employer will report on the payment summary.

Payment to a non-dependant

If you receive the ETP directly and not through a trust, tax is withheld (including Medicare levy) on the payment as follows:

- The tax-free component of the death benefit will not be subject to tax.
- Tax is withheld at 32% on the amount of the taxable component up to the ETP cap.
- Tax is withheld at 45% plus Medicare levy of 2% on the amount of the taxable component above the ETP cap.

You include the taxable component in your assessable income.

Payment to the trustee of a deceased estate

If the payment goes to the trustee of a deceased estate, the trustee pays tax on the death benefit ETP. Tax is withheld in the same way it would be if the payment was made to a dependant or non-dependant. The exception is that the Medicare levy (2% for 2024–25) does not apply.

The trustee of the deceased estate will receive *a PAYG payment summary – employment termination payment* from the deceased's employer.

The payment summary will show both the tax-free and taxable components of the ETP.

QC 50514

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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