

q&a

Canberra times: q&a

Q 1: I am 48 years of age and have just lost my job after 15 years with the company. I have received a redundancy payment of \$40,000 and payments for leave entitlements of \$10,000. I still have a mortgage of \$80,000 and a personal loan of \$10,000. What tax will I need to pay on receiving these entitlements and are there any issues I should be aware of?

Withheld, Canberra

A 1: Being made redundant can obviously be a very unsettling time personally and financially, so it is very important to get specific advice for your circumstances from a Certified Financial Planner, to make sure all relevant aspects of your financial situation are being considered. Here are some comments regarding your tax position:

- 1) The \$40,000 redundancy payout will be assessed for tax against a tax free component being \$3,676 for each completed year of service plus \$7,350. Assuming 15 years of completed service your eligible tax free amount would be \$62,490 for the 2008/2009 financial year. As your payout is less than \$62,490 then the entire \$40,000 will be tax free. This is the additional payment you receive over and above any other entitlements you normally have for annual leave and long service leave etc.
- 2) Your leave entitlement payout of \$10,000 will be taxed at a flat 31.5% (as all service is after 18/8/1993) leaving you with cash in hand of \$6,850. So, you will receive total cash in hand from your payout totaling \$46,850.

You now need to make some sensible decisions regarding these funds and often the best decision will be determined by how confident you are with finding other employment, specifically in what timeframe and at what salary. Here are some thoughts:

- 1) If you are to find new employment quickly then using your payout to reduce debt is often a good start. This can relieve some financial pressure, particularly if you can retire some debt where you are paying a higher interest rate, such as the personal loan. (Where there is no debt then this can be an opportunity to invest funds into superannuation or some other investment outside of super.)
- 2) If you are concerned that it may take some time to find a new job, then keeping the redundancy payment proceeds available to fund living expenses may be the best option. Going further, it may be best not to pay off any debt principal, rather keep the funds available to service the loans you have, as this can buy you more time while keeping your financial commitments under control.

Other issues to consider will be whether you can access any superannuation (from previously restricted non-preserved or unrestricted non-preserved components), whether you now need to rollover your super to a new plan, determine what position you are in with respect to retaining personal insurance policies previously held within your employer super plan and understanding whether you are entitled to any Government assistance while looking for a new job.

There are many issues to consider to make sure you are making the best choices. While this will undoubtedly be a stressful time, this may also provide an opportunity to restructure, recharge and get ahead financially.

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