

**BUSINESS**

PAYERS

TAX TABLE

NAT 3351-05-2006

SEGMENT

AUDIENCE

FORMAT

PRODUCT ID



**Australian Government**

**Australian Taxation Office**

## **SCHEDULE 28**

### **PAY AS YOU GO (PAYG) WITHHOLDING**

# **Tax table for unused leave payments on termination of employment**



**FOR PAYMENTS MADE ON  
OR AFTER 1 JULY 2006.**



This document is a withholding schedule made by the Commissioner of Taxation in accordance with sections 15–25 and 15–30 of Schedule 1 to the *Taxation Administration Act 1953*. It applies to withholding payments covered by section 12–90 of Schedule 1.



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## WHO SHOULD USE THIS TABLE?

Use this table if you pay an amount for a payee's unused leave on the termination of their employment or office.

Unused leave payments on termination of employment or office include payments for unused annual leave, holiday pay, leave loading, leave bonuses and unused long service leave.

Before calculating the amount to be withheld, you must determine if the payments are being made as a result of bona fide redundancy, invalidity or an Approved Early Retirement Scheme.

## HOW TO WORK OUT WITHHOLDING AMOUNTS

### If the payee has given you their tax file number (TFN)

The amount to be withheld is calculated using the table below.

❗ If the post-17 August 1993 lump sum payment from normal termination is less than \$300, you must withhold the lesser of:

- the amount worked out using the table below, or
- 35.5% of the payment.

## MARGINAL RATE CALCULATION

- 1 Using the relevant PAYG withholding tax table, work out the amount to withhold from the payee's normal gross earnings for a regular pay period.
- 2 Divide the amount of the payment by the number of normal pay periods in 12 months (12 monthly payments, 26 fortnightly payments or 52 weekly payments).
- 3 Disregard any cents.
- 4 Add the amount at step 3 to the normal gross earnings for a single pay period.
- 5 Use the same PAYG withholding tax tables used at step 1 to work out the amount to withhold from the amount at step 4.
- 6 Subtract the amount at step 1 from the amount at step 5.
- 7 Multiply the amount obtained at step 6 by the number of normal pay periods in 12 months (12 monthly payments, 26 fortnightly payments or 52 weekly payments).

### If the payee has not given you their TFN

You must withhold 46.5% of the payment if the payee is a resident and has not provided you with their TFN. If the payee is a foreign resident who has not provided you with their TFN, you must withhold 45% of the payment.

Payment type	Reason	Accrual dates	Withholding rates (including Medicare levy)	Payment Summary label
Long service leave	Normal termination (eg voluntary resignation, employment terminated due to inefficiency, retirement)	Pre-16 August 1978	5% of total @ marginal rate	B
		16 August 1978 to 17 August 1993	31.5%	A
		Post-17 August 1993	Marginal rate	Include in salary/ wages
	Termination because of <i>bona fide</i> redundancy, invalidity or Approved Early Retirement Scheme	Pre-16 August 1978	5% of total @ marginal rate	B
		16 August 1978 to 17 August 1993	31.5%	A
		Post-17 August 1993	31.5%	A
Annual leave	Normal termination (eg voluntary resignation, employment terminated due to inefficiency, retirement)	Pre-18 August 1993	31.5%	A
		Post-17 August 1993	Marginal rate	Include in salary/ wages
	Termination because of <i>bona fide</i> redundancy, invalidity or Approved Early Retirement Scheme		31.5%	A
Annual leave loading (over \$320)	Normal termination (eg voluntary resignation, employment terminated due to inefficiency, retirement)	Pre-18 August 1993	31.5%	A
		Post-17 August 1993	Marginal rate	Include in salary/ wages
	Termination because of <i>bona fide</i> redundancy, invalidity or Approved Early Retirement Scheme		31.5%	A

## EXAMPLE

The following example uses the *PAYG withholding – Weekly tax table* (NAT 1005) effective from 1 July 2006.

Beth retires on 31 December 2006. Beth has exactly 35 years service (she started working for her employer on 1 January 1972). She qualified for long service leave after 10 years, with further leave accruing on each completed year of service.

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

Her normal weekly earnings are \$600. She has quoted her tax file number and is not entitled to leave loading, therefore, the amount withheld is calculated using column 3 of the weekly tax table.

### Details of payment for long service leave

Pre-16 August 1978 component = \$4,750.00

16 August 1978 to 17 August 1993 component = \$8,500.00

Post-17 August 1993 component = \$11,750.00

### Amounts to be withheld

Pre-16 August 1978 component =  $\$4,750.00 \times 5\% = \$237.50$

The marginal rate calculation is used to work out the amount to be withheld from this component.

16 August 1978 to 17 August 1993 component =  $\$8,500.00 \times 31.5\% = \$2,677.50$

The post-17 August 1993 component of \$11,750.00 is also to be withheld at the marginal rate. To simplify the marginal rate calculation for this payee, the pre-16 August 1978 component and the post-17 August 1993 component are added together first =  $\$237.50 + \$11,750.00 = \$11,987.50$

Now apply the marginal rate calculation to the sum of the two components.

Step	Instruction	Result
1	Amount to be withheld from normal gross earnings (\$600)	\$100
2	Divide the amount of the payment by the number of normal pay periods in 12 months ( $\$11,987.50/52$ )	\$230.53
3	Disregard any cents	\$230
4	Add the amount at step 3 to normal gross earnings for a single pay period ( $\$600 + \$230$ )	\$830
5	Work out amount to be withheld from amount at step 4 (\$830)	\$173
6	Subtract the amount at step 1 from the amount at step 5 ( $\$173 - \$100$ )	\$73
7	Multiply the amount at step 6 by the number of normal pay periods in 12 months ( $\$73 \times 52$ )	\$3,796

The total amount to be withheld from the three components are  $\$2,677.50 + \$3,796.00 = \$6,474.00$  (see 'Rounding of withholding amounts').

## NORMAL GROSS EARNINGS

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

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

## TAX FILE NUMBER DECLARATION

Any *Tax file number declaration* a payee provided to you while they were working for you will only be effective for the period that they were working for you and a period of 12 months after you make the last payment to the payee.

## ROUNDING OF WITHHOLDING AMOUNTS

Withholding amounts calculated by applying this table should be rounded to the nearest dollar. Values of 50 cents or higher are rounded upwards. If a TFN is not provided, ignore cents when calculating withholding amounts.

## PAYG WITHHOLDING PUBLICATIONS

For more information on withholding from unused leave payments on termination of employment, refer to *Unused annual leave and long service leave – a guide for employers* (NAT 3032).

All PAYG withholding tax tables and other PAYG publications can be accessed quickly and easily from [www.ato.gov.au](http://www.ato.gov.au)

Copies of weekly and fortnightly tax tables are available from most newsagents. Newsagents also hold copies of the *Tax file number declaration* (NAT 3092) and the *Withholding declaration* (NAT 3093).

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