



# Withholding from unused leave payments on termination of employment

Work out the amount to withhold from payments of unused annual and unused long service leave when an employee leaves.

**Last updated** 1 May 2020

Under the pay as you go (PAYG) withholding system, when an employee leaves, you may have to withhold from unused leave payments.

## [Payments when no tax file number \(TFN\) is quoted](#)

Special rules for withholding apply to payments made to an employee who has not given you a valid TFN, where you withhold tax at a higher rate.

## [Payments made after death](#)

You do not withhold tax from unused leave payments made after the death of an employee and you do not show these payments on their payment summary.

## [Unused annual leave](#)

You need to withhold tax from payments of unused annual leave on termination of employment. To calculate the correct amount to be withheld from a payment of unused annual leave, you need to know what the payment is for, why it was accrued or paid and, in some cases when it was accrued.

## [Unused long service leave](#)

You need to withhold tax from payments of unused long service leave on termination of employment. The amount to be withheld from a

payment of unused long service leave depends on a number of factors, including key dates, and whether the employee accrued the leave during full-time or part-time service.

### [Definitions](#)

This section explains commonly used terms.

**Payments when no tax file number (TFN) is quoted**



**Payments made after death**



**Unused annual leave**



**Unused long service leave**



**Definitions**



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## **Payments when no tax file number (TFN) is quoted**

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The usual rules for withholding do not apply to payments made to an employee who does not quote a valid TFN.

If no TFN is provided to you, withhold:

- 47% (from 1 July 2017) from any payment of unused leave to a resident employee
- 45% (from 1 July 2017) from any payment of unused leave to a foreign resident employee.

Go to Tax table for unused leave payments on termination of employment (NAT 3351).

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## Payments made after death

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You do not withhold from payments for unused annual leave, leave loading and unused long service leave made after the death of an employee.

Do not show these payments on your deceased employee's payment summary.

Go to **PAYG withholding - death of an employee** for more information.

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## Unused annual leave

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Payments of unused annual leave on termination of employment are subject to PAYG withholding. You need to know how to calculate the correct withholding and how to complete the employee's payment summary.

## Calculate the correct amount to withhold

To calculate the correct amount to be withheld from a payment of unused annual leave, you will need to know:

- how much of the payment relates to unused annual leave
- how much of the payment relates to a bonus or additional payment relating to that leave
- whether or not the payment is being made for early termination of employment
  - through genuine redundancy
  - through invalidity
  - as part of an early retirement scheme
- if the payment is not being made under any of the above, how much of the payment is for leave accrued on or after 18 August 1993.

**Next steps:**

Genuine redundancy, invalidity or an early retirement scheme

Leaving employment for other reasons

## **Genuine redundancy, invalidity or an early retirement scheme**

A genuine redundancy, invalidity or an early retirement scheme means the following apply:

- The termination time is before the time that retirement or termination would ordinarily have occurred.
- The termination occurs before the employee reached their age pension age.
- You have not been party to any agreement to employ the person later.

See [Definitions](#) for more information

## **Withholding rate**

Use Table 1 to work out withholding rates for payments for unused annual leave and leave loading.

**Table 1: Withholding rates**

Payment type	Withholding rate
Annual leave	32% of the total amount, disregarding any cents
Leave loading	32% of the total amount, disregarding any cents

### **Example 1: Leaving employment because of invalidity.**

Greg is retiring early because of invalidity.

Greg is to be paid a lump sum of \$2,260 for unused annual leave and \$420 leave loading. Total amount subject to withholding is \$2,680.

Amount withheld:

$\$2,680 \times 32\% = \$857$  (disregarding cents)

## **Completing payment summaries for unused annual leave**

This information applies if you make a payment to an employee for unused annual leave on termination of employment because:

- of genuine redundancy
- of invalidity
- they have accepted an offer under an early retirement scheme.

The total amount of the payment (unused annual leave and leave loading, if applicable) is shown at 'Lump Sum A'. The amount withheld from the payment is included with any other withheld amounts at 'Total tax withheld'.

## **Leaving employment for other reasons**

There are payments of unused annual leave made on termination of employment that occur for other reasons such as:

- voluntary resignation
- termination due to inefficiency
- retirement.

You need to:

- [calculate the pre-18 August 1993 payment component](#)
- [calculate the amount to be withheld](#)
- [complete the payment summary](#).

## Calculate the pre-18 August 1993 payment component

Any part of a payment for unused annual leave that accrued before 18 August 1993 has different withholding requirements to payments of unused annual leave accrued on or after this date. You need to calculate the portion (if any) of the payment relating to service before 18 August 1993 using the following formula:

Unused Annual Leave Payment

×

(number of days that accrued before 18 August 1993 ÷ Number of days in total period of service)

The number of days in the total period of service is the number of whole days over which the unused annual leave accrued; assuming that this leave accrued in accordance with the employee's ordinary conditions of employment.

### Example 2: Resignation with annual leave accrued before and after 18 August 1993

Helen resigns from her job on 17 September 2014 after 22 years of service and receives a payment of \$85,000 for 56 weeks of unused annual leave. Under the conditions of her employment, Helen is entitled to four weeks of annual leave for each year of service.

The total number of days in the accrual period of Helen's unused annual leave is 8,035 days (the period from 18 September 1992

to 17 September 2014).

The number of days in the accrual period that occurred before 18 August 1993 is 334 (from 18 September 1992 to 17 August 1993). Therefore, the component of Helen's payment which accrued before 18 August 1993 is:

$$\$85,000 \times (334 \div 8,035) = \$3,533 \text{ (disregarding cents).}$$

The component of payment for service on or after 18 August 1993 is:

$$\$85,000 - \$3,533 = \$81,467.$$

The amount to be withheld would then be calculated according to the [tables](#).

### **Example 3: Resignation with annual leave accrued after 18 August 1993**

Debbie resigns from her job on 31 October 2014 after 34 years of service and receives a payment of \$2,000 for four weeks of unused annual leave. Under the conditions of her employment Debbie is entitled to four weeks annual leave for each year of service. As Debbie has already used most of her annual leave throughout her employment the remaining balance of four weeks annual leave means that the accrual period of Debbie's annual leave is 1 November 2013 to 31 October 2014.

As the whole period is after 18 August 1993, all of Debbie's payment of \$2,000 is for service on or after 18 August 1993.

## **Calculate the amount to be withheld**

'Leaving employment for other reasons' means that an individual's employment is **not** being terminated because:

- of genuine redundancy
- of invalidity
- they have accepted an offer under an early retirement scheme.

Use tables 2 and 3 to work out how much tax to withhold for employees who are leaving for other reasons.

**Table 2: Withholding rate for amount accrued before 18 August 1993**

Payment type	Withholding rate
Annual leave	32% of the total amount, disregarding any cents.
Leave loading	32% of the total amount, disregarding any cents.

**Table 3: Withholding rate for amount accrued on or after 18 August 1993**

Payment type	Marginal rates calculations
Annual leave	<p><b>Step A</b></p> <p>Add any leave loading to the annual leave amount.</p> <p><b>Step B</b></p> <p>If the total of unused annual leave in respect of service on or after 18 August 1993 is less than \$300, withhold 32% of the total amount, disregarding any cents.</p> <p>If the total of unused annual leave is \$300 or more:</p> <ol style="list-style-type: none"> <li>1. using the relevant PAYG withholding tax tables, work out the amount to withhold from the employee's normal gross earnings for a regular pay period (for example, weekly, fortnightly or monthly)</li> <li>2. divide the post-17 August 1993 leave amount by the number of normal pay periods in 12 months (for example, 12 monthly payments, 26 fortnightly payments or 52 weekly payments)</li> <li>3. disregard any cents for the amount calculated at step 2</li> <li>4. add the amount at step 3. to the normal gross earnings for a single pay period</li> </ol>



	<p>5. use the PAYG withholding tax tables used at step 1. to work out the amount to withhold from the amount calculated at step 4.</p> <p>6. subtract the amount calculated at step 1. from the amount calculated at step 5</p> <p>7. multiply the result from step 6. by the number of normal pay periods in 12 months to obtain the amount to withhold from the unused annual leave amount.</p>
Leave loading	Add any leave loading to the annual leave amount for calculation of the amount to be withheld.

## Example 4: Resignation

Mark, who resigned on 24 July 2014, is to be paid a lump sum of \$4,000 for four weeks of unused annual leave.

Under the conditions of his employment, Mark is entitled to four weeks annual leave per year of service. Mark's normal gross earnings are \$1,000 per week.

Mark is not leaving because of genuine redundancy, invalidity, or under an early retirement scheme.

No unused annual leave accrued before 18 August 1993.

The total amount that accrued on or after 18 August 1993 is \$4,000.

**Withholding is calculated using marginal rates as outlined in the following steps:**

Step	Instruction	Result
1	Using the Weekly tax table work out amount to be withheld from normal	\$183

	gross earnings for a single pay period (\$1,000.00 per week).	
2	Divide \$4,000.00 by the 52 normal pay periods in one year ( $\$4,000.00 \div 52$ ).	\$76.92
3	Disregard cents in the result.	\$76
4	Add amount at step 3 to normal gross earnings for a single pay period ( $\$1,000.00 + \$76.00$ ).	\$1,076
5	Using the Weekly tax table calculate the amount to be withheld from the result at step 4.	\$209
6	Subtract the amount withheld from normal gross earnings from the amount at step 5 ( $\$209.00 - \$183.00$ ).	\$26
7	Multiply the amount at step 6 by the number of normal pay periods in one year ( $\$26.00 \times 52$ ).	\$1,352

The amount to be withheld from Mark's payment of \$4,000 of unused annual leave is \$1,352.

## Complete the payment summary

When you are making a payment of unused annual leave and leave loading on termination of employment, the amount that accrued before 18 August 1993 is shown on the employee's payment summary at 'Lump Sum A'.

Any amounts of unused annual leave and leave loading that accrued on or after 18 August 1993 are included at 'Gross payments' along with any other amounts.

All the amounts that are being withheld are included with other withheld amounts at 'Total tax withheld'.

# Unused long service leave

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Payments for unused long service leave on termination of employment are subject to PAYG withholding.

An employee does not normally become entitled to long service leave until the end of an initial period of service. Additional long service leave can then accrue over the term of employment. The period of time over which long service leave has accrued is known as the 'eligible service period'.

The amount to be withheld from a payment of unused long service leave depends on a number of factors. These include:

- the date that the eligible service period started
- whether any long service leave has already been taken
- whether the employee accrued the leave during full-time or part-time service.

## [Why the employee is leaving](#)

The key factor in working out withholding for payment of unused long service leave is the reason why the employee is leaving – whether it is because of genuine redundancy, invalidity or through an early retirement scheme, or for another reason.

## [Calculate the correct amount to withhold](#)

To calculate the correct amount to be withheld from a payment of unused long service leave, you follow a three-step process of working out when leave was accrued, what payment relates to each period and, finally, how much to withhold.

## [Completing the payment summary](#)

How you complete your employee's payment summary depends on whether they are leaving because of genuine redundancy, invalidity or through an early retirement scheme, or for another reason.

## [Examples](#)

We provide examples covering genuine redundancy and retirement in scenarios with differing amounts of long service leave used and different periods of service.

**Why the employee is leaving**



**Calculate the correct amount to withhold**



**Completing the payment summary**



**Examples**



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## Why the employee is leaving

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The key factor in working out withholding for payment of unused long service leave is the reason why the employee is leaving whether it is because of genuine redundancy, invalidity or through an early retirement scheme, or for another reason.

### Genuine redundancy, invalidity or an early retirement scheme

This means the employee is leaving employment because of genuine redundancy, invalidity or an early retirement scheme and:

- the termination time is before the time that retirement or termination would ordinarily have occurred (and in any event before the employee turns 65)
- you have not been party to any agreement to employ the person later.

See [Definitions](#) for more information.

The amount to be withheld will depend on the period in which the leave was accrued. To calculate the amount to be withheld in cases where the employee's eligible service period started before 16 August 1978, you will need to divide the payment into the:

- pre-16 August 1978 component
- post-15 August 1978 component.

Once you have divided the employee's payment into these components, see [Calculate the correct amount to withhold](#).

## Leaving employment for other reasons

Payments of unused long service leave made on termination of employment can occur for other reasons such as:

- voluntary resignation
- termination due to inefficiency
- retirement.

In these circumstances you will need to divide the payment into the:

- pre-16 August 1978 component
- pre-18 August 1993 component (that is, for the period 16 August 1978 to 17 August 1993)
- post-17 August 1993 component.

Once you have divided the employee's payment into these components, see [Calculate the correct amount to withhold](#).

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## Calculate the correct amount to withhold

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When making a payment of unused long service leave on termination of employment you need to calculate certain payment components that have different withholding requirements. These components are:

- pre-16 August 1978
- pre-18 August 1993 (that is, for the period 16 August 1978 to 17 August 1993)
- post-17 August 1993.

To calculate the amount to withhold, follow the three-step process:

- [Step 1 – work out the amount of long service leave accrued in each period](#)
- [Step 2 – work out the payment amount attributable to each period](#)
- [Step 3 – calculate the amounts to be withheld.](#)

## Step 1 – Work out the amount of long service leave accrued in each period

Use the following formula to work out the amount of long service leave accrued in each period:

Days of long service leave accrued during long service leave  
employment period

×

Days in relevant period ÷ Days in long service leave employment  
period

The relevant period can mean the:

- pre-16 August 1978 period
- pre-18 August 1993 period (that is, for the period 16 August 1978 to 17 August 1993)
- post-17 August 1993 period (as applicable).

You may need to know how to treat:

- [fractions of days](#)
- [an employee who has used long service leave](#)
- [long service leave taken at less than full pay.](#)

## Fractions of days

The calculation at step 1 can result in fractions of days being applicable to the relevant period. If the employee:

- has **not** accrued any long service leave in the pre-16 August 1978 period, but **has** accrued long service leave during the pre-18 August 1993 and the post-17 August 1993 periods, treat the fraction as having accrued during the pre-18 August 1993 period
- **has** accrued long service leave in all three periods, treat the fraction as having accrued during the pre-16 August 1978 period.

## When an employee has used long service leave

If an employee has used long service leave while employed, you need to reduce the number of days of long service leave in a particular period by the number of days used in that period.

There may be occasions when the number of days of long service leave used in a particular period exceeds the number of days that were accrued in the same period. If this is the case, the following table provides instructions on how to apply these excess days.

**Table 4: How to apply excess days**

<b>If there are excess days in the period:</b>	<b>Apply the excess days as follows:</b>	<b>If, after applying the excess days as in column 2 any excess days remain, apply the remaining days as follows:</b>
Pre-18 August 1993	Subtract the excess days from the unused days in the post-17 August 1993 period	Subtract the excess days from the unused days in the pre-16 August 1978 period
Post-17 August 1993	Subtract the excess days from the unused days in the pre-18 August 1993 period	Subtract the excess days from the unused days in the pre-16 August 1978 period

The number of days that are remaining after applying this table is the unused long service leave days applicable for each period.

#### Example 5

John retires on 30 June 2015 with long service leave due of 224 days after 44 years (16,071 days) service. Service for the pre-18 August 1993 period (that is, from 16 August 1978 to 17 August 1993) is 5,481 days, and service after 17 August 1993 is 7,988 days. John has not taken any long service leave before retiring.

##### Pre-18 August 1993 period

Days of long service leave accrued during long service leave employment period

×

Days in pre-18 August 1993 period ÷ Days in long service leave employment period

$$= 224 \times (5,481 \div 16,071)$$

$$= 76.39 \text{ days (rounded to two decimal places)}$$

$$= 76 \text{ days (fraction of 0.39 days applied to pre-16 August 1978 period)}$$

##### Post-17 August 1993 period

Days of long service leave accrued during long service leave employment period

×

Days in post-17 August 1993 period ÷ Days in long service leave employment period

$$= 224 \times (7,988 \div 16,071)$$

$$= 111.34 \text{ days (rounded to two decimal places)}$$

$$= 111 \text{ days (fraction of 0.34 days applied to pre-16 August 1978 period)}$$



Pre-16 August 1978 period

Days of long service leave accrued during long service leave  
employment period

×

(Days in pre-16 August 1978 period ÷ Days in long service leave  
employment period)

= 224 × (2,602 ÷ 16,071)

= 36 days (rounded to two decimal places)

= 36 days + 0.39 + 0.34 (adding back the fractions of days)

= 37 days (rounded)

## Long service leave taken at less than full pay

If an employee has taken long service leave at less than full pay, the number of days of long service that are used is calculated as follows:

Actual days of long service leave

×

Rate of pay at which leave was actually taken ÷ Rate of pay to which  
the employee was entitled to when taking leave

### Example 6

Nav took 100 actual days of long service leave at a rate of \$30 per hour, when she is normally entitled to \$40 per hour.

100 actual days of long service leave × (30 ÷ 40)

= 75 days of long service leave days used.

Nav is taken to have used 75 days of long service leave.

## Step 2 – Work out the payment amount attributable to each period

Use the following formula to work out the payment amount attributable to each period:

$$\begin{array}{c} \text{Amount of the payment} \\ \times \\ \text{Unused long service leave days in the relevant period} \div \text{Total unused} \\ \text{long service leave days} \end{array}$$

Where:

- unused long service leave days in the relevant period means the number of unused days of long service leave in the pre-18 August 1993 period, the post-17 August 1993 period, or the pre-16 August 1978 period (as applicable)
- total unused long service leave days means the total number of unused days of long service leave in the in the long service leave employment period for the payment.

### Part-time and full-time service periods

Situations may arise where a part-time employee has moved onto full-time service during their employment with you. When making a payment of unused long service leave on termination of employment, you will need to separate the employee's full-time and part-time service periods. The long service leave entitlement for each period is then calculated separately.

## Step 3 – Calculate the amounts to be withheld

How you work out the amount to withhold depends on whether your employee is leaving because of genuine redundancy, invalidity or through an early retirement scheme, or for another reason.

### Leaving employment because of genuine redundancy, invalidity or an early retirement scheme

Once the component values have been calculated (see [step 2](#)), specific withholding rates are applied to each, as shown in the following table.

**Table 5: Withholding rates**

Component	Withholding rate
Pre-16 August 1978	5% of total at marginal rate, disregarding any cents
Post-15 August 1978	32%, disregarding any cents

## Leaving employment for other reason

Once the component values have been calculated (see [step 2](#)), specific withholding rates are applied to each, as shown in the following table.

**Table 6: Withholding rates**

Component	Withholding rate
Pre-16 August 1978	5% of total at marginal rate, disregarding any cents
Pre-18 August 1993 (for example 16 August 1978 to 17 August 1993)	32%, disregarding any cents
Post-17 August 1993	<p>If this unused long service leave component (and unused annual leave) is less than \$300, withhold 32% of the total amount, disregarding any cents.</p> <p>If this unused long service leave component (and unused annual leave) is \$300 or more use the following steps for the marginal rates calculation:</p> <ol style="list-style-type: none"> <li>1. using the relevant PAYG withholding tax tables, work out</li> </ol>

	<p>the amount to withhold from the employee's normal gross earnings for a regular pay period (for example, weekly, fortnightly or monthly)</p> <ol style="list-style-type: none"> <li>add 5% of the pre-16 August 1978 component to the post-17 August 1993 component</li> <li>divide the amount at step 2. by the number of regular periods in a financial year (52 weeks, 26 fortnights or 12 months)</li> <li>disregard any cents in the result</li> <li>add the amount at step 4. to the normal gross earnings for a single pay period</li> <li>use the regular PAYG withholding tax table used at step 1. to work out the amount to withhold from the amount calculated at step 5</li> <li>subtract the withholding amount calculated at step 1. from the amount calculated at step 6</li> <li>multiply the amount calculated at step 7. by the number of normal pay periods in 12 months to obtain the amount to withhold from the unused long service leave amount.</li> </ol>
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## Completing the payment summary

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How you complete your employee's payment summary depends on whether they are leaving because of genuine redundancy, invalidity or through an early retirement scheme, or for another reason.

## Leaving employment because of genuine redundancy, invalidity, or early retirement scheme

The amount of unused long service leave that accrued **before** 16 August 1978 is shown at 'Lump Sum B' on the employee's payment summary.

Any amount of unused long service leave that accrued **after** 15 August 1978 is shown at 'Lump Sum A' with any other amounts.

All amounts withheld are to be included with other withheld amounts at 'Total tax withheld'.

## Leaving employment for other reason

The amount of unused long service leave that accrued **before** 16 August 1978 is shown at 'Lump Sum B' on the employee's payment summary.

Any amount of unused long service leave that accrued **after** 15 August 1978 is shown at 'Lump Sum A' with any other amounts.

Any amount of unused long service leave that accrued **after** 17 August 1993 is shown at 'Gross payments' with any other amounts.

All amounts withheld are to be included with other withheld amounts at 'Total tax withheld'.

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## Examples

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## Genuine redundancy

### **Example 7: Genuine redundancy, no long service leave used, no pre-16 August 1978 service**

Robyn is made redundant on 14 January 2015. She has not yet reached normal retirement age and there is no agreement with her employer to employ her later.

Robyn has just over 10 years of service, starting her employment on 1 January 2005. She qualified for long service after 10 years, with further leave accruing on each complete year of service.

On termination of employment she is going to be paid an amount for unused long service leave of \$8,000, which is equal to 40 days of unused leave.

Her normal weekly earnings are \$1,000. She has quoted her tax file number and has claimed the tax-free threshold.

#### **Amount of long service leave accrued in each period**

As all of Robyn's service relates to the post-15 August 1978 period, the number of days applicable to this period is 40.

#### **Payment attributable to each period**

As all of Robyn's service relates to the post-15 August 1978 period, the entire payment of \$8,000 is attributable to this period.

#### **Amount to be withheld**

Post-15 August 1978 component =  $\$8,000 \times 32\%$   
= \$2,560

## Retirement

### **Example 8: Retirement, no long service leave used, pre-16 August 1978 service**

Matt retires on 31 December 2014. He has exactly 38 years of service (13,879 days), starting with his employer on 1 January 1977. Long service leave due is 270 days.

He is not leaving because of genuine redundancy, invalidity or under an early retirement scheme.

On termination of employment he is to be paid an amount of \$80,000 for unused long service leave.

His normal weekly wage is \$1,200. He has quoted his tax file number and has amounts withheld calculated using column 2 'With tax-free threshold'.

### **Total eligible service period**

Pre-16 August 1978 period

Number of days from 1 January 1977 to 15 August 1978 = 592 days

Pre-18 August 1993 period

Number of days from 16 August to 17 August 1993 = 5,481 days

Post-17 August 1993 period

Number of days from 18 August 1993 to 31 December 2014 = 7,806 days

### **1. Amount of long service leave accrued in each period**

#### **Pre-18 August 1993 period**

Days of long service leave accrued during long service leave employment period

×

(Days in pre-18 August 1993 period ÷ Days in long service leave employment period)

= 270 × (5,481 ÷ 13,879)

= 106.63 (rounded to two decimal places)

= 106 days (fraction of 0.63 days applied to pre-16 August 1978 period)

### **Post-17 August 1993 period**

Days of long service leave accrued during long service leave  
employment period

×

(Days in post-17 August 1993 period ÷ Days in long service leave  
employment period)

$$= 270 \times (7,806 \div 13,879)$$

$$= 151.86 \text{ (rounded to two decimal places)}$$

= 151 days (fraction of 0.86 days applied to pre-16 August 1978  
period)

### **Pre-16 August 1978 period**

Days of long service leave accrued during long service leave  
employment period

×

(Days in pre-16 August 1978 period ÷ Days in long service leave  
employment period)

$$= 270 \times (592 \div 13,879)$$

$$= 11.52 \text{ (rounded to two decimal places)}$$

$$= 11.52 + 0.63 + 0.86 \text{ (adding back the fractions of days)}$$

$$= 13 \text{ days (rounded to whole days)}$$

## **2. Payment attributable to each period**

### **Pre-18 August 1993 period**

Amount of the payment

×

Unused long service leave days in the pre-18 August 1993  
period ÷ Total unused long service leave days

$$= \$80,000 \times (106 \div 270)$$

$$= \$31,407 \text{ (rounded to nearest dollar)}$$

### **Post-17 August 1993 period**



Amount of the payment

×

Unused long service leave days in the post-17 August 1993  
period ÷ Total unused long service leave days

$$= \$80,000 \times (151 \div 270)$$

$$= \$44,741 \text{ (rounded to nearest dollar)}$$

### Pre-16 August 1978 period

Amount of the payment

×

(Unused long service leave days in the pre-16 August 1978  
period ÷ Total unused long service leave days)

$$= \$80,000 \times (13 \div 270)$$

$$= \$3,852 \text{ (rounded to nearest dollar)}$$

### 3. Amount to be withheld. Example 8

Step	Instruction	Result
1.	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: $\$3,852 \times 5\%$	\$192.60
2.	Calculate the amount to be withheld from the pre-18 August 1993 component (disregarding any cents in the result): $\$31,407 \times 32\%$	\$10,050
3.	Add amount calculated at step 1 to the post-17 August 1993 component: $\$192.60 + \$44,741$	\$44,933.60
4.	Divide amount calculated at step 3 by number of normal pay periods in a financial year (as Matt	\$864

	receives weekly payments, there are 52 pay periods): $\$44,933.60 \div 52$ (disregarding any cents in the result)	
5.	Add amount calculated at step 4 to normal gross earnings for regular pay period: $\$864 + \$1,200$	\$2,064
6.	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Matt's normal gross earnings, calculate the amount required to be withheld from the amount calculated at step 5.	\$574
7.	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Matt's normal gross earnings of \$1,200.	\$252
8.	Subtract the amount calculated at step 7 from the amount at calculated at step 6: $\$574 - \$252$	\$322
9.	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$322 \times 52$	\$16,744
10.	To calculate total withholding add the amount calculated at step 2 to the amount calculated at step 9: $\$10,050 + \$16,744$	\$26,794

The total amount to be withheld from Matt's \$80,000.00 payment of unused long service leave on termination of employment is \$26,794.

**Example 9: Retirement, large amount of long service leave used after 15 August 1978, pre-16 August 1978 service**

Sali retires on 31 December 2014. He has exactly 43 years of service (15,706 days), starting with his employer on 1 January 1972.

He is not leaving because of genuine redundancy, invalidity or under an early retirement scheme.

Sali was due 270 days of long service leave however Sali took 250 days of long service leave. 90 days of this leave was taken from 25 June 1987 and the other 160 days was taken from 1 September 1995. He is to be paid an amount of \$16,000 for unused long service leave on termination of employment, which is equal to 20 days of long service leave.

His normal weekly wage is \$2,400. He has quoted his tax file number and has amounts withheld calculated using column 2 'With tax-free threshold'.

### **Total eligible service period**

Pre-16 August 1978 period

Number of days from 1 January 1972 to 15 August 1978 = 2,419 days

Pre-18 August 1993 period

Number of days from 16 August 1978 to 17 August 1993 = 5,481 days

Post-17 August 1993 period

Number of days from 18 August 1993 to 31 December 2013 = 7,806 days

### **1. Amount of long service leave accrued in each period**

#### **Pre-18 August 1993 period**

Days of long service leave accrued during long service leave employment period

×

Days in the pre-18 August 1993 period ÷ Days in long service leave employment period

.

$$= 270 \times (5,481 \div 15,706)$$

$$= 94.22 \text{ (rounded to two decimal places)}$$

$$= 94 \text{ days (fraction of 0.22 days applied to pre-16 August 1978 period)}$$

### **Post-17 August 1993 period**

Days of long service leave accrued during long service leave  
employment period

×

(Days in the post-17 August 1993 period ÷ Days in long service  
leave employment period)

$$= 270 \times (7,806 \div 15,706)$$

$$= 134.19 \text{ (rounded to two decimal places)}$$

$$= 134 \text{ days (fraction of 0.19 days applied to pre-16 August 1978 period)}$$

### **Pre-16 August 1978 period**

Days of long service leave accrued during long service leave  
employment period

×

Days in the pre-16 August 1978 period ÷ Days in long service  
leave employment period

$$= 270 \times (2,419 \div 15,706)$$

$$= 41.58 \text{ (rounded to two decimal places)}$$

$$= 41.58 + 0.22 + 0.19 \text{ (adding back the fractions of days)}$$

$$= 42 \text{ days (rounded to whole days)}$$

As Sali has used some of his accrued long service leave during his employment, the relevant periods need to be adjusted accordingly:

Sali used 90 days long service leave from 25 June 1987, therefore the pre-18 August 1993 period should be adjusted:

94 days – 90 days = 4 days

Sali used 160 days of long service leave from 1 September 1995, therefore the post-17 August 1993 period should be adjusted:

134 days – 160 days = –26 days

The excess should be subtracted from the pre-18 August 1993 period:

4 days – 26 days = –22 days

The excess should then be subtracted from the pre-16 August 1978 period:

42 days – 22 days = 20 days

## 2. Payment attributable to each period

As there are no days that apply to either the:

pre-18 August 1993 period

post-17 August 1993 period,

the entire payment of \$16,000 applies to the pre-16 August 1978 period

## 3. Amount to be withheld. Example 9

Step	Instruction	Result
1.	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: $\$16,000 \times 5\%$	\$800
2.	Calculate the amount to be withheld from the pre-18 August 1993 component (disregarding any cents): $\$0 \times 32\%$	NIL
3.	Add amount calculated at step 1 to the post-17 August 1993 component: $\$800 + \$0$	\$800
4.	Divide amount calculated at step 3 by number of normal pay periods in a	\$15.38

	financial year (as Sali receives weekly payments, there are 52 pay periods): $\$800 \div 52$	
5.	Add amount calculated at step 4 (disregarding any cents) to normal gross earnings for regular pay period: $\$15 + \$2,400$	\$2,415
6.	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Sali's normal gross earnings, calculate the amount required to be withheld from the amount calculated at step 5.	\$711
7.	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Sali's normal gross earnings of \$2,400	\$705
8.	Subtract the amount calculated at step 7 from the amount calculated at step 6: $\$711 - \$705$	\$6
9.	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$6 \times 52$	\$312
10.	To calculate total withholding add the amount calculated at step 2 to the amount calculated at step 9: $\$0 + \$312$	\$312

The total amount to be withheld from Sali's \$16,000 payment of unused long service leave on termination of employment is \$312.

### **Example 10: Retirement, long service leave used after 17 August 1993, pre-16 August 1978 service**

Kathy retires on 30 September 2014. She has over 42 years of service (15,614 days), starting with her employer on 1 January 1972.

She is not leaving because of genuine redundancy, invalidity or under an early retirement scheme.

She is to be paid an amount of \$100,000 for unused long service leave on termination of employment, which is equal to 210 days of long service leave. Kathy has taken 73 days of long service leave, all of which was taken after 17 August 1993.

Her normal weekly wage is \$1,500. She has quoted her tax file number and has amounts withheld calculated using column 2 'With tax-free threshold'.

### **Total eligible service period**

Pre-16 August 1978 period

Number of days from 1 January 1972 to 15 August 1978 = 2,419 days

Pre-18 August 1993 period

Number of days from 16 August 1978 to 17 August 1993 = 5,481 days

Post-17 August 1993 period

Number of days from 18 August 1993 to 31 December 2013 = 7,714 days

### **1. Amount of long service leave accrued in each period**

#### **Pre-18 August 1993 period**

Days of long service leave accrued during long service leave employment period

×

Days in the pre-18 August 1993 period ÷ Days in long service leave employment period

=  $283 \times (5,481 \div 15,614)$

= 99.34 (rounded to two decimal places)

= 99 days (fraction of 0.34 days applied to pre-16 August 1978 period)

#### **Post-17 August 1993 period**

Days of long service leave accrued during long service leave  
employment period

×

Days in the post-17 August 1993 period ÷ Days in long service  
leave employment period

$$= 283 \times (7,714 \div 15,614)$$

$$= 139.81 \text{ (rounded to two decimal places)}$$

= 139 days (fraction of 0.81 days applied to pre-16 August 1978  
period)

### **Pre-16 August 1978 period**

Days of long service leave accrued during long service leave  
employment period

×

Days in the pre-16 August 1978 period ÷ Days in long service  
leave employment period

$$= 283 \times (2,419 \div 15,614)$$

$$= 43.84 \text{ (rounded to two decimal places)}$$

$$= 43.84 + 0.34 + 0.81 \text{ (adding back the fractions of days)}$$

$$= 45 \text{ days (rounded to whole days)}$$

As Kathy has used some of her accrued long service leave during  
her employment, the relevant periods need to be adjusted  
accordingly:

Kathy used 73 days long service leave after 17 August 1993,  
therefore the post-17 August 1993 period should be adjusted:

$$139 \text{ days} - 73 \text{ days} = 66 \text{ days}$$

## **2. Payment attributable to each period**

### **Pre-18 August 1993 period**

Amount of the payment

×



Unused long service leave days in the pre-18 August 1993 period ÷ Total unused long service leave days

$$= \$100,000 \times (99 \div 210)$$

$$= \$47,143 \text{ (rounded to the nearest dollar)}$$

### Post-17 August 1993 period

Amount of the payment

×

Unused long service leave days in the post-17 August 1993 period ÷ Total unused long service leave days

$$= \$100,000 \times (66 \div 210)$$

$$= \$31,429 \text{ (rounded to the nearest dollar)}$$

### Pre-16 August 1978 period

Amount of the payment

×

(Unused long service leave days in the pre-16 August 1978 period ÷ Total unused long service leave days)

$$= \$100,000 \times (45 \div 210)$$

$$= \$21,429 \text{ (rounded to the nearest dollar)}$$

### 3. Amount to be withheld. Example 10

Step	Instruction	Result
1.	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: $\$21,429 \times 5\%$	\$1,071.45
2.	Calculate the amount to be withheld from the pre-18 August 1993 component (disregarding any cents): $\$47,143 \times 32\%$	\$15,085.76

3.	Add amount calculated at step 1. to the post-17 August 1993 component: $\$1,071.45 + \$31,429$	\$32,500.45
4.	Divide amount calculated at step 3 by number of normal pay periods in a financial year (as Kathy receives weekly payments, there are 52 pay periods): $\$32,500.45 \div 52$	\$625.00
5.	Add amount from step 4 (disregarding any cents) to normal gross earnings for regular pay period: $\$625 + \$1,500$	\$2,125
6.	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Kathy's normal gross earnings, calculate the amount required to be withheld from the amount calculated at step 5.	\$598
7.	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Kathy's normal gross earnings of \$1,500.	\$356
8.	Subtract the amount calculated at step 7 from the amount calculated at step 6: $\$598 - \$356$	\$242
9.	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$242 \times 52$	\$12,584
10.	To calculate total withholding add the amount calculated at step 2 to the amount calculated at step 9: $\$15,085 + \$12,584$	\$27,669

The total amount to be withheld from Kathy's \$100,000 payment of unused long service leave on termination of employment is \$27,669.

**Example 11: Retirement, long service leave used before and after 16 August 1978 and after 17 August 1993, pre-16 August 1978 service**

Ian retires on 31 October 2014 with exactly 42 years of service (15,340 days), having started with his employer on 1 November 1972.

Ian is not leaving because of genuine redundancy, invalidity or under an early retirement scheme.

He is to be paid an amount of \$39,000 for unused long service leave on termination of employment, which is equal to 140 days of long service leave. During his employment, Ian has taken 220 days of long service leave with 50 days used from 1 January 1977, and the remaining 170 days used from 25 May 1999.

His normal weekly wage is \$1,500. He has quoted his tax file number and has amounts withheld calculated using column 2 'With tax-free threshold'.

**Total eligible service period**

Pre-16 August 1978 period

Number of days from 1 November 1972 to 15 August 1978 = 2,114 days

Pre-18 August 1993 period

Number of days from 16 August 1978 to 17 August 1993 = 5,481 days

Post-17 August 1993 period

Number of days from 18 August 1993 to 31 October 2014 = 7,745 days

**1. Amount of long service leave accrued in each period**

**Pre-18 August 1993 period**

Days of long service leave accrued during long service leave  
employment period

×

(Days in the pre-18 August 1993 period ÷ Days in long service  
leave employment period)

$$= 360 \times (5,481 \div 15,340)$$

$$= 128.63 \text{ (rounded to two decimal places)}$$

$$= 128 \text{ days (fraction of 0.63 days applied to pre-16 August 1978 period)}$$

### **Post-17 August 1993 period**

Days of long service leave accrued during long service leave  
employment period

×

(Days in the post-17 August 1993 period ÷ Days in long service  
leave employment period)

$$= 360 \times (7,745 \div 15,340)$$

$$= 181.76 \text{ (rounded to two decimal places)}$$

$$= 181 \text{ days (fraction of 0.76 days applied to pre-16 August 1978 period)}$$

### **Pre-16 August 1978 period**

Days of long service leave accrued during long service leave  
employment period

×

(Days in the pre-16 August 1978 period ÷ Days in long service  
leave employment period)

$$= 360 \times (2,114 \div 15,340)$$

$$= 49.61$$

$$= 49.61 + 0.63 + 0.76 \text{ (adding back the fractions of days)}$$

$$= 51 \text{ days}$$

As Ian has used some of his accrued long service leave during his employment, the relevant periods need to be adjusted accordingly:

Ian used 170 days long service leave after 17 August 1993, therefore the post-17 August 1993 period should be adjusted:

$$181 \text{ days} - 170 \text{ days} = 11 \text{ days}$$

There are 11 days of unused annual leave applicable to the post-17 August 1993 period.

There are 128 days of unused annual leave applicable to the pre-18 August 1993 period.

Ian used 50 days of long service leave prior to 16 August 1978, therefore the pre-16 August 1978 period should be adjusted:

$$51 \text{ days} - 50 \text{ days} = 1 \text{ day}$$

There is now 1 day of unused annual leave applicable to the pre-16 August 1978 period.

## **2. Payment attributable to each period**

### **Pre-18 August 1993 period**

Amount of the payment

×

Unused long service leave days in the pre-18 August 1993  
period ÷ Total unused long service leave days

$$= \$39,000 \times (128 \div 140)$$

$$= \$35,657 \text{ (rounded to the nearest dollar)}$$

### **Post-17 August 1993 period**

Amount of the payment

×

(Unused long service leave days in the post-17 August 1993  
period ÷ Total unused long service leave days)

$$= \$39,000 \times (11 \div 140)$$

$$= \$3,064 \text{ (rounded to the nearest dollar)}$$

### Pre-16 August 1978 period

Amount of the payment

×

Unused long service leave days in the pre-16 August 1978  
period ÷ Total unused long service leave days

= \$39,000 × (1 ÷ 140)

= \$279 (rounded to the nearest dollar)

### 3. Amount to be withheld. Example 11

Step	Instruction	Result
1.	Calculate 5% of the pre-16 August 1978 amount to be added to the marginal rate calculation: \$279 × 5%	\$13.95
2.	Calculate the amount to be withheld from the pre-18 August 1993 component (disregarding any cents): \$35,657 × 32%	\$11,410
3.	Add amount calculated at step 1 to the post-17 August 1993 component: \$13.95 + \$3,064	\$3,077.95
4.	Divide amount calculated at step 3 by number of normal pay periods in a financial year (as Ian receives weekly payments, there are 52 pay periods): \$3,077.95 ÷ 52	\$59.19
5.	Add amount calculated at step 4 (disregarding any cents) to normal gross earnings for regular pay period: \$59 + \$1,500	\$1,559
6.	Using the regular PAYG withholding tax table used to calculate the amount to be withheld from Ian's normal gross earnings, calculate the	\$377

	amount required to be withheld from the amount calculated at step 5.	
7.	Using the same PAYG withholding tax table, calculate the amount required to be withheld from Ian's normal gross earnings of \$1,500	\$356
8.	Subtract the amount calculated at step 7 from the amount calculated at step 6: $\$377 - \$356$	\$21
9.	Multiply the amount calculated at step 8 by the number of normal pay periods in a financial year: $\$21 \times 52$	\$1,092
10.	To calculate total withholding add the amount calculated at step 2 to the amount calculated at step 9: $\$11,410 + \$1,092$	\$12,502

The total amount to be withheld from Ian's \$39,000 payment of unused long service leave on termination of employment is \$12,502.

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## Definitions

**Last updated** 1 May 2020

### Genuine redundancy

Genuine redundancy has the following characteristics:

- The employee has been dismissed from a job, not left voluntarily.
- The employee has been made redundant (the employee's particular work has ceased or tapered off, or the workplace has relocated or closed).

- The dismissal occurred before the employee had to retire (for example before a set period of service).
- The dismissal occurred before the employee reach their age pension age

## Pension Age

**Table 7: Pension age for men and women**

Date of Birth	Pension age
Before 1 July 1952	65
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
On or after 1 January 1957	67 years

## Invalidity

Invalidity is when physical or mental capacity stops an employee from continuing in their present line of work, forcing them to leave employment early (and in any event, before the age of 65).

Invalidity requires certification from two qualified medical practitioners.

## Early retirement schemes

An employer-devised **early retirement scheme** offers incentive payments encouraging staff to retire early or resign. The employer must submit the scheme's details to us and, if it meets certain criteria, we will approve it as an 'early retirement scheme'. Under the scheme, certain payments become employment termination payments with a tax free component.

Payments for unused annual leave paid as part of an early retirement scheme are **not** employment termination payments.



## Normal gross earnings

Normal gross earnings include all payments, except those relating to termination payments, received in the last full period of employment (this includes taxable allowances, overtime, bonuses). Therefore, an employee's normal gross earnings are those earnings relating to the last full pay period worked.

If an employee's pay fluctuates significantly over a number of pay periods, you can calculate normal gross earnings by using an average of gross taxable earnings for the financial year to date over the number of pays received.

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