IT 21

Lump Sum Payments (Redundancy or Retirement)

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PAYE anytime

Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

INTRODUCTION

Generally speaking, all payments made by employers to employees and directors are regarded as "Pay" for tax purposes. Employers must operate PAYE on such payments unless they are exempt from tax or the Revenue Commissioners gives other instructions.

Lump sum payments on a redundancy or a retirement, however, qualify for special tax treatment - they may be exempt from tax or may qualify for some relief from tax. A lump sum paid under the terms of a contract of employment is taxable in full and does not qualify for exemption or relief.

What lump sum payments on a redundancy or retirement are exempt from tax?

Your redundancy or retirement lump sum is exempt from tax if:

- It is a **statutory** redundancy payment (this is an individuals statutory entitlement under employment legislation),
- It is a payment made on account of injury or disability,
- The employment consisted of foreign service **and** certain conditions are met - see separate paragraph further on for details.

This is not an exhaustive list. For more information, contact your local Revenue office, the number for which is available at the end of this leaflet.

If all of your lump sum is statutory redundancy or a payment made on account of injury or disability, your employer will pay it without deducting tax and therefore the rest of this leaflet is not relevant to your circumstances.

WHAT LUMP SUM PAYMENTS QUALIFY FOR SOME RELIEF FROM TAX?

The following redundancy and retirement payments, although not exempt from tax, qualify for some relief from tax. These are:

- Salary or wages in lieu of notice, on redundancy or retirement. However, where the contract of employment provides for a payment of this kind on the termination of the contract, whatever the circumstances, such payment is chargeable to income tax in the normal way without the benefit of the exemptions and reliefs mentioned later.
- Non-statutory redundancy payment i.e. the amount payable by your employer, which is over and above the statutory redundancy payment. The non-statutory redundancy payment is also known as a golden handshake or an ex-gratia payment (e.g. a person receives a lump sum of €20,000, which includes statutory redundancy of €5,000. Of the €20,000, €15,000 is taken into account and the €5,000 is ignored for tax purposes).

If your employer gives you all or part of the lump sum in some other form, e.g. car, house, holiday, etc. the equivalent cash value of the item received is taxable.

WHAT TAX RELIEF IS AVAILABLE?

First Claim

On your first redundancy or retirement payment, the higher of the following will be exempt from tax:

- Basic Exemption,
- Increased Exemption,
- Standard Capital Superannuation Benefit (SCSB).

These terms are explained in the following paragraphs.

If you are in a marriage or civil partnership, your entitlement to exemption against a lump sum payment is calculated independently of your spouse or civil partner. This applies whether you are taxed under joint assessment, separate assessment or separate treatment.

Basic Exemption:

The basic exemption is €10,160 + €765 for each full year of service with the employer making the redundancy payment.

Service before and after a career break may be added together for the purposes of determining a full year of service. The periods where the person was on the career break would not be included. For persons who work-share, there is no apportionment to take account of the part-time nature of the employment, i.e. they are credited with years service as if they worked full-time. Where the terms of the severance specifies that the payment is in respect of employment in group companies and the employee worked for such companies within the State, then those years of service can be taken into account in calculating the number of years service for the purpose of the basic exemption.

If you are unclear about what service should be taken into account please contact your local Revenue office.

Example

An individual gets a lump sum of €17,000 when the employment is terminated after 10 years and 6 months service.

The basic exemption due is €17,810, i.e. (€10,160 + (€765 x 10)). There is, therefore, no tax due on the lump sum of €17,000 as it is under €17,810, the basic exemption in this case.

If the basic exemption covers your non-statutory lump sum payment there is no tax due on the lump sum. Your employer will not deduct tax and therefore the rest of this leaflet is not relevant to your circumstances.

Increased Exemption:

If you are not a member of an occupational pension (Superannuation) scheme or if you irrevocably give up your right to receive a lump sum from the pension scheme, the basic exemption as outlined above can be increased by €10,000. The basic exemption of €10,160, + €765 for each full year of service is therefore increased by a further €10,000. The increased exemption can only be claimed if you have not made any claims in respect of a lump sum received in the previous ten tax years.

If you are in an occupational pension scheme, this increased exemption of €10,000 is reduced by the amount of:

- Any tax-free lump sum from the pension scheme to which you may be immediately entitled, **or**
- The present day value at the date of leaving employment of any tax-free lump sum which may be receivable from the pension scheme in the future.

If the lump sum from the pension scheme is more than €10,000 you are not due the increased exemption. If it is less than €10,000 you are due the increased exemption of €10,000 less the amount of the pension scheme entitlement.

Chart

Tax-free lump sum received from pension scheme and the increase in basic exemption due			
	A	**B**	**C**
Tax-free lump sum received from pension scheme	€10,500	€1,000	Nil
Increase in basic exemption due	Nil	€9,000 (€10,000 - €1,000)	€10,000

Example

An individual gets a lump sum of €20,000 when the employment ceases after eleven years service. A lump sum of €11,000 is received from the pension scheme. The only entitlement in this case is the basic exemption of €18,575, i.e. €10,160 + (€765 x 11).

Example

A lump sum of €29,000 is paid to an individual when his or her employment is terminated after eleven years and five months. The present day value of the pension scheme entitlement at 65 years is €2,500. The exemption due in this case is €26,075, i.e. (€10,160 + €7,500) + (€765 x 11).

Example

A lump sum of €29,000 is paid to an individual when his or her employment ceases after twelve years and ten months service. He or she is not a member of a pension scheme. The increased exemption due is €29,340, ((€10,160 + €10,000) + (€765 x 12)). There is no tax due on the lump sum of €29,000 as it is under €29,340, therefore the increased exemption is due.

If you find your lump sum is exempt from tax because of the increased exemption please go to "*What relief is available for Foreign Service?*" (if applicable) as the following pages will not be relevant to your circumstances.

SCSB (Standard Capital Superannuation Benefit):

This relief generally benefits those with high earnings and long service. It is a relief given for each year of service equal to 1/15th of the average annual pay for the last three years of service (36 months) to date of leaving less any tax-free lump sum entitlement from the pension scheme.
The formula for calculating the SCSB is:

A X B / 15 - C

Where:

- **A** Is the average annual remuneration* for the last 36 months service to date of termination,
- **B** Is the number of complete years of service,
- **C** Is the value of any tax free lump sum received or receivable under an approved pension scheme.

Note: With effect from 1 January 2011 the amount of the tax-free sum which can be received from an approved pension fund has been restricted to €200,000. Therefore, **C** cannot exceed a maximum €200,000 in SCSB computations for 2011 and subsequent years.

If an employee has less than three years paid service with an employer prior to the date of leaving, the pay of the last 36 months of paid service is taken into account in arriving at the average for one year.

* Remuneration includes gross salary (before employee's contributions to an approved pension scheme), benefits-in-kind, less Revenue agreed flat rate expenses.

Example

An individual commenced employment with Company X on 6/6/1993 and left on 8/6/2011 (18 full years service).

A retirement lump sum of €60,000 was received on retirement. This is the first lump sum paid to the individual.

A lump sum of €11,000 was also received from an approved pension scheme.

The pay including benefit-in-kind for the last 36 months to date of retirement is €95,000 (from 9/6/2008 to 8/6/2011).

The amount of the lump sum, which is exempt from tax, is the higher of the following:

- The Basic exemption of €23,930 (€10,160 + (€765 x 18 years)),

The Increased exemption of €10,000 is not due in this case as the pension scheme lump sum of €11,000 is greater than €10,000, **or**

- SCSB of €27,000 ((€95,000/3 x 18/15) - €11,000).

Relief of €27,000 will be granted against the lump sum payment as this is the most favourable. The taxable amount of the lump sum is therefore €33,000 (€60,000 - €27,000).

Example of a Redundancy Payment

An individual was made redundant on 6 June 2011 after 18 years of service with Company X. The pay for the final 36 months of employment was €95,000.

Payments due	Amount
Normal salary	€800
Arrears of pay	€300
Bonus	€500
Holiday pay	€200

These are taxable in full under PAYE and do not form part of the redundancy package.

Redundancy Package	Amounts Due
Non-statutory redundancy	€40,000
Statutory Redundancy	€2,000
Pay in lieu of notice	€765
Company car valued at	€4,000
Tax-free lump sum from pension fund	€7,000

Statutory redundancy is exempt from tax and is therefore ignored.

Calculation of exemption due	Amount
Non-statutory redundancy	€40,000
Pay in lieu of notice	€765
Company car	€4,000
Total lump sum	**€44,765**

Basic Exemption = €23,930 (€10,160 + (€765 x 18))

Increased Exemption = €26,930 (€10,160 + (€10,000 - €7,000) + (€765 x 18))

SCSB = €31,000 (€95,000/3 x 18/15 - €7,000)

The highest exemption is the SCSB of €31,000 and this is given against the lump sum. The taxable lump sum is therefore €13,765 (€44,765 - €31,000).

Restriction on maximum relief available

A further restriction on the computation of SCSB relief was introduced by Section 8 of Finance Act 2011 whereby the SCSB relief determined for 2011 and subsequent years cannot exceed €200,000. This maximum figure of €200,000 must then be restricted by the total value of any amounts of relief previously granted to the claimant in respect of any previous ex-gratia payments.

Example

Employee worked for 20 years with same employer.

	Amount Due
Non-statutory redundancy	€275,867
Statutory redundancy	€11,500
Pay in lieu of notice	€11,500
Company car valued at	€25,000
Tax-free lump sum from pension fund	€210,650
Total lump sum	**€323,867**
Basic Exemption	€25,460 (€10,160 + (765 x 20))
Increased Exemption	€25,460 (€10,160 + (765 x 20))

There is no increase as the tax free lump sum from the pension fund exceeds €10,000.

SCSB

Statutory redundancy is exempt from tax and is therefore ignored.

Calculation of exemption due:

Average salary over three years = €230,000
SCSB = €106,667 (€230,000 x 20/15 - €200,000 (the tax free lump sum from the pension fund is restricted to €200,000 - Sec. 8 FA 2011)).

Subsequent Claim

The basic exemption and the SCSB are generally available against any subsequent lump sum payment. However, they can only be given once against a lump sum from the same employer or an associated employer.

With effect from 1 January 2002, the increased exemption of €10,000 may be availed of if an individual has not made any claims for relief in respect of a lump sum received in the previous ten tax years.

A guide to help you to calculate the amount of your lump sum, which is exempt from tax, is attached to this leaflet at **Appendix 1**.

Note: If you were granted tax relief in the five years prior to redundancy or retirement against a lump sum paid under an approved restructuring scheme, the tax relief due against your lump sum on redundancy or retirement will be reduced by the amount of relief already granted - please contact your local Revenue office for details.

HOW WILL MY EMPLOYER TAX MY LUMP SUM?

Your employer is obliged to deduct PAYE and USC on all of the lump sum less the basic exemption or SCSB, as previously outlined. Your employer can give the basic exemption or SCSB without prior approval from Revenue. However, if you are due any increased exemption, either you or your employer should apply to Revenue well in advance of the payment date for approval to give the increased exemption.

To apply for approval to receive the increased exemption, if due, you should complete the ***application form***, attached to this leaflet, and send it to your local Revenue office.

If Revenue has not granted approval at the time of payment, tax must be deducted by your employer on all of the lump sum less the basic exemption or SCSB. You may apply at any time afterwards (subject to a four year time limit - please see note “*What is the time limit for claiming tax reliefs?*”) to your local Revenue office for the benefit of the increased exemption. It is not necessary to wait until the end of the tax year. You should send in your Form P45 in addition to the application form, when claiming the exemption. Form P45 is the form given to you by an employer when you leave employment.

WHEN IS THE LUMP SUM TAXED?

The lump sum is taxable in the year you leave employment or in the year you retire.

WHAT RATE OF TAX APPLIES TO THE TAXABLE LUMP SUM?

The taxable lump sum payment is regarded as part of your total income and is taxed accordingly. In certain circumstances an additional relief called Top Slicing Relief may be due.

WHAT IS TOP SLICING RELIEF?

The reliefs outlined in this leaflet exempt or reduce the amount of the lump sum to be taxed. Top Slicing Relief relates to the tax payable and ensures that your lump sum is not taxed at a rate higher than your average rate of tax for the three years* prior to redundancy or retirement.

The formula for calculating this relief is:

Taxable lump sum X (tax rate applied to lump sum - average tax rate for previous three years).

In the case of a couple, taxed under joint assessment, where both spouses or civil partners have income in any of the three years preceding the tax year to which the termination payment refers, the tax rate will be based on the income of the spouse or civil partner who received the termination payment or on the combined income of both spouses or civil partners depending on which rate is the most beneficial to the couple.

Top Slicing Relief may be claimed by contacting Revenue after the end of the tax year.

Example

An employee was made redundant on 8 June 2011. The taxable amount of the lump sum is €21,000, which is taxed at the marginal rate of 41%. The average rate of tax for the prior three tax years was 34%.

Top Slicing Relief is:

€21,000 X (41% - 34%) = €1,470

The tax payable will be reduced by €1,470.

*With effect from 1 January 2005, the average rate of tax is calculated over the previous three years. Lump sum payments taxable prior to 1 January 2005 are subject to an average rate of tax calculated over the previous five years.

WHAT RELIEF IS AVAILABLE FOR FOREIGN SERVICE?

Your redundancy or retirement lump sum may be exempt or partially exempt from tax where you have been on foreign service with the employer who is paying the lump sum, provided certain conditions are met. If you need details please contact your local Revenue office.

WHAT IF I TAKE A REFUND OF SUPERANNUATION CONTRIBUTIONS?

If you receive a refund of Superannuation (pension scheme) contributions, the pension fund will automatically deduct tax at the standard rate of tax (currently 20%) from the refund (prior to 5 December 2001 the rate was 25%). This will satisfy all your tax obligations on this income.

ARE PRSI AND UNIVERSAL SOCIAL CHARGE PAYABLE?

Universal Social Charge is due on the taxable part of the lump sum. There is no PRSI liability.

WHAT IS THE TIME LIMIT FOR CLAIMING TAX RELIEFS?

The time limit for claiming tax reliefs in respect of lump sum payments is four years from the end of the year in which the lump sum payment is treated as income. Prior to 1 January 2005 the time limit was six years.

WHERE DO I SUBMIT MY CLAIM?

Your claim should be sent to your local Revenue office, the address of which is shown on your Tax Credit Certificate or on any correspondence received from Revenue. Remember to quote your PPS number on all correspondence with Revenue.

WHAT HAPPENS IF THE LUMP SUM IS INVESTED?

Income from the investment of a lump sum is taxable in the normal way and depends on the type of investment you have made and the type of income you receive. Income from the investment of a lump sum should be shown on your tax returns as appropriate.

AM I ENTITLED TO SOCIAL WELFARE PAYMENT?

In some cases Redundancy or Retirement payment may affect entitlement to some Social Welfare payments. For further details please contact Information Section, Department of Social Protection, telephone 01 704 3000, or your Local Welfare Office.

APPENDIX 1

Follow the steps below to calculate the amount of your redundancy or retirement payment which is exempt from tax.

Step 1

Calculate your redundancy or retirement payment, which qualifies for relief, i.e. the portion exempt from tax. Do not include statutory redundancy, normal pay, holiday pay, etc.

Non-statutory redundancy	€ ___________	
Pay in lieu of notice	€ ___________	
Value of any asset(s) given to you (car, etc.)	€ ___________	
Total	€ ___________	**(A)**

Step 2

Exemption due is the higher of the following:

1. Basic Exemption (€10,160 + (€765 x No. of full years service))	€ __________	
2. Increased Exemption* (calculate below)	€ __________	
3. SCSB** (calculate below)	€ __________	
Higher of the three is***	€ __________	**(B)**
Taxable amount of lump sum is (A - B)	€ __________	

***Increased Exemption (See Page 3)**

€10,000 is not due if your tax-free entitlement from your occupational pension scheme is €10,000 or more or if you have claimed any reliefs in respect of a lump sum received in the previous ten tax years.

If due, calculate as follows:

€10,000 less € __________ (tax-free lump sum pension entitlement)

plus € __________ (Basic Exemption - amount at 1 above)

= € __________ (enter this figure at 2 above)

****SCSB (See Page 4)**

Pay of final 36 months of employment *multiplied* by No. of completed years of service *less* amount of tax-free lump sum pension entitlement

$$= € \frac{\_\_\_\_\_\_\_\_\_\_}{3} \times \frac{\_\_\_\_\_\_\_\_\_\_}{15} — € \_\_\_\_\_\_\_\_\_\_$$

= € ________ (enter this figure at 3 above)

*****Note:** For lump sum payments made after 1 January 2011 **(B)** cannot exceed €200,000 - or the lesser amount of €200,000 less any previous exemptions already granted for payments received from any previous employer.

FURTHER INFORMATION

This leaflet is for general information only. You can get further information by visiting **www.revenue.ie** or by phoning your Regional Revenue LoCall service whose number is listed below (inside the Republic of Ireland only):

- **Border Midlands West Region** — **1890 777 425**
  Cavan, Monaghan, Donegal, Mayo,
  Galway, Leitrim, Longford, Louth,
  Offaly, Roscommon, Sligo, Westmeath
- **Dublin Region** — **1890 333 425**
  Dublin (City and County)
- **East & South East Region** — **1890 444 425**
  Carlow, Kildare, Kilkenny, Laois,
  Meath, Tipperary, Waterford,
  Wexford, Wicklow
- **South West Region** — **1890 222 425**
  Clare, Cork, Kerry, Limerick

Please note that the rates charged for the use of the 1890 (LoCall) numbers may vary among different service providers.

If calling from outside the Republic of Ireland phone +353 1 702 3011.

4-year time limit: A claim for tax relief must be made within four years after the end of the tax year to which the claim relates.

Accessibility: If you are a person with a disability and require this leaflet in an alternative format the Revenue Access Officer can be contacted at **accessofficer@revenue.ie**

This leaflet is intended to describe the subject in general terms. As such, it does not attempt to cover every issue which may arise in relation to the subject. It does not purport to be a legal interpretation of the statutory provisions and consequently, responsibility cannot be accepted for any liability incurred or loss suffered as a result of relying on any matter published herein.

Revenue Commissioners
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