

# REDUNDANCY TAX AND ENTITLEMENTS

This summary sheet will help you work out what to do if you are made redundant.

Look on [www.ird.govt.nz](http://www.ird.govt.nz) for more information.

## Income tax

Your income tax is based on your taxable income for each tax year from 1 April to 31 March. A redundancy payment is part of your income and is taxed.

If you have been made redundant your income for the year is likely to change. It may increase or decrease depending on the amount you:

- o earn before and after you are made redundant
- o receive as a redundancy payment.

PAYE is calculated each pay day based on your expected yearly income. If you do not work a full year your tax rate may have been too high.

Tax on redundancy payments is calculated at a flat rate based on your average salary/wages at the time you finished work. If a redundancy payment pushes you into a higher tax bracket part of your redundancy payment may be over-taxed and you may be eligible for a tax refund at the end of the year.

Work out whether you qualify for a refund using the personal tax summary calculator on [www.ird.govt.nz](http://www.ird.govt.nz) at the end of the tax year. If you are eligible for a refund you should request a personal tax summary (PTS) in July.

## Redundancy tax credit

Employees who received redundancy payments from 1 December 2006 may be able to claim a 6% tax credit on the redundancy payment, up to a maximum of \$3,600 per redundancy.

To apply for a redundancy tax credit<sup>1</sup>, complete the *Redundancy Tax Credit Claim (IR524)* form. The form is available from the Inland Revenue website or request one from INFOexpress by phoning 0800 257 773. Have your IRD number handy.

Send the form, together with a document that shows the amount of your redundancy payment, the name of the payer and date of the redundancy payment to Inland Revenue.

Your application must be made within 4 years of your redundancy payment.

## Working for families tax credits

Your working for families tax credits entitlement is based on your yearly family income. If your family income changes your working for families tax credits will change.

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<sup>1</sup> Previously known as redundancy rebate.

## **Working for families tax credits continued...**

If you receive working for families tax credits in a lump sum you do not need to take any action.

If you receive working for families tax credits weekly or fortnightly, a lump sum redundancy payment may result in overpayment of your working for families tax credits entitlement. If you are paid more than your entitlement you will have a debt at the end of the year.

If your yearly family income decreases you may be entitled to increased working for families tax credits payments.

Call the working for families line 0800 227 773 to discuss what is right for you.

## **KiwiSaver**

When you stop working your employee contributions will stop. KiwiSaver contributions are not deducted from your redundancy payment.

Depending on your circumstances you may wish to consider the following options:

- If you keep making contributions after you stop working you could increase the amount of member tax credit you get, up to a maximum of \$1042. To keep making contributions while you are not working you should apply to Inland Revenue.
- A contributions holiday is a break in your saving for up to five years. It may help you get back on your feet after you start a new job.
- If you experience, or are likely to experience, significant financial hardship you may apply to have your money released before you retire. Apply to your scheme provider to have your money released.

Visit [www.kiwisaver.govt.nz](http://www.kiwisaver.govt.nz) to find out more.

## **Student loans**

Redundancy payments are part of your income and are liable to have student loan repayments taken from them.

Redundancy does not change your obligation to make payments towards your student loan however Inland Revenue has discretion to adjust your repayments for a limited period if you are in serious hardship.

To apply for review complete a *Statement of financial position form IR40*, Download a form from the Inland Revenue website or request one from INFOexpress 0800 257 773. Have your IRD number handy.

Write a letter describing your personal circumstances and send with the form to:

Student Loan Team  
Box 2020  
Tauranga

## **Child support**

Redundancy payments will not affect any child support you get.

If you pay child support and are made redundant contact us to find out how this impacts your assessment.

Contact child support on 0800 221 221 to find out how you are affected.