IT 21

Lump Sum Payments (Redundancy or Retirement)

Ver. 14.07

RPC005008_EN_WB_L_1

PAYE anytime

Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

Introduction

In general, all payments made by employers to employees and directors are regarded as "Pay" for tax purposes and employers must operate PAYE on such payments.

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.

Note: 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 individual's statutory entitlement under employment legislation.)
- It is a payment made on account of death, injury or disability, (subject to a maximum lifetime tax-free limit of €200,000).

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

If all of your lump sum is statutory redundancy, or if it is a payment, (which including other similar payments does not exceed the lifetime limit of €200,000), 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.
- Non-statutory redundancy payment, i.e. the amount paid 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.

Where the contract of employment provides for a lump sum payment 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.

What tax relief is available?

First Claim

On your first redundancy or retirement payment, the following exemptions may apply to you:

- Basic Exemption
- Increased Exemption
- Increase for 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 plus €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. (A career break is any agreed scheme of flexibility which affords staff an opportunity to take a period of special leave or time out from employment e.g. for personal reasons, travel or voluntary work.).

For persons who work-share, there is no apportionment to take account of the part-time nature of the employment - they are credited with years service as if they worked full-time.

Where the payment is in respect of an employment held in group companies the total years of service in the different companies can be taken into account in calculating the number of years' service for the purpose of the basic exemption.

Where some of the service in an employment included a period of foreign service within a group, that period of time can be included as part of the overall period of service in the employment. This will apply where the foreign service was at any time during the overall period of service with the employer, or a connected employer within a group of companies, including service which commenced abroad.

If you are unclear about what service should be taken into account please contact your 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 plus (€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:

The basic exemption of €10,160, plus €765 for each full year of service will be increased by a further €10,000 if:

- you are not a member of an occupational pension (superannuation) scheme or
- you irrevocably give up your right to receive a lump sum from the pension scheme and
- 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). As the lump sum from the pension scheme exceeds €10,000 the increased exemption would not be due.

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 to him or her is €26,075 i.e. (€10,160 + €7,500) plus (€765 x 11). Note the increased exemption of €10,000 is reduced by the amount received from the pension scheme.

Example

A lump sum of €29,000 is paid to an individual when his or her employment is terminated after twelve years and ten months service. He or she is not a member of a pension scheme. The increased exemption due to him or her 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, the increased exemption due.

Exemption for amounts paid by an employer in respect of retraining of a former employee

Where an employer pays the cost of retraining an employee as part of a redundancy package the cost of the retraining, up to a maximum of €5,000, will be exempt from tax provided:

- the employee is a person who has more than 2 years' continuous full time service;
- the retraining is part of a redundancy package and is designed to improve skills or knowledge used either in obtaining employment or setting up a business; and
- the retraining is completed within 6 months of the termination of employment.

Standard Capital Superannuation Benefit (SCSB):

Additional relief based on the difference between the basic plus the increased exemption and SCSB may also be claimed. This relief generally benefits those with high earnings and long service. SCSB is calculated by multiplying 1/15th of the average annual pay for the last 3 years of service (36 months) to date of leaving by the number of complete years service, less any tax-free lump sum entitlement from the pension scheme.

The formula for calculating the SCSB is:

$$A \times B / 15 - C$$

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/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 3 years paid service with an employer prior to the date of leaving, the pay for the total period of paid service in that employment 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 6/6/1995 and left on 8/6/2013 (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 for the last 36 months to date of leaving is €95,000 (from 9/6/2010 to 8/6/2013).

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

- The Basic exemption of €23,930 [€10,160 plus (€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),

  and
- The difference between SCSB of €27,000 [(€95,000/3 x 18/15) - €11,000] and the basic exemption (€23,930) = €3,070.

Relief of €27,000 in total, therefore, will be granted against the lump sum payment. 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 2013 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 plus (€765 x 18)]

Increased Exemption = €10,000 - €7,000= €3,000

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

Additional relief for SCSB is €31,000 - €26,930 = €4,070

The total exemption is €31,000. The taxable lump sum is therefore 13,765 (€44,765 - €31,000).

Restriction on maximum relief available

A lifetime restriction on the reliefs available was introduced in 2011. From 1 January 2011, the total of all exemptions and reliefs granted to an individual in respect of all ex-gratia lump sums received cannot exceed €200,000. This maximum figure of €200,000 includes 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 the same employer

Redundancy package	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**

Statutory redundancy is exempt from tax and is, therefore, ignored.

Basic Exemption = €25,460 [€10,160 + (765 x 20)]

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

Calculation of SCSB:
Average salary over 3 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)]

Total exemption is €25,460 + €81,207 = €106,667

Subsequent Claim

A basic exemption and an increase for SCSB, are generally available against any subsequent lump sum payment, subject to the €200,000 lifetime limit from a different employer. However, they can only be given once against a lump sum from the same employer or an associated employer.

The increased exemption of €10,000 may be availed of in subsequent claims provided an individual has not made any claims for relief in respect of a lump sum received in the previous 10 tax years.

In the above example, any subsequent exemption is limited to a total of €93,333. That is €200,000 (lifetime amount) - €106,667 = €93,333.

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.

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, increased exemption, if due, and increase for SCSB, as previously outlined. Your employer can give the basic exemption and increase for SCSB without prior approval from Revenue. If you are due any increased exemption, the employer may also grant this exemption.

The employer, in granting the increased exemption must be satisfied that the employee in question meets the qualifying criteria for this exemption, namely that he or she is either -

(a) not a member of an occupation pension scheme, or

(b) has irrevocably surrendered their right to receive such a lump sum from the pension scheme.

At the time of payment, tax must be deducted by your employer on all of the lump sum less the basic exemption, increased exemption and increase for SCSB. You may apply at any time afterwards (subject to a four year time limit - please see 'What is the time limit for claiming tax reliefs?' below), to your Revenue office for the benefit of the increased exemption if you are entitled to this and it was not granted by your employer (see application form in Appendix 2). 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.

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. However, in certain circumstances an additional relief called Top Slicing Relief may be due.

What is Top Slicing Relief?

Top Slicing Relief no longer applies to gross ex-gratia payments of €200,000 or more made on or after 1 January 2013, and was abolished in respect of all ex-gratia or lump sum payments made on or after 1 January 2014.

The reliefs outlined in this leaflet exempt or reduce the amount of the lump sum to be taxed. Top Slicing Relief related to the tax payable and ensured that your lump sum was 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 was:

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 had income in any of the three years preceding the tax year to which the termination payment referred, the tax rate was 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 was the most beneficial to the couple.

Top Slicing Relief may still be claimed in respect of any lump sum payments made in 2010, 2011 and 2012, and for payments in 2013 which did not exceed €200,000 gross, by contacting your Revenue office (subject to the four year time limit - please see 'What is the time limit for claiming tax reliefs?' below).

Example

An employee was made redundant on 8 June 2013. 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.

What relief is available for Foreign Service?

The exemptions provided in respect of Foreign Service relief ceased to apply for payments made on or after 27 March 2013. However, periods of foreign service can be aggregated with other service for the purposes of determining total years of service when calculating the basic exemption and SCSB.

Prior to 27 March 2013, your redundancy or retirement lump sum may have been exempt or partially exempt from tax where you had been on foreign service with the employer who is paying the lump sum, provided certain conditions were met. If you need details please contact your 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. 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.

Where do I submit my claim?

Your claim should be sent to your Revenue office. Any Revenue correspondence that you receive will show the contact address of your Revenue office or if you visit www.revenue.ie and enter your PPS number into our Contact Locator, the name, address and contact details of your Revenue office will be displayed. 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/Retirement payment may affect entitlement to some Social Welfare payments. For further details please contact Information Section, Department of Social Protection Tel. 01- 704 3000 or your Local Social 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.

Application for Increased Exemption on Lump Sum Payments on Redundancy or Retirement

Name of Claimant

Address

PPS Number

Employer Number

Refunds

If you wish to have any refund paid directly to your bank account, please supply your bank account details.

Single Euro Payments Area (SEPA)

From 1 February 2014, account numbers and sort codes have been replaced by International Bank Account Numbers (IBAN) and Bank Identifier Codes (BIC). These numbers are generally available on your bank account statements. Further information on SEPA can be found on **www.revenue.ie**

It is not possible to make a refund directly to a foreign bank account that is not a member of SEPA.

International Bank Account Number (IBAN) (Max. 34 characters)

Bank Identifier Code (BIC) (if applicable) (Max. 11 characters)

Note: Any subsequent Revenue refunds will be made to this bank account unless otherwise notified.

Time Limit for Repayment Claims

A claim for repayment of tax must be made within four years after the end of the tax year to which the claim relates.

This form should be sent to your Revenue office, whose address can be found on any correspondence received or visit **www.revenue.ie** and enter your PPS number into Revenue's contact locator.

Declaration which must be completed

I declare that:
(insert ☒ as appropriate)

This is my first ever lump sum payment ☐

I have not, in the last ten tax years, claimed any reliefs in respect of a lump sum received from this employer or a previous employer ☐

Signature

Date D D M M Y Y Y Y

E-Mail

Telephone Number

Further Information

This leaflet is for general information only. For further information you can visit **www.revenue.ie** or contact your Regional PAYE LoCall Service whose number is listed below (within 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 1890 (LoCall) numbers may vary among different service providers.

If calling from outside the Republic of Ireland, please telephone + 353 1 702 3011.

Time Limit for Repayment Claims: A claim for repayment of tax 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

Revenue Commissioners

July 2014

Designed & Printed by the Revenue Printing Centre