

£30K TAX-FREE REDUNDANCY PAYMENTS TO BE SCRAPPED

The Government is planning to abolish rules under which the first £30,000 of redundancy payments are tax free in a move which will have far reaching implications for companies and employees from 2018.

Draft legislation which was published ahead of the 2017 Budget showed that, what are known as Payments in Lieu of Notice (PILON's) will no longer be exempted from tax from April 2018 (in almost all cases and especially for those in lower paid work).

At present, redundancy payments are made up of a number of elements including compensation for losing your job and PILON. Up until now, the first £30,000 of the PILON element has been exempted from income tax where the payment was not a contractual right.

Changes proposed in the draft legislation will remove the exemption for all PILON payments apart from where they relate to bonuses that the employee would have received if they had kept their job. Employers will also have to pay National Insurance Contributions on PILON amounts over £30,000 for the first time. The exemption from this change in respect of bonuses will give people whose bonuses make up a large part of their pay an advantage over workers who just earn a basic salary – well paid bankers spring to mind.

The reform to the taxation of termination payments will have a fundamental and widespread impact. In most cases it will largely cut away the financial benefits of redundancy and in the case of larger termination packages, such as those for senior executives or other high earning staff, the new National Insurance liability will be a significant extra cost for employers.

The government had originally planned to tax bonus payments as well as basic PILONs but reversed the plan after consultation. The changes will be included in the Finance Bill and, if approved by Parliament, will come into effect in April next year.