

Answer ID 11325
Products MYOB Payroll
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Access Level Public NZ

How do I make redundancy or severance payments?

Question

Redundancy payments are NOT liable for the ACC earner premium, therefore they need to be taxed using the WT tax code. How do I process this? Let us show you how.

Answer

Please Note:

- Redundancy Payments are NOT liable for ACC earner premiums OR KiwiSaver deductions.
- Student Loan Repayments are still required to be calculated on redundancy payments.

Processing the Redundancy Payment

If you do not have a Redundancy or Severance Pay Code, you will need to set one up in Maintain Pay Codes.

Go to **Maintenance > Maintain Pay Codes** > Click on **'New'**.

Choose Pay Code Type **'Taxable Allowance'** > Enter Pay Code and Description as required then Click **OK**.

The following message will appear, Click **NO**.

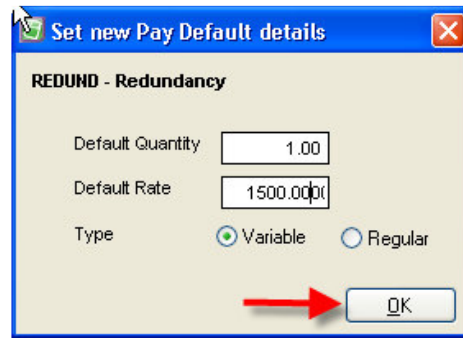
then **CLOSE**.

Go to **Prepare Pays > Enter Pays** > **Select** the employee required.

Use the F4 key (or use the Add Default button from the right-hand column), Select the **'Redundancy Pay Code'** then Click **OK**.

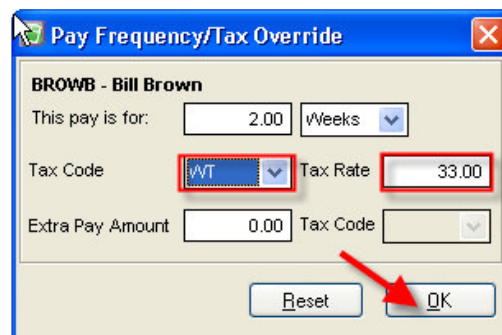


Enter the Default Quantity as **1.00**, enter the Gross amount being paid, leave the Type as '**Variable**' then Click **OK**.



Click on the '**TAX (PAYE) Pay Code**', then into the '**Rate**' column of this paycode. The '**Tax Override**' button in the right-hand column will now be available.

Click the '**Tax Override**' button. Change the tax code to '**WT**' and enter the new tax rate based on the applicable rates shown below > Click **OK** and continue processing the pay.



Note: This will override the tax rate for the whole pay, so if this redundancy is part of a final pay then you need to process the redundancy separately. Put it through as a pay on its own and then in a new pay, process the **Final Pay**. The redundancy pay needs to be processed **before** the **Final Pay**.

For information on processing a Final Pay ... Please [Click here](#)

Tax Rates Applicable

The tax rate applicable is determined by the annual income of the employee.

As from 1 April 2009:

- (a) 21% if employees annual income including the redundancy payment will be under \$48,000
- (b) 33% if the employee's annual income including the redundancy payment will be over \$48,001 and up to \$70,000
- (c) 38% if the employee's annual income including the redundancy payment is over \$70,001

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