

CHANGES TO THE TAXATION OF TERMINATION PAYMENTS

From 6 April 2011 the manner in which termination payments made after a P45 has been issued will change.

Currently, a payment made after issue of a P45 is subject to PAYE at the basic rate with the employee having to account to HMRC for any further tax due (because they are a higher or additional rate taxpayer) through self-assessment. However, as of 6 April 2011 an employer must ensure that tax is deducted from termination payments at the appropriate rate of tax for the employee (i.e. basic, higher or additional) at the point of payment. This means that the obligation to pay the full rate of tax will shift to the employer from the employee.

Clearly, this new system will disadvantage employees, particularly those who receive large termination payments, as they will be unable to defer any payment of tax until self-assessment (often a number of months later).

HMRC is to publish guidance on the changes in February 2011.

Practical Tips

- Familiarise yourself with the changes and HMRC's guidance
- Ensure that termination payments from 6 April 2011 are taxed at the appropriate rate for the particular employee at the point of payment
- You will need to bear these changes in mind when you are negotiating employee exits between now and 5 April 2011 where the termination payment (or any part of it) is to be made on or after 6 April 2011.

If you require any specific advice in connection with the material contained in this bulletin, or on any other Employment Law issues, please contact: Paul Chamberlain in Manchester on 0161 836 8864, Andrew Cross in Liverpool on 0151 600 3062 or Kevin James in Preston on 01772 229847.

If you no longer wish to receive the bulletin please let us know by return e-mail to kimberley.malcolm@brabnerscs.com

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LIVERPOOL

Horton House, Exchange Flags, Liverpool L2 3YL
0151 600 3000

MANCHESTER

55 King Street, Manchester M2 4LQ
0161 836 8800

PRESTON

7-8 Chapel Street, Preston PR1 8AN
01772 823921