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**Making sure you stay on the right side of HM Revenue & Customs when it comes to making redundancy payments?**

*With redundancies now rising, Richard Booth at leading Worcestershire and Herefordshire firm of chartered accountants and business advisers, Kendall Wadley LLP takes a look at the tax situation when it comes to making redundancy payments.*

In the current economic crisis, the talk of redundancy is becoming more prominent as businesses focus on survival. To have to consider making redundancies is an unfortunate position for any business to be in and the main focus of many may well be to make a pay-off attractive to employees so changes can be made as quickly and as painlessly as possible.

Many employers will be keen to minimise any tax and National Insurance liabilities for themselves as well as any employees who may be affected.

Certain payments can be made free of tax and National Insurance. Statutory Redundancy Pay falls into this category. This can be up to £350 per year of service, up to a maximum of 20 years. This figure can be multiplied by 1.5 depending on the workers age.

In some cases, employers may want to make additional payments in addition to Statutory Redundancy Pay. This is when problems may arise. In general terms, if an employer is contractually obliged to make a payment to an employee on the loss of their employment, then these payments are subject to tax and National Insurance. Such payments are often referred to as Payments In Lieu Of Notice (PILON's).

Where an employer is not contractually obliged to make a payment for loss of employment, it may well decide to make a discretionary payment to an employee. The law contains an exemption of tax for the first £30,000 for such payments. The exemption also applies to National Insurance with no limits.

Many employers believe that the £30,000 exemption applies regardless of the circumstances in which they may make a redundancy payment which of

course will be of interest to HM Revenue & Customs. With unemployment forecasts expected to rise over the coming year, it is likely that HM Revenue & Customs will be on the look out for what they consider potential 'high risk' employers. However, with advice from an expert accountant, these risks can be minimised if not completely eradicated.

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