MYOB Advanced

Terminations in Payroll (AU)

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myob

Contents

Payroll Terminations

The Payroll module of MYOB Advanced allows you to process an employee's final pay after their employment has been terminated. This includes paying out unused leave balances and other lump sums, making adjustments for the notice period, updating the employee record and reporting employee termination payments (ETP) via Single Touch Payroll.

This document describes the termination process in MYOB Advanced for Australian companies—a separate white paper is available for companies in New Zealand.

> **Note:** MYOB Advanced currently supports most terminations for Australian companies. See "Unsupported Termination Scenarios" on page 11 for guidance on unsupported terminations. Future releases will expand support for more scenarios and jurisdictions.

Setup

Pay Items

Default pay items for Unused Leave and Lump Sum payments are included in MYOB Advanced. These pay items are set up to be taxed as appropriate for the leave or payment type—the **Taxation** field on the Pay Items screen (MPPP2210) includes options for various types of unused leave.
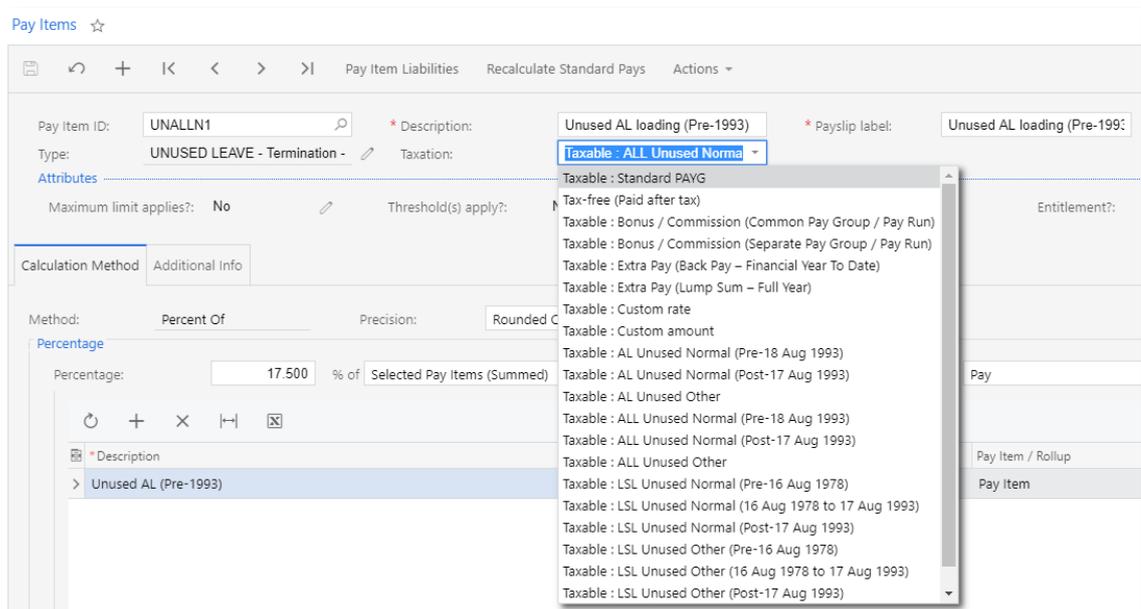
In most cases, the default pay items will be sufficient and there should be no need to create new pay items. If you do need new pay items for unused leave, however, make sure to select the correct taxation option.
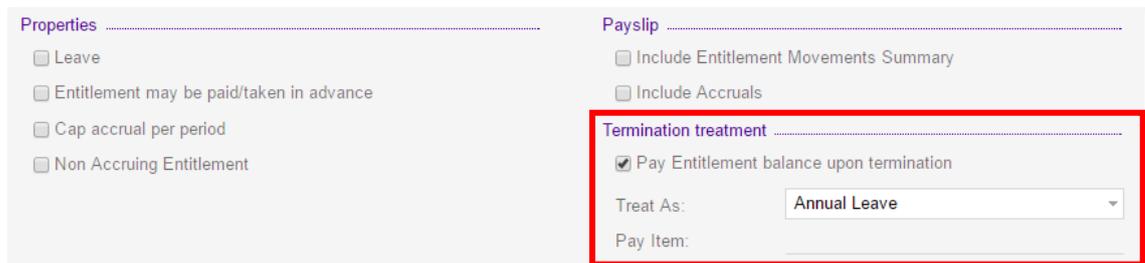
For "Other" leave paid on termination, you must use the pay item type "UNUSED LEAVE – Termination" and the calculation method "Rated", and you may use a multiplier (e.g. for paying out unused TOIL at a rate other than standard). The tax treatment should be "Termination" if it is an ETP, otherwise "Standard PAYG" is the expected choice.

The pay item's **General Ledger Purpose** can be changed if the default is not appropriate for your accounting practice; the typical practice is to journal the leave accrual (debit the expense, credit the liability account), so when leave is paid out, it will debit the liability account instead of the expense account. Whatever GL Purpose you select will be used by the termination workflow.

> **Note:** If you have saved changes to a system pay item, then it won't be changed by future upgrades.

Entitlements

On the Entitlements screen (MPPP3300), tick the **Pay Entitlement balance upon termination** option on the Rules tab for all leave accruals and other entitlements that should be paid out on termination:

When this option is ticked, the **Treat As:** field becomes available. Select one of the available options to specify how the entitlement should be treated when paying it out on termination:

- Annual Leave
- Long Service Leave
- (Time Off In Lieu) TOIL
- (Rostered Days Off) RDO
- Personal/Carers Leave
- Other

If you select "Other", the **Pay Item** field becomes active—you must specify a pay item that you have set up as per "Pay Items" on page 3.

Processing a Termination

Before Terminating Employment

If you are terminating an employee who is in more than one pay group, any open pays that include the employee should be completed or cancelled before the termination pay run is done, as the termination pay items will only be in the Current Pay for the pay group that the termination is initiated from.

When terminating an employee, the system processes only one entitlement for each leave type—if an employee has more than one entitlement for a leave type, you will need to use the Entitlement Transfer screen (MPPP3001) to consolidate the balances of all of them into one before the termination can be processed. (The exception to this is entitlements where the **Treat As**: field is set to "Other".)

If the employee has taken extended leave without pay, or if there is any other period of their employment that should not be included in their period of continuous service, go to

the Employment History tab of the Employees screen (EP203000) and make sure that the **Service Break** option is ticked for these periods. Any periods that have this option ticked will not be included when calculating the employee's period of continuous service (see page 6).

Processing the Termination Pay

When processing a pay that includes an employee's final pay, you need to perform extra steps to ensure that unused leave balances are paid out and the employee is marked as terminated.

> **Note:** An employee cannot be terminated if they are included in another open Current Pay.

1. Create the pay as normal, ensuring that any leave the employee is taking in the final pay period has been entered.
2. Open the Employee's Current Pay screen (MPPP3130) for the employee being terminated.
3. Click the **Termination** button on the main toolbar:

This opens the Termination window (MPPP5300):

4. Select the **Reason**:
   - Resignation – for all terminations initiated by the employee
   - Genuine Redundancy – for terminations that meet the ATO criteria for genuine redundancy or approved early retirement
   - Dismissal – for all other terminations initiated by the employer

Note: See "Unsupported Termination Scenarios" on page 11 for guidance on scenarios that do not fall under one of these reasons.

5. On the Details tab, set the **Last day of employment** and **Date when notice was given** dates.

Note: The date when notice was given is counted as a day of notice being given, i.e. it assumes notice was given at the beginning of the day.

6. The system calculates the employee's period of continuous service and minimum notice period. (You can override the notice period if necessary.) The calculations and details will differ between employee- and employer-initiated terminations, i.e. Resignation vs. Genuine Redundancy or Dismissal.
   - For Resignation: If the **Total notice period not worked** value is greater than zero, tick or clear the **Deduct from this pay** options depending on whether or not the unworked notice period should be deducted from their pay. The deduction will be inserted into the employee's Current Pay when the window is saved and closed.
   - For Genuine Redundancy and Dismissal: Tick or clear the **Make a Payment in Lieu of Notice** option depending on whether or not the unworked notice period should be paid to the employee. The full period of notice will be paid. The payment will be added to the Other Termination Payments tab of the Termination window, and then injected into the employee's current pay when the window is saved and closed.

Note: Any periods that are marked as a **Service Break** on the Employment History tab of the Employees screen (EP203000) will be excluded from the period of continuous service—see page 4.

Note: The minimum notice period is calculated according to National Employment Standards—see the **Fair Work website** for more information on how notice periods are calculated. The period is in calendar days, while the deduction is based on scheduled workdays, referencing the employee calendar, and counts days being taken as leave.

7. All unused leave balances for the employee are calculated and displayed on the Unused Annual and Long Service Leave or the Unused Other Leave tabs. You can override the calculated amounts if necessary by ticking the **Override** box and entering a new amount in the **Override Amount** column. You can enter a comment explaining why the amount was overridden into the **Comment** field.

   For Unused Other leave items, the **ETP** checkbox (read-only) indicates whether the leave type is an ETP or not—TOIL is not, while all other types are (the taxation treatment of the pay item determines this). The **Excluded Payment** checkbox can be ticked if appropriate. The combination of these two checkboxes determines the ETP code and ATO Reporting category (read-only) that will be used in the STP submission. The exception to this is when the entitlement is configured to use your own pay item (**Treat As:** is set to "Other"), which cannot be overridden on the Termination window.

> **Note:** The entitlement balance will include leave accrual in the employee's Current Pay. If the related pay item's **Accrual Method** is "Full Contract Accrual", it will be calculated up to the termination date; if it is "Accrued Pro rata", the full pay period accrual will be included.

8. The Other Termination Payments tab is used for other lump sum payments.
   - If the reason is Genuine Redundancy, a minimum redundancy payment will be automatically added, and the **Excluded** checkbox ticked. It can be manually added if the reason is Dismissal, note that the Excluded checkbox will be unticked by default but can be ticked if appropriate.
   - If the **Make a payment in lieu of notice** option is ticked on the Details tab, it will be automatically added.
   - Use the **+** button to add a row, and select a pay item from the available options.

- The **ETP** checkbox (read-only) indicates whether the pay item type is an ETP or not. The **Excluded Payment** checkbox can be ticked if appropriate. The combination of these two checkboxes determines the ETP code and ATO Reporting category (read-only) that will be used in the STP submission.

- If the employee termination is an unsupported scenario, use the Custom Payments tab to add your custom pay items—see "Unsupported Termination Scenarios" on page 11 for guidance.

9. Click **Save & Close** to close this window and return to the Employee's Current Pay screen, where pay items for Unused Leave and any other payments are added to the Current Pay. (A **Normal Earnings** field appears in the footer table footer when an Unused Leave pay item is selected; this value is used when calculating the tax on the pay item.)

10. Select **Termination Summary** from the Reports dropdown to generate a Termination Summary report, which shows how the pay items have been handled—see "Tax Calculations and the Termination Summary Report" on page 9 for more information.

11. Process and complete the pay as normal.

> **Note:** The unused leave calculations take into account any leave taken by the employee at the time the Termination window is opened (including any leave entered for the Current Pay). Entering leave (or making any other changes to the pay) after the Unused Leave pay items have been added to the employees pay will not update the Unused Leave pay items to reflect the new leave balance. To update these pay items, re-open the Termination window to re-calculate and update the Unused Leave pay items.
>
> **Note:** If the terminating employee has a Reducing Balance deduction, and the balance will not be cleared in this pay, a warning will be displayed so you can consider if you need to take action e.g. set up a debt collection record.

Effects on the Employee's Pay

When the Termination window has been completed, unused leave, lump sum payment and/or deduction pay items are added to the employee's pay to reflect the totals on the Termination window:

- "Termination – unused leave" pay items are added for any unpaid leave balances.
- If the termination's **Total notice period not worked** value is greater than zero and the **Deduct from this pay option** is ticked, a deduction pay item will be added to deduct the appropriate amount from the employees pay.

- If the **Make a payment in lieu of notice** option is ticked, a payment item will be added to pay the total amount of notice
- Various income pay items are added for lump sum payments.
- Pay items with the tax treatment of "Termination" may have a tax-free component. The tax-free and taxable components are added to the Tax free income and Gross income totals respectively—this will flow through to all places where these totals are displayed, e.g. the Employee's Current Pay (MPPP3130), the Pay Run Details screen (MPPP3120), reporting etc.

> **Note:** If an employee is in more than one pay group, the termination pay items will be in the current pay for the pay group that the termination is initiated from. Any other pay groups current pay will be a normal pay run, and should be completed or cancelled before the termination pay run is done.

Effects on the Employee Record

Once the pay including the employee's termination has been completed, the employee's record is updated as follows:

- The termination date is copied to the **Employee End Date** field on the Employment tab of the Pay Details screen (MPPP2310) and the **Expiry Date** column on the Employee Pay Groups screen (MPPP2250).
- If there is an active row on the Employment History tab of the Employees screen (EP203000), it will be updated to reflect the employee's termination.
- The status of the employee record is set to "Inactive" on the Pay Details and Employees screens.
- The Single Touch Payroll submission for the pay that included the employee's termination will report a finalisation declaration for the employee. The ETP pay items will be included in the Termination tab of the Single Touch Payroll batch for the pay run; all other pay items will be included in the tab corresponding to the employee's recorded Payment Summary type. ETPs are listed individually in the batch tab, and consolidated by date of payment and ETP code in the submission.

Tax Calculations and the Termination Summary Report

The "Termination" tax treatment applies the conditions and rules as set out by the ATO Employment Termination Payment Schedule 11 Table. These rules are illustrated in Appendix A: ETP Rules Diagram on page 15.

Selecting **Reports > Termination Summary** on the Employee's Current Pay screen (MPPP3130) opens the Termination Summary report (MPPP6090), which shows how the inserted pay items have been treated in accordance with these rules. This report can be provided to the employee for their information. The report includes the following sections:

- **Non Employment Termination Payments** – includes all tax-implicated pay items in the current pay that are not in the other sections, including custom payments for unsupported termination scenarios. The YTD Taxable is used in the Whole of Income Cap calculation.
- **Employment Termination Payments**
  - **Unused AL/LSL** – unused annual leave, annual leave loading, and long service leave payments. These payments are taxed using Schedule 7, and are used in the Whole of Income Cap calculation.
  - **Genuine Redundancy payments** – all ETP pay items marked as Excluded payments on the Termination window. The tax free components are

calculated on the total excluded payments. The net taxable is subject to the ETP cap for determining the amount qualifying for a concessional tax rate. The employee's preservation age and pension age are taken into consideration.

  o **Other payments** – all ETP pay items that are not marked as Excluded payments on the Termination window. The tax free components are calculated on the total non-excluded payments. The net taxable is subject to the lesser of the Remaining ETP cap and the Whole of Income cap for determining the amount qualifying for a concessional tax rate. The employee's preservation age is taken into consideration.

- **Caps** – the calculation of the Remaining ETP and Whole of Income caps. The lesser cap is indicated. The letters in brackets are cross-referencing the source in the main body of the report.

Reversing or Editing a Termination

The steps to reverse or edit an employee's termination differ depending on whether or not the pay containing their termination has been completed.

If the pay is still open, then open the employee's Current Pay, click the Termination button to open the Termination window again, then:

- To edit the termination, enter new details, then slick **Save & Close** to re-generate the termination pay items.
- To reverse the termination, click the **Delete** icon on the Termination window. This will remove all termination pay items from the employees pay.

If the pay has been completed, you will need to reverse the pay. Reversing a pay with a termination in it undoes all changes to the employee record—see "Effects on the Employee Record" above. The replacement pay that is generated will contain all of the termination pay items from the pay that was reversed—you can then click the **Termination** button in the employee's pay to open the Termination window and edit or delete the termination as necessary. If you keep the termination in the replacement pay, then when it is completed, the employees record will be updated again, i.e. the record will be set back to "Inactive", etc.

> **Note:** When a termination is reversed, the employee's next pay run will un-finalise the employee in Single Touch Payroll reporting, and they will see a continuation of their YTD balance in their myGov account.

Alternatively, you can adjust a completed pay for one or more employees. If that pay, or any subsequent pay for the employee, has a saved termination, then this should be recalculated, as the tax-free components and/or concessional tax rates may change—see the "Adjusting Employees' Pays" white paper for more information.

Unsupported Termination Scenarios

The Enhanced Termination feature supports most employee scenarios:

- Payment Summary type is "Individual Non-Business" or "Business and Personal Services"
- Residency is "Australian"
- TFN is saved
- No TFN is saved

If any of these requirements are not met, a warning will be displayed when the Termination window is opened; however, the Termination window can still help with:

- Pension age and preservation age determination
- Unused leave balances and calculations
- Notice period and calculations
- Redundancy payment calculations
- STP reporting (including finalisation of the employee) and updating the employee record after the pay run

It is likely that you will need to do some alternative or additional actions in an unsupported termination scenario—our guidance on these scenarios is detailed below.

Common Instructions

1. Continue from the warning, so that the Termination window gathers all the data and performs the calculations. Take note of all the values.
2. Save and close the Termination window so the pay items are inserted into the Employee's Current Pay.
3. Run the Termination Summary report (**Reports > Termination Summary**) so you can identify how each payment has been handled.
4. Do your own calculations – see guidance in the following steps.
5. **For all unused leave**, you can use the Termination window, override the calculated $ amount to 0, and then add your own pay item as follows:
   a. If the payment is an ETP, then on the Termination window's Custom payments tab, add your ETP taxable pay item and set the tax to the correct rate or amount. Select the appropriate ETP code.
   b. If the payment is a non-ETP, including annual / long service leave and TOIL, then in the Employee's Current Pay add a custom pay item with custom tax rate or amount, and set the tax to the correct rate or amount.
   c. This means that the entitlement units will be transacted and the entitlement balance cleared, and the payment will be taxed and reported as per your employee's scenario.
6. **For all other termination items**, follow the same approach:
   a. 'In lieu of notice' and 'Redundancy' payment amounts will be automatically calculated as per the termination reason and notice period settings. Override the amount to 0 in the 'Other termination payments' tab and then create your own pay item with custom tax, and add it in the 'Custom payments' tab.
   b. 'Insufficient notice' deductions don't need to be changed (they are not ETPs, so the pre-tax deductions will use standard PAYG for the employee, and post-tax deductions have no tax implication).

7. **For custom pay items that count as ETPs**:
   a. Use a pay item with the type "ETP taxable" or "ETP tax-free".
   b. Genuine redundancy and early retirement scheme payments are tax free up to a limit. This tax free amount is not an ETP, so the pay item for that portion should follow the 'Custom pay item non ETP' guidelines.
   c. Select the tax treatment. If it is custom tax rate, enter the rate in the pay item (note it can be changed / selected on the Termination window). If it is custom tax amount, you will enter this in the Termination window.
   d. In Pay Item Liabilities, select the ATO category – likely to be Employment Termination Payments
8. **For non-ETP custom pay items**:
   a. Use a pay item with the type "Income'".
   b. Select the tax treatment. If it is custom tax rate, enter the rate in the pay item. If it is custom tax amount, enter this in the Employee's Current Pay in the pay item footer.
   c. In Pay Item Liabilities, select the ATO category—it is most likely to be "Gross Payments".
   d. The tax-free portion of excluded payments is a non-ETP, so the pay item type is income and the ATO category is Lump Sum D.

> **Note:** The Termination Summary report will include any custom pay items in the **Non Termination Payments** section.

9. Do not delete the inserted Unused Leave pay items—they will transact the entitlement units with an amount of $0. The other (non-leave) inserted pay items that are superseded by your custom pay items can be deleted if you prefer. (Note they will be re-added if you re-save the Termination batch.)
10. The custom pay items will be included in the STP batch. After the pay run is completed, check the batch to confirm that the reporting is as expected.

Scenario-Specific Instructions

Residency is "Working Holiday Maker"

- All payments should be taxed using the WHM tax scale.
- Refer to YTD balances from the last completed pay run. Refer to the WHM tax table to identify the tax rate to use for payments in the final pay run.
- Note that employee is entitled to tax-free portions of ETPs.
- Follow the guidelines under "Common Instructions" for superseding any unused leave or ETPs with the correct tax.

Residency is "Foreign"

- All tax should exclude the 2% Medicare Levy.
- Follow guidelines for superseding any unused leave or ETPs with the correct tax.
- Refer to the tax table for unused AL/LSL - note the tax treatment on the injected pay items to identify which standard tax rate applies, deduct 2% from that rate.
- Refer to the Termination Summary Report and the flow diagram to identify what standard tax rate applies for each payment, deduct 2% from that rate.
- Follow the guidelines under "Common Instructions" for replacing the pay items with the correct tax.

Payment Summary type is "Voluntary Agreement" (VA)

- A flat tax rate should be configured and used for all payments.
- Follow the guidelines under "Common Instructions" for superseding any unused leave or ETPs with the correct tax rate.

Flat tax rate is saved and Payment Summary type is not VA

- Seek guidance depending on the circumstances.
- The Termination window will have applied the standard tax table for unused AL/LSL and ETPs.
- If appropriate, follow the guidelines under "Common Instructions" for superseding any unused leave or ETPs with the correct tax rate.

Payment Summary type is "Not Required"

- The Termination window will have applied the standard tax table for Unused AL/LSL and ETPs. These pay items would not be included in the STP submission because of the Payment Summary type.
- If this is not appropriate, and they should have a payment summary type saved, follow these steps:
    1. Delete the Termination batch by clicking the Delete button on the Termination window (🗑).
    2. Update the employee's payment summary type on the Taxation tab of the in Pay Details screen (MPPP2310). Check the box to update open pays and completed pays as appropriate, then save.
    3. Process the termination again.
    4. Inserted pay items will now be reported in the STP submission in the updated Payment Summary section.

Reason is invalidity

Follow these steps:

1. On the Termination window, set the **Reason** to "Genuine Redundancy".
2. Override the redundancy payment if appropriate.
3. Add any invalidity payments on the Other Termination Payments tab.
4. Save and close the termination, then view the Termination Summary report.
5. Refer to the tax table for instructions to factor in the Invalidity tax-free portion. Calculate the correct amounts for taxable vs tax-free portions and tax for excluded and non-excluded payments.
6. Follow the guidelines under "Common Instructions" for superseding any unused leave or ETPs with your own pay items with the correct tax and ETP code.

Reason is death

Follow these steps:

1. On the Termination window, set the **Reason** to "Dismissal".
2. Add payments as required in on the Other Termination Payments tab.
3. Save and close the termination, then view the Termination Summary report.
4. Refer to the tax table for instructions to calculate the correct tax, which is dependent on the status of the payee.
5. Follow the guidelines under "Common Instructions" for replacing any unused leave or ETPs with your own pay items with the correct tax and ETP code.

Multiple payments for the same termination

Follow these steps:

1. Update the employee status from inactive to active.
2. On the Termination window, select the reason 'Dismissal'.
3. Refer to the tax table for instructions to re-calculate the total tax on all termination payments, and the new tax amount required on the additional payment.
4. Follow the guidelines under "Common Instructions" to create your own pay items and add them into the 'Custom payments' tab with the correct tax and ETP code.

References

Schedule 7 Unused AL/LSL

Schedule 11 ETPs

How to apply ETP caps and calculate tax-free portions

Tax free limit of genuine redundancy payment not an ETP

Appendix A: ETP Rules Diagram