

"Please Note: While we try to provide you with the solution you need, we can't promise that the information set out below is totally error free or will necessarily resolve any problem you may have."

Terminating an Employee in QuickBooks QBi

When workers leave the employ of the business, whether it is voluntary or involuntary, they will often be entitled to a number of additional payments above their normal pay rates. In many cases this will mean the QuickBooks user will need to create additional payroll items to process these payments. Some of these payments may have special tax treatments. When completed the employee's record needs to be marked as terminated.

In this guide we will outline the types of payments an employee may be entitled to, how they are reported on the Payment Summary and how they are handled by QuickBooks QBi.

What additional payments an employee is entitled to will depend on his employment contract, award conditions, general requirements of industrial relations law and the circumstances of the departure.

QuickBooks users should work with their accountants and managers to determine what entitlements apply in each case.

The ATO provides information on terminating an employee at:

<http://www.ato.gov.au/businesses/content.asp?doc=/content/89733.htm>

QuickGuide to terminating an employee

- Process last normal pay
- Calculate additional payments and associated taxes
- Process additional payments (appropriate payroll items may need to be created)
- Terminate the employee in QuickBooks
- Where applicable, process any Eligible Termination Payments (ETP)
- Provide the employee with an INB Payment Summary and where applicable, an ETP Payment Summary

Additional fields in the INB Payment Summary

It is the 4 boxes labelled Lump Sum Payments A, B, D and E that are used when an employee leaves the business. You can view a full description of these payments on the ATO website at:

<http://www.ato.gov.au/individuals/content.asp?doc=/content/20800.htm>

Please note that the tax treatment of these payments may vary according to date range and the reason for the departure. In short these payments represent:

PAYG payment summary - individual non-business
Payment Summary for year ending 30 June 2011

<p>Payee details</p> <p>John Cleese 12/34 Silly Street Ashfield, NSW 2131</p>	<p>NOTICE TO PAYEE</p> <p>If this payment summary shows an amount in the total tax withheld box, you must lodge a tax return. If no tax was withheld, you may still have to lodge a tax return. For more information about this payment summary or lodging your tax return, you can:</p> <p>visit www.ato.gov.au refer to TaxPack phone 13 28 61 between 8.00am and 6.00pm Monday to Friday.</p>
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Period of payment Day/Month/Year to Day/Month/Year
01/07/2010 to 30/06/2011

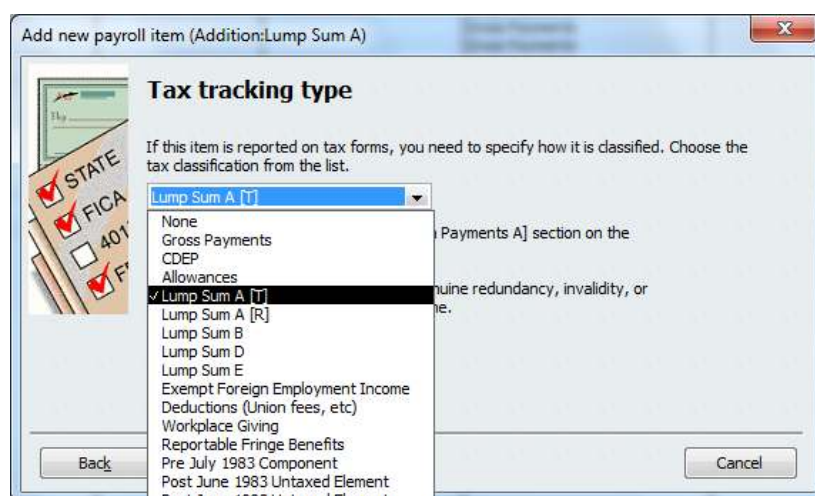
Payee's tax file number 867670155 **TOTAL TAX WITHHELD \$**

<p>Gross payments \$ <input type="text" value="577"/></p> <p>CDEP payments \$ <input type="text"/></p> <p>Reportable fringe benefits amount FBT year 1 April to 31 March \$ <input type="text"/></p> <p>Reportable employer superannuation contributions \$ <input type="text" value="0"/></p> <p>Total allowances \$ <input type="text"/></p>	<table border="1" style="border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Lump sum payments</th> <th style="text-align: left;">Type</th> </tr> </thead> <tbody> <tr> <td>A \$ <input type="text"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>B \$ <input type="text"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>D \$ <input type="text"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td>E \$ <input type="text"/></td> <td><input type="checkbox"/></td> </tr> </tbody> </table> <p><small>Total allowances are not included in Gross payments above. This amount needs to be shown separately in your tax return.</small></p>	Lump sum payments	Type	A \$ <input type="text"/>	<input type="checkbox"/>	B \$ <input type="text"/>	<input type="checkbox"/>	D \$ <input type="text"/>	<input type="checkbox"/>	E \$ <input type="text"/>	<input type="checkbox"/>
Lump sum payments	Type										
A \$ <input type="text"/>	<input type="checkbox"/>										
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D \$ <input type="text"/>	<input type="checkbox"/>										
E \$ <input type="text"/>	<input type="checkbox"/>										

- Lump Sum A – unused annual leave entitlements and accumulated long service leave entitlements;
- Lump Sum B – long service leave entitlements earned up to 1978;
- Lump Sum D – tax-free portion of genuine redundancy or early retirement scheme payments;
- Lump Sum E – payments relating to work done in earlier income years and being paid as a lump sum.

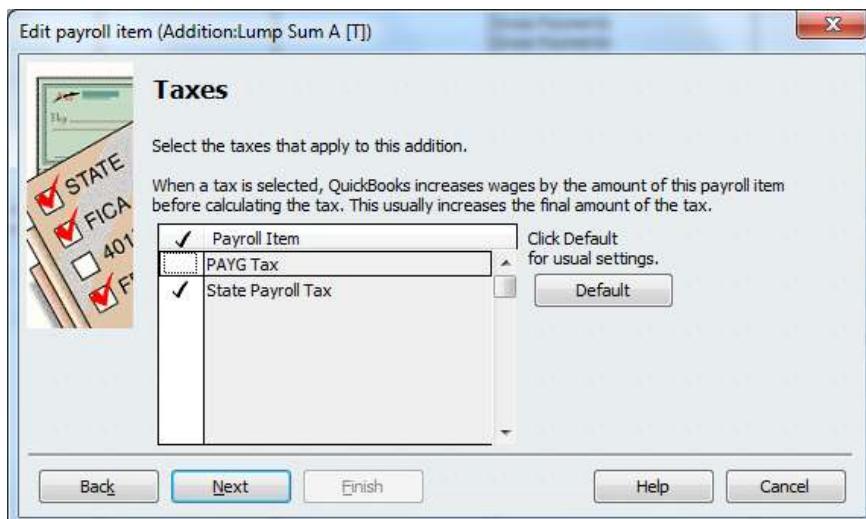
Setting up the Lump Sum payroll items

You must create payroll items for these payments to assign them to the correct field on the INB Payment Summary. Create them as an Additional item and select the appropriate Lump Sum in Tax Tracking Type:



Please note that Lump Sum A has two options: [R] is for genuine redundancy, retrenchment and invalidity while [T] is for all other terminations.

You cannot apply Taxes to these lump sums as normal PAYG tax scales will be applied. On the Taxes screen uncheck PAYG Tax. You should leave State Payroll Tax ticked as these payments are included in payroll tax calculation.



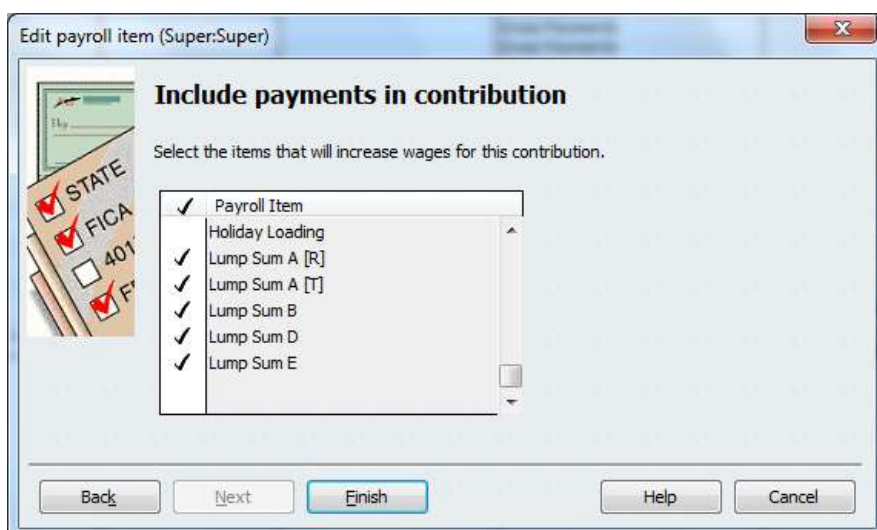
You will need to manually calculate the correct amount of tax (Lump Sum A is currently 30% plus 1.5% Medicare Levy) and adjust the PAYG Tax amount on the Prepare Paycheque screen.

Lump Sum D payments are a tax-free portion and so do not attract any PAYG tax.

Lump Sum E payments will also attract tax, but need to be calculated manually for the specific circumstance.

QuickBooks will automatically tick these payroll items for inclusion in calculating the statutory Super Guarantee amount. Check with your accountant / manager / ATO whether your payments must be included for Super calculation. If your payments to a Lump Sum category include a mix of superable and non-superable items, then it will be simpler to adjust the super amount on the Prepay Paycheque screen.

If you want to turn off Super calculation on these Lump Sum items, edit your Super item, forward to the last screen ***Include payments in contribution*** and **uncheck** the Lump Sum items:



Lump Sum items are automatically ticked for inclusion in Super calculation.

Paying the Lump Sum amounts

As lump sums have special tax treatments you must calculate the correct amount of tax manually, according to ATO directions. Consequently we suggest you prepare the final pay separately from the last normal pay. This will help you check the tax amount you enter is correct.

Enter all Lump Sum payroll items and then over-write the amount of PAYG payable with the amount you manually calculated.

Example

John Cleese has worked with the Company for 5 years and is being made redundant. He has 10 days unused Annual Leave and has accrued 4 weeks Long Service Leave entitlement. He is also being paid a redundancy of \$10,000 and under the current formula is entitled to \$1,000 as a tax-free component. He also did a special project in a previous income year when allowances valued at \$2,000 were not paid and will be paid in this payout. His current salary is \$52,000 per annum or \$1,000 per week.

Calculation of amounts:

- Annual Leave is 2 weeks x \$1000 = \$2,000.
- Leave Loading on Annual Leave at 17.5% = \$350.
- Long Service Leave is 4 weeks x \$1,000 = \$4,000
- Tax-free Redundancy is \$1,000.
- Arrears payment is \$2,000.

Calculation of Tax

- Lump Sum A is 2000 + 350 + 4000 = \$6,350
 - Tax is 31.5%: 6350 x 0.315 = \$2000.05 (use \$2,000.00)
- Lump sum D is \$2,000 and is tax-free
- Lump Sum E is \$2,000
 - following ATO directions tax is calculated at \$630.00
- Total Tax is 2000 + 630 = \$2,630.

The payment will look like this:

The screenshot shows the 'Review Or Change Payments' window for employee John Cleese. The window displays the following data:

Item Name	Rate	Hours	Customer/Job	Available	Accrued
Personal				0.00	
Holiday				137.15	0.00
Other 1				0.00	
Other 2				0.00	

Total Hours: 0.00

Item Name	Rate	Quantity
Lump Sum A [T]	6,350.00	
Lump Sum D	1,000.00	
Lump Sum E	2,000.00	

Item Name	Amount	YTD
Lump Sum A [T]	6,350.00	6,350.00
Lump Sum D	1,000.00	1,000.00
Lump Sum E	2,000.00	2,000.00
PAYG Tax	2,630.00	-2,630.00
Net Pay:	6,720.00	

The calculated tax amount was 0.00 and it was overwritten with the calculated amount of \$2,630.

The INB Payment Summary looks like this:

PAYG payment summary - individual non-business
Payment Summary for year ending 30 June 2011

Payee details John Cleese 12/34 Silly Street Ashfield, NSW 2131	NOTICE TO PAYEE <small>If this payment summary shows an amount in the total tax withheld box, you must lodge a tax return. If no tax was withheld, you may still have to lodge a tax return. For more information about this payment summary or lodging your tax return, you can: visit www.ato.gov.au refer to TaxPack phone 13 28 81 between 8:00am and 6:00pm Monday to Friday.</small>
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Period of payment Day/Month/Year to Day/Month/Year
01/07/2010 to 30/06/2011

Payee's tax file number 867670155 **TOTAL TAX WITHHELD \$2630**

Gross payments	\$ 577	Lump sum payments	Type
CDEP payments	\$	A	\$ 6350
Reportable fringe benefits amount FBT year 1 April to 31 March	\$	B	\$
Reportable employer superannuation contributions	\$ 577	D	\$ 1000
Total allowances	\$	E	\$ 2000

Total allowances are not included in Gross payments above. This amount needs to be shown separately in your tax return.

Lump Sum E
Lump Sum E \$ 2000

The employee has a previous pay that was 100% salary sacrificed.

Lump Sum A,D and E show the amounts of the employee's payouts.

Total Tax Withheld shows the total tax on the Lump Sum payments that was manually calculated.

Note that the Lump Sum E payment will also appear in the section that Allowances and Deductions are normally posted.

INB Payment Summary items are now complete, but there may be other termination payments (ETP) still to process. Before you complete those you should terminate the employee in QuickBooks as that process will trigger the ETP payments.

Terminate the Employee in QuickBooks

Now that INB Payment Summary items are complete you can close off the employee file in QuickBooks.

First, zero all accrued leave – Annual, Personal and Other. These should have been paid out in the final payment.

Next, right-click the employee in the Employee Centre and select Terminate Employee. The Employee Organizer will open and you need to follow the prompts to complete the details:

Terminating: Cleese, John

QuickBooks
EMPLOYEE ORGANISER

Termination Details - Page 1 of 3

Termination Type:

Termination Reason:

* Last Day Worked: 10/08/2010

* Release Date: (Last Day on Payroll): 10/08/2010

* Required fields

Next Cancel

Questions ?

- What Termination Dates should I enter?
- What impact does Release Date have on payroll?

When you finish the termination process you will end up on the following screen:



If there are no further payments involved with the termination you can click on Close to end the termination process or click on Terminate another employee if you have other employees to terminate.

In our example, John Cleese was given a redundancy payment of \$10,000 of which only \$1,000, the allowed tax-free amount, was applied in the previous payment. The remaining \$9,000 is an Eligible Termination Payment and is not included with the INB Payment Summary. Tax will be paid on that amount, but it will be listed on an ETP Payment Summary.

Click on **paycheque** to continue.

Processing Eligible Termination Payments

ETPs are subject to preferential treatments and tax concessions and may be changed at any time. Each individual payment will be unique and may vary over time. Users should consult their Accountants for direction and assistance in preparing ETPs.

At a minimum, users should make themselves familiar with the following ATO publications (and any other subsequent relevant publications):

NAT 2698-02.2007: Eligible termination payments – a practical guide for employers

NAT 70643-07.2007: Employment Termination Payments - changes from 1 July 2007

QuickBooks provides the following payroll items for ETPs:

Pre July 1983 Component – taxed at 0%;

Post June 1983 Untaxed Element – taxed at 31.5%;

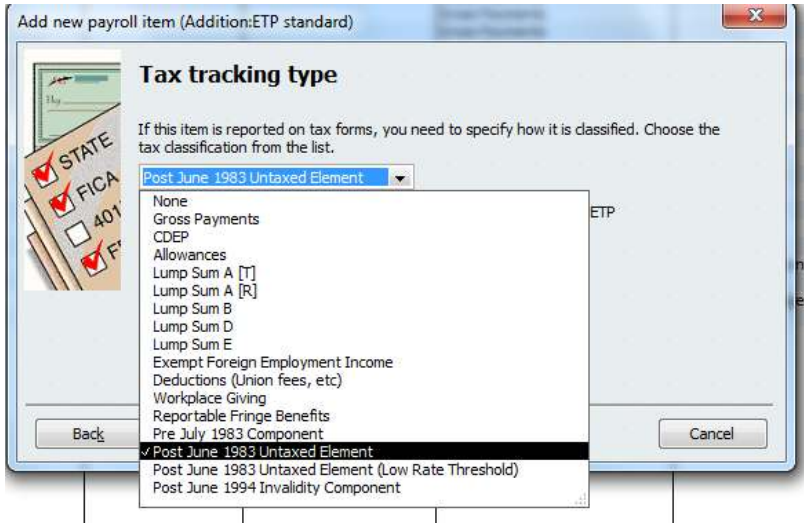
Post June 1983 Untaxed Element (low rate threshold) – taxed at 16.5%;

Post June 1994 Invalidation Component – taxed at 0%.

Users will need to determine which ETP payroll item is relevant for their employee. Because of the complexities of the ETP process, users should follow the ATO worksheets to calculate the correct amount of tax and compare it to the amount that QuickBooks calculates to ensure integrity of the process.

Create and Configure ETP Payroll Items

1. Lists > Payroll Items List > Payroll Item button > New;
2. Payroll Item Type: Addition;
3. Name used in payments and payroll reports: eg. ETPpre1983;
4. Expense Account : Payroll Expenses:ETP;
5. Tax Tracking Type: choices are:
 - a. Pre July 1983 component
 - b. Post June 1983 Untaxed Element
 - c. Post June 1983 Untaxed Element (Low Rate Threshold)
 - d. Post June 1994 Invalidation Component



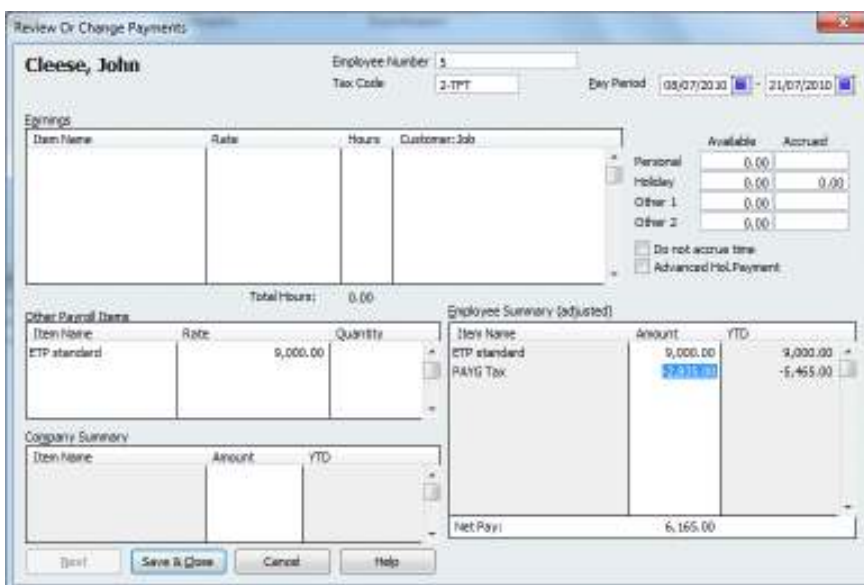
6. Taxes: none ticked
7. Calculate based on Quantity: Neither
8. Default Rate and limit: leave blank

Note: you can create the ETP as a Wages > Other item, but when created, this item will be added to the Super list of items to be used for super calculation and may be ticked.

Taxes are unchecked as ticking PAYG Tax will apply the normal tax tables to the payment. You will need to manually calculate the tax applicable, following the ATO worksheets, and over-write the PAYG Tax amount on the Prepare Paycheque screen. If an amount of tax appears when you enter the ETP payroll items, then you have ticked PAYG Tax in the setup of that item. Go back and uncheck that selection.

Although no tax is calculated on the Prepare Paycheque screen, the tax associated with the ETP payroll items are posted to the ETP Payment Summary. You must enter the correct amount of tax in the PAYG Tax field. If you enter more, then the amount in excess of the calculated ETP tax amount will be added to the Total Tax Withheld field on the INB Payment Summary. If you enter less tax then you will be overpaying your employee as the correct amount of tax will be reported on the ETP Payment Summary. **It is advisable to do a dummy pay-run to confirm that you have all the correct amounts.**

In our example John Cleese has a further \$9,000 to receive as a redundancy payment. Following ATO guidelines we determine that Post June 1983 Untaxed Element is the correct category to use. At the time of writing this category applies a tax of 30% + 1.5% Medicare levy: tax is \$2,835.



Note that the PAYG Tax YTD shows the total paid this income year (2,630 + 2,838).

The ETP Payment Summary will look like this:

PAYG payment summary - employment termination payment

Payment Summary for year ending 30 June 2011

Payee details

John Cleese
12/34 Silly Street
Ashfield, NSW 2131

NOTICE TO PAYEE

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visit www.ato.gov.au
refer to TaxPack
phone 13 28 61 between 8.00am and 6.00pm Monday to Friday

Date of payment Day/Month/Year
10/09/2010

Payee's tax file number 867670155 **TOTAL TAX WITHHELD \$**

Taxable component \$

Tax free component \$

Is this payment a transitional termination payment?

Is this payment part of a prior year payment for the same termination of employment?

Death benefit

Type of death benefit

You should check the INB Payment Summary and ensure the Tax Withheld amount has not changed.

When the employee leaves, you must give the employee both the INB Payment Summary and the ETP Payment Summary.

Although your employee has been terminated he will appear on your Employee List in the Employee Centre until you make him inactive.

Impact on BAS

When ETP payroll items are used, users must include the ETP items in the W1 field.

When ETP payroll items are included in W1, the W2 field will automatically include ETP tax amounts.