

"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."

How to process Eligible Termination Payments (ETP) in QuickBooks

Warning!

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 Tax 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

Note:

ETPs should not be confused with Redundancy and Retrenchment payouts. Some of these payments may include ETPs, but there will be other amounts that will be included in Lump Sum A, B, C and D payments.

As of 1/7/2009, 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.

Using ETP Payroll Items

When terminating employees, it is advisable to complete all normal pays in one run and the ETP payment in a separate run.

You must terminate the employee before you can process an ETP. When the termination process is complete you will be given the option to Create Final Pay. Click on it.

On the Review or Change Payments Screen, enter the ETP payroll item in the Earnings section. The tax on an ETP payroll item will not be calculated, but it will appear on the ETP Payment Summary. Users should enter the amount of tax they have independently calculated using the ATO worksheet.

(If a tax amount does appear when the ETP payroll item is entered, then the ETP payment item has been incorrectly setup with PAYG ticked on the Taxes Screen of the configuration.)

Check that the ETP Payment Summary shows the amount of tax you entered. If the amount is different you should check your calculations again and go back and make any necessary adjustments.

Check the INB Payment Summary. It should not include any tax from the ETP payment. If it does, then the amount of tax entered in the final payment was higher than necessary or the employee did not pay tax in the financial year the ETP is being processed. Check tax calculations, go back to the final payment and make the necessary adjustments (you may need to give the employee 1 cent PAYG tax – see note below).

On leaving, the employer must give the employee an INB Payment Summary and an ETP Payment Summary.

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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.

Additional Note:

When the employee did not pay any tax in the financial year the ETP is being processed

If an employee did not pay tax in the financial year the ETP is being processed, then QuickBooks will publish the correct amount of tax on both the ETP Payment Summary and on the INB Payment Summary (where it will show a Gross Payments amount of zero).

To avoid the tax amount publishing a second time on the INB Payment Summary you must pay your employee 1 cent (0.01) and deduct 1 cent (0.01) PAYG tax. This transaction will force QuickBooks to produce an independent INB Payment Summary showing Tax Withheld as zero and Gross Payments as zero. Your ETP tax will now show only on the ETP Payment Summary.

This step will leave you with a 1 cent transaction in your books. This transaction must remain in your books until you have completed the Empduple file for this financial year. If you remove this transaction after printing your ETP and INB Payment Summaries, your Empduple file will show the tax amount on both the ETP and INB summary sections. We suggest you make a note in the QuickBooks To Do List (or other diary note) to **delete the 1 cent pay after the Empduple has been produced and successfully accepted by the ATO**. Also, your Pay Payroll Liabilities screen will show the extra 1 cent in the PAYG Tax balance for that period. That 1 cent need not be paid and will disappear when the additional entry in the employee pay is eventually deleted.