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Redundancy in Ireland

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FINANCIAL CONSIDERATIONS AND STRATEGIC PLANNING

Redundancy represents a significant transition point.

While it marks the end of a role, it also creates important financial decisions. The structure of your redundancy package, how it is taxed, and how it aligns with your long-term objectives all matter.

For many individuals, particularly long-serving employees, business leaders and higher earners, redundancy is not simply an employment event. It is a financial planning event.

This guide outlines the key considerations in clear, practical terms.

UNDERSTANDING REDUNDANCY

Redundancy occurs when an employer no longer requires a role for genuine business reasons. This may arise from restructuring, downsizing, technological change or business closure.

It differs from dismissal for conduct or performance.

If you meet certain service requirements, you may qualify for statutory redundancy under Irish law. In many cases, however, the statutory payment represents only one element of a broader termination package.

Understanding the distinction is essential.

WHAT IS STATUTORY REDUNDANCY?

Statutory redundancy is the minimum payment required under Irish legislation where eligibility criteria are met.

You generally qualify if:

- **You have at least two years' continuous service**
- **The redundancy is genuine**
- **You are covered by the relevant legislation**

This statutory amount forms the foundation of your entitlement, but it is often only the starting point.

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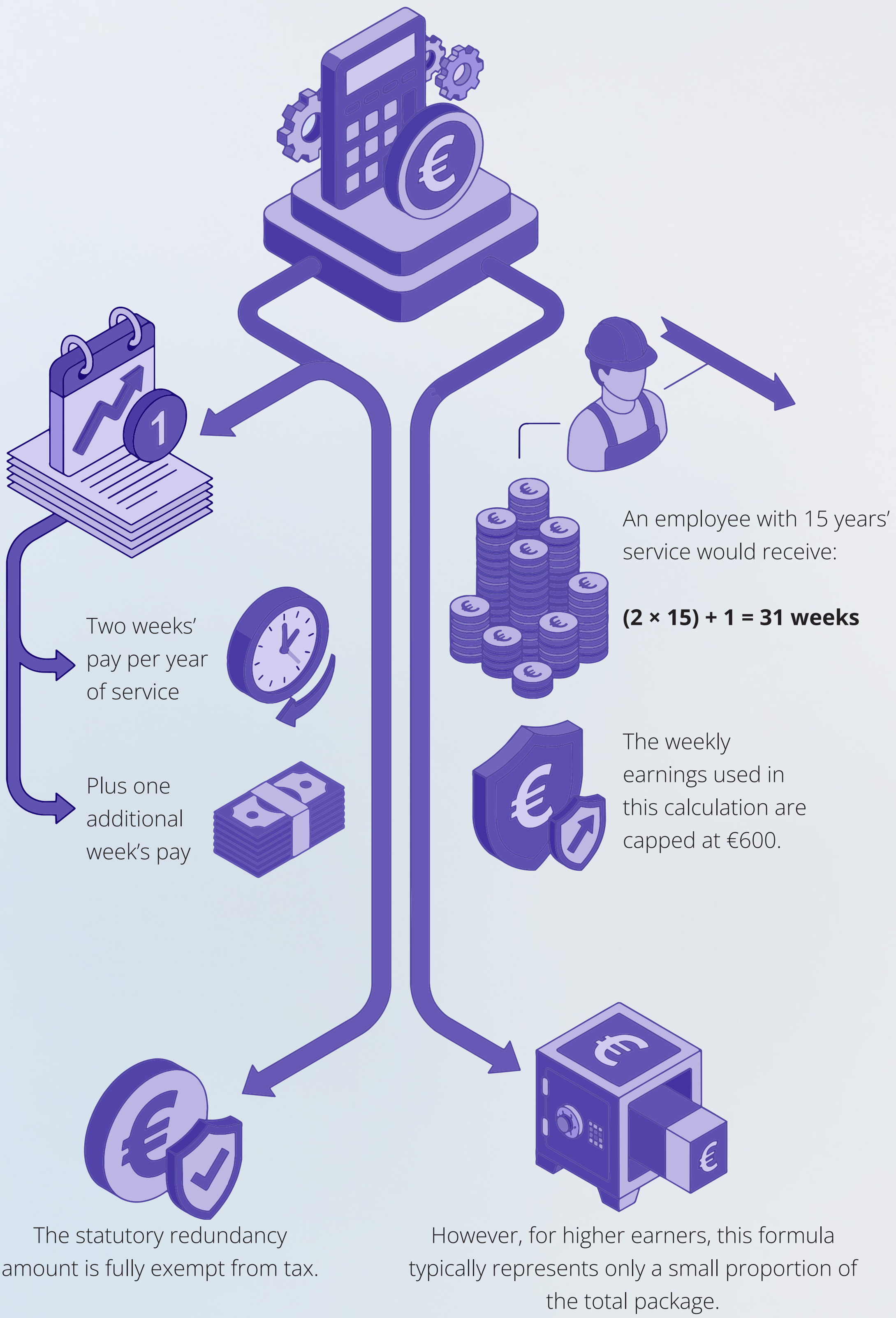
HOW IS STATUTORY REDUNDANCY CALCULATED?



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Is redundancy pay capped?

Yes.
While there is no cap on years of service, weekly earnings are capped at €600 for statutory redundancy purposes.
In addition, separate tax-free limits apply to termination payments beyond the statutory element. Understanding both caps is particularly important for individuals receiving substantial packages.

When your redundancy package includes additional payment

Many redundancy packages include payments above the statutory minimum. These may include:

- **Enhanced or discretionary payments**
- **Notice pay**
- **Accrued holiday pay**
- **Performance-related bonuses**

For higher earners, the enhanced portion can significantly exceed the statutory element. How this additional payment is structured can materially affect the net outcome.

Tax considerations

The statutory redundancy amount is fully tax-free. Enhanced or ex-gratia payments may qualify for further tax-free relief under Revenue provisions, including:

- **Basic Exemption**
- **Increased Basic Exemption**
- **Standard Capital Superannuation Benefit (SCSB)**

A lifetime tax-free limit of €200,000 applies to qualifying termination payments. For individuals receiving larger packages, accurate application of these reliefs is essential.

HOW SCSB IS CALCULATED

SCSB is calculated using the following formula:

SCSB = (N × AE) / 15 – PVFLS

N = number of years' service

AE = average earnings over the last 36 months

PVFLS = present value of future lump sum

PVFLS may be

Zero, if rights to the pension lump sum are waived

The lower of:

- 25% of the current pension fund, or
- The present value of a salary-and-service lump sum

The salary-and-service lump sum is calculated as:

3N/80ths × final remuneration inflated at 1.5% per annum to normal retirement age discounted at 6% per annum to present value

This actuarial-style calculation means that pension structure, projected retirement age and fund value materially influence the tax-free outcome. Professional review is often required to determine the correct entitlement.

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When your redundancy package is substantial

For individuals receiving six-figure termination payments, redundancy becomes a wealth management consideration.

Key issues may include:

- **Maximising available tax relief**
- **Understanding SCSB impact**
- **Assessing exposure to higher tax bands**
- **Evaluating capital preservation strategies**
- **Planning transition to new employment or retirement**

Illustrative Example

Assumptions:

16 years' service

Average earnings €363,000

Final salary €390,000

Pension fund €700,000

Statutory redundancy €19,800

Ex-gratia payment €239,800

The €19,800 statutory portion is fully tax-free.

Under SCSB, the calculated tax-free amount may exceed €200,000.

However, because of the lifetime cap, the maximum tax-free element is €200,000.

The balance becomes taxable. At this level, precise calculation of PVFLS and correct application of reliefs can materially affect the final retained amount.

PENSION AND LONG-TERM PLANNING

Redundancy often prompts broader financial review. This may include:

- **Reviewing pension entitlements and projected income**
- **Evaluating liquidity needs**
- **Assessing investment positioning**
- **Reconsidering retirement timelines**

For higher earners, redundancy can accelerate strategic decisions about wealth preservation and income structuring.

Before finalising any agreement

Before accepting a redundancy package, it is important to understand:

- **The full breakdown of each component**
- **How reliefs have been applied**
- **The net amount after tax**
- **The long-term impact on retirement planning**

Decisions made at this stage can influence outcomes for years.

IMPORTANT NOTE

Every redundancy situation is different. Service length, remuneration, pension structure and financial objectives all influence the appropriate course of action.

For that reason, it is advisable to consult a qualified financial advisor before making any final decisions. Fairstone Ireland provides structured, regulated financial advice tailored to your circumstances.

To book a no-obligation redundancy consultation, contact Fairstone Ireland.

Let's talk

www.fairstone.ie (01) 295 5766

Sources:
Citizens Information
Revenue.ie
Gov.ie

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