

How to calculate statutory redundancy pay

While some help is available to employers through the Coronavirus Job Retention scheme to help them keep staff on during the COVID-19 pandemic, in some cases, it may not be possible to avoid making staff redundant.

Where staff are made redundant and have at least two years' continuous service, they may be entitled to statutory redundancy pay.

To be eligible for statutory redundancy pay, an individual must:

- be an employee with a contract of employment;
- have at least two years' continuous service;
- have been dismissed, laid off or put on short-time working.

Employees who take early retirement are not eligible for statutory redundancy pay.

How much does an employee get?

The amount of statutory redundancy pay to which an employee is entitled depends on the length of their service and their age.

An employee is entitled to:

- 1.5 weeks' pay for each full year of employment after their 41st birthday;
- one weeks' pay for each full year of employment after their 22nd birthday; and
- half a weeks' pay for each full year of employment up to their 22nd birthday.

Service is counted backwards from the date of dismissal.

Cap on redundancy pay

Statutory redundancy pay payable to an employee is capped at 20 years' service. Weekly pay is capped at £538 per week (rate from 6 April 2020). This means that the maximum amount of statutory redundancy pay is £16,140 (20 x 1.5 x £538).

Working out a week's pay

Where an employee is paid an annual salary, a week's pay will simply be the annual salary divided by 52. If an employee's pay varies, the average weekly pay over a 12-week period is used.

Is statutory redundancy pay taxable?

Statutory redundancy pay is not taxable as earnings. It is treated as a termination payment and counts towards the £30,000 tax-free threshold.

Example

An employee is made redundant on 1 May 2020. They celebrated their 45th birthday on 1 February 2020. The employee started work in 1 January 2006 (aged 30).

The employee has an annual salary of £36,400.

The employee has 4 complete years of service from their 41st birthday (1 February 2016 to 30 January 2020).

The employee has a further ten years complete years' service after their 22nd birthday and before their 41st birthday.

The employee has an annual salary of £36,400. This is equivalent to weekly pay of £700 per week. As this is more than the maximum weekly pay for statutory redundancy pay purposes, the calculation is based on £538 per week.

The employee is entitled to statutory redundancy pay of £8,608 $((1.5 \times 4 \times £538) + (10 \times £528))$.

Contractual redundancy pay

If the employer operates a contractual redundancy pay scheme, the employer can pay contractual redundancy pay instead, as long as the employee receives at least what they would be entitled to as statutory redundancy pay.