



Policy Statement: Payroll Tax Relief on Severance and Redundancy Payments

Effective Date: July 1, 2025

Authority: Section 9E of the Payroll Tax Act 1995

Related Legislation: Employment Act 2000

Purpose

To provide clear guidance on the application of payroll tax relief on redundancy or other payments (i.e. severance) *made in connection with the permanent termination of employment.*

Scope

Applies to all employees receiving qualifying severance or redundancy payments on or after July 1, 2025.

Policy Provisions

1. Tax Relief Eligibility

- Under Section 9E of the Payroll Tax Act 1995, employees are exempt from the EMPLOYEE portion of payroll tax on remuneration received solely due to permanent termination of employment on account of redundancy or severance, as defined in the Employment Act 2000.

2. Qualifying Remuneration: Examples of payments that *qualify* for EMPLOYEE PORTION payroll tax relief:

- Statutory redundancy or severance pay under the Employment Act 2000.
- Contractual severance pay under an employment or collective agreement.
- Redundancy compensation due to organizational restructuring.
- Settlement amounts explicitly designated as severance or redundancy.
- Lump-sum severance packages from voluntary separation programs.
- Payments for loss of office clearly linked to redundancy or severance.



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3. Excluded Payments: The following are *not eligible* for payroll tax relief:

- Final salary, housing allowance, vacation pay or other accrued benefits (whether in cash or in kind);
- Payment in lieu of notice;
- Pro-rated bonuses, including:
 - Annual bonus earned before termination;
 - Performance bonuses based on prior year performance;
- Ex-gratia payments (discretionary or goodwill payments);
- Deferred compensation;
- Vested stock options;
- Any other payments (not related to severance or redundancy) or things of value provided up to three years post-termination.

The examples above represent contractual or performance-based compensation and are not related to employment termination. As such, they are considered taxable remuneration within section 7 (1) (a) of the Payroll Tax Act 1995.

4. Employer Obligations

- Employers must clearly distinguish qualifying severance/redundancy payments from other termination-related compensation.
- Employers are required to pay the **EMPLOYER** portion of tax related to the severance or redundancy payments made to employees (up to 3 years after the permanent termination of employment).
- Accurate reporting is required to ensure compliance with tax exemption provisions.

5. Commencement

- Applies to all qualifying payments made on or after July 1, 2025, regardless of the actual termination date.