

Fired employee compensation taxable

Preachers usually say that *"to everything there is a season, and a time to every purpose under the heaven."* And how true the statement is in the lives we lead; nothing is permanent. In the labour market, there is a time to be employed and a time to leave employment. People leave their employment for many reasons, some opt for voluntary retrenchment, others resign and or retire, whereas others are simply dismissed/fired or involuntarily retrenched from employment. The reasons for dismissals vary and the purpose of today's article is to discuss the tax implications of compensation received on dismissal.

The Act defines monies received by any person by virtue of an employee-employer relationship as remuneration. One might raise an argument to say if one is dismissed from employment, will the dictates of employee-employer relationship still apply? The law further, extends the definition of an employee to include a former employee. Hence, any monies or money's worth of goods/services received by a former employee is regarded as remuneration paid by the employer

So, how is the income that is received by an ex-employee treated? For fired and reinstated persons, the Act states that, *'where an employee receives a lump sum payment after reinstatement following a dismissal or suspension from duty with reduced or without pay, such lump sum payment, shall be spread back over the period in which such income was earned or would have been paid.'* What then happens if one is fired for good? In both instances, the compensation received is taxable in full and the only difference is that for reinstated employees the amount is spread over time and taxed in equal proportions, whereas for those who aren't subsequently reinstated the full amount is taxed at once.

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