

COMPROMISE AGREEMENTS

FACT SHEET FOR EMPLOYEES



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What are they?

Compromise agreements record in writing the terms of any settlement reached between you and your employer.

The effect of you signing such an agreement is that:-

In exchange for receiving a settlement payment and any other benefits which your employer agrees to give you, you will be prevented from bringing or continuing with a claim, before the Employment Tribunal, in respect of your employment or its termination. For example, you could no longer bring an unfair dismissal or sex discrimination claim.

What are the legal requirements?

To be legally binding, compromise agreements must comply with the following requirements:-

- They must be in writing.
- They must relate to the *particular* complaint or *particular* proceedings about which there is a dispute. An employer cannot use a compromise agreement to seek to exclude *all* potential future claims.
- You must have received **independent** legal advice from a solicitor or other appropriately qualified advisor, as to the terms and effect of the proposed agreement. Therefore, you cannot receive this advice from your employer's solicitor.
- Your advisor must be identified in the agreement and must have in force a professional indemnity policy to cover the risk of giving negligent advice.
- The agreement must state that the above conditions relating to compromise agreements have been satisfied.

Aim?

To achieve a clean break between employer and employee – a full and final settlement between the parties.

What do they cover?

The compromise agreement will set out the financial and other terms upon which the employment relationship will end. It can be tailored precisely to the particular circumstances in question and will typically cover such key matters as:-

- The amount of your settlement payment and when it is payable. In return you will refrain from instituting or continuing a complaint before the Employment Tribunal and accept the payment 'in full and final settlement' of your claim.
- Personal injury claims or claims relating to future pension entitlement are likely to be expressly excluded.

- The range of claims the agreement is seeking to compromise.
- What reference (if any) you will receive from your employer.
- Whether you are bound to observe confidentiality regarding the fact that you have been offered a compromise agreement and as to its terms.
- Whether you must observe any other restrictions after the employment has terminated. For example, a restriction preventing you from setting up in competition with your employer. It is important to be familiar with restrictions imposed as, if you were to breach them, you may find that your employer seeks to recoup the sums of money paid to you under the agreement.
- What level of contribution to your legal fees will be met by your employer.

Tax

It is possible to treat up to £30,000 of any settlement payment made under a compromise agreement as exempt from tax. However, for sums over this amount, or in cases where the relief is not available, the agreement will state who will be liable for any tax due.

What if the employer doesn't pay up?

If your employer does not comply with the terms of the compromise agreement, you can sue for breach of contract to recover the settlement sum owed.

IMPORTANT!

It is crucial to remember that signing a compromise agreement will **prevent you from bringing or continuing with a claim before an Employment Tribunal and (usually) any other courts**. Therefore, you must be happy that the 'deal' offered by your employer represents a reasonable settlement in the circumstances.

Once you have signed the agreement and received your settlement money, there will be no opportunity for second thoughts and you will have **no future comeback** against your employer.

Therefore, it is very important that if you have any concerns at all over the terms of your settlement, that you discuss these with us immediately.

Interested?

If you would like to learn more about this subject and the service **Knight Polson** can offer, please contact:

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This leaflet is not a complete guide to the law and is not intended to be a guide to how the law will apply to you or to any specific situation. You should speak to a professional about your particular problem.