

What is a Compromise Agreement and Why, When and How Would I Use One?

Christopher Austin, Parslows Jersey

If you believe that you have been unfairly dismissed from your workplace, you might choose to use a compromise agreement instead of taking your employer to court or filing a lawsuit against them. A compromise agreement is a document that outlines an agreement between employer and employee to settle any claim relating to unfair dismissal.

It is important to note that a major condition of utilising a compromise agreement is that you as the employee are unaware of any reason that might justify your dismissal. If for any reason you think your dismissal might have been warranted, you will be unable to sign this agreement.

Is a compromise agreement financially motivated and will it be tax allowable?

A financial agreement that acts as a 'pay-off' from the employer to the employee is a possible outcome. If you are entitled to any payments from the period of your dismissal up to the point of devising the agreement (i.e. salary, holiday pay, outstanding expenses) these will be stated within the agreement and should be considered as settled and legally binding as all other points stated within the document. If you are due a bonus or commission payment, this will also be laid out within the agreement. Similarly, if you will not be receiving any bonus or commission payments, the employer will use this document as an opportunity to inform you of this.

Issues relating to tax will be unique to each case, and it may be the case that you are not required to pay any tax on any monetary settlement. However, if the financial aspects are considered earnings, you are likely to have to declare the settlement as part of your income tax arrangements.

If I sign a compromise agreement can I also file a lawsuit against my employer at a later date?

This depends on exactly which claims the compromise agreement includes. It is highly likely that your employer will draw up an agreement that includes as many claims as he can think of, such as unfair dismissal and redundancy. If you sign a compromise agreement specifying that you surrender your rights to claim against, for example, unfair dismissal, you waive your rights entirely to claim for this within a court of law. Before you sign any agreement, be sure to read through all terms and conditions carefully, and if possible, [have a professional read over](#) a compromise agreement before you sign it.

Can I discuss the terms of the compromise agreement with any external party?

Again, this will depend on the conditions stated within the agreement. Your employer may include a clause that you cannot discuss the agreement with any individual who is not directly related to either the company or the agreement procedure. Whilst this might initially sound like a minor issue, it might stop you from being able to discuss the terms of your dismissal with any future employer, potentially reducing the chances of any future employer hiring you. If you are not comfortable with the confidentiality aspects of the agreement, speak to your employer and request that these clauses be removed from the document before you agree to sign it.

What does it mean to be on garden or gardening leave?

Some compromise agreements will include a period of 'garden leave'. This refers to a period of time in which your presence will not be required in the office, but you are still legally employed by your employer. Garden leave is used to ensure that confidential information and/or documents are kept private, and any issues relating to the business are unknown by you during this period. Whilst on garden leave, you are still employed by the company, and therefore remain on the payroll and are entitled to your salary. However, this also means that you remain under the authority of your employer, and therefore if you wish to go abroad, you must apply for holiday allowance through your employer, and until agreed, you cannot legally go on holiday.

Will my employer pay for me to hire a lawyer to negotiate the terms of my compromise agreement?

Unfortunately, there is no law that requires employers to pay for your legal representation. However, in recent years, it has become more common that some employers will contribute to your fees. Whilst you may have to personally fund the [advice of a legal professional](#), it is always worth your time and money to ensure that you are agreeing to exactly what you think you are, and that there are no loopholes by which your employer could avoid paying the agreed sum.