



Holiday pay calculations

Holiday pay is typically calculated on basic salary alone. However, for employees that have no regular work pattern (e.g. a zero hour's contract) holiday pay is calculated using an average of all remuneration received in the previous 12 weeks, but what about commission? Or overtime?

Commission

In some cases, employees may work overtime or receive commission as part of their salary. Recently, some court cases regarding holiday pay have focused on whether commission should be included as part of the holiday pay calculation, as employee's can become reluctant to take holiday because they may lose out on their potential salary while they are away.

For example, a travel agent would not be able to earn commission while on holiday, as they are not at the office making bookings for customers.

To resolve this, commission should to be taken into account when calculating holiday pay for those who are entitled to it.

Overtime

Whilst this is relatively straightforward, a similar method needs to be applied to employees who receive overtime payments as part of their contracts.

In situations where overtime is compulsory and/or guaranteed, its value should be included in the holiday pay calculation. Where overtime is voluntary, but is offered and taken as part of a regular working pattern (e.g. at the end of the week in order to complete a project), then that too should be included, provided this type of overtime can be predicted.

What do employers need to be aware of?

These conditions only apply to the first 20 days of holiday each year, including Bank Holidays, and must take into consideration the following additional payments when calculating holiday pay;

- Productivity/performance bonuses
- Travel and other taxable allowances
- Pay increases that relate to seniority, length of service, or professional qualifications
- Commission and/or incentive payments
- Compulsory overtime, regardless of whether it is guaranteed
- Shift allowances and premiums
- Standby or on-call payments

Employers should take the time to carefully check their position in respect to holiday pay, and ensure that they are fully aware of what to include in the calculations.



How can People Inc. help?

People Inc. is a very flexible piece of software, which means that changes to legislation can easily be incorporated into the system. The example below shows how the existing Salary History screen can be adapted to incorporate Bonus Pay (as a total additional pay figure) and calculate Holiday Pay for the statutory 28 days.

Salary History screen adaptation

Field	Value	Field	Value
Salary	20,000.00	Currency	GBP
Start Date	17/12/2014	Full Time Salary	20,000.00
Review Date		Salary per Payment	1,666.67
Reason for Change	Joined Company	Salary per Hour	10.99
Salary Basis	Annually	Salary per Annum	20,000.00
Payment Frequency	Monthly	Contractual Hours	35.00
Allow Overtime	No	FTE	100.00
End Date			
Bonus Pay	1,000.00		
Holiday Pay (28 days)	2,261.55		

You can easily adjust an existing screen in order to record and calculate additional information. In the example above, we have added a Bonus Pay currency field which allows you to type in the annual bonus that an employee would gain. This can then be used in the calculation for Holiday Pay.

The calculation for the example record above is as follows;

Holiday Pay = (Salary per Annum + Bonus / personal hours per year) * (28 * individual hours per day)
Personal hours per year = (FTE/100) * (Standard working days per year * Standard working hours per day)
Individual Hours per day = Contractual Hours / Standard Days per week

This calculation basically factors in the annual bonus to the salary figure, and then works out how much they would be paid for 28 days of work.

Alternatively...

If you are likely to need more information for Bonus Pay i.e. one record for commission, one record for performance bonus etc. then you can add in a new screen underneath Salary History to accommodate this.



You can then flag each record that you would like to be included in the annual figure for Bonus Pay in the Salary History screen.

The example screen below shows how Bonus Pay records might be recorded in People Inc.

Bonus Pay screen

Bonus Pay : [Vicky Anderson 01908 676767 x5007] ...

Data Action List : 0 Documents : 0

Reports Letters Email

Category Pay Increase Effective Date 06/01/2014

Bonus Length of Service

Scheme N/A

Value 200.00 GBP Include in Pay

Item N/A

Not all bonuses will require information in every field.

Notes

Bonus Pay 4 : 4 : 4 Default

Once you capture this information in People Inc. you can then create/adapt reports and letters so that they too include Holiday Pay.

If you would like to know more about how to incorporate something like this into your system, please contact us on 01908 265 111.