# Average earnings calculation and state aid payments to workers employed by companies affected by Covid-19 crisis 2/21/21

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Idleness benefit and aid for wage subsidy are paid to workers for the period from 9 November 2020 to 30 June 2021. This article summarises key aspects a payroll accountant needs to consider when calculating average earnings for a worker that has received payments as part of state aid for companies affected by the Covid-19 crisis. The annual income tax filing season usually causes workers to scrutinise their income and it becomes important to correctly calculate income for past periods.

## The definition of average earnings

Section 75(1) of the Employment Act provides that where average earnings are payable to a worker under the Act, those should be calculated for the last six calendar months and include their salary, any additional payments prescribed by the legislation, collective agreement or employment contract, and any bonuses.

This definition allows us to evaluate whether and how the state aid payments to persons working for companies affected by the Covid-19 crisis (idleness benefit and wage subsidy) affect the average earnings calculation for those workers, for instance, when determining how much vacation pay is due.

## Idleness benefit

This benefit is granted to an idle worker at 70% of the reported monthly average gross pay for the period from 1 August to 31 October 2020 or for the months after 1 August 2020 in which the person actually worked for the employer. However, the benefit cannot be below EUR 500 or above EUR 1,000.

Idleness benefit is not part of employment pay, so those payments are neither governed by the Employment Act nor taxed. The benefit is excluded from the average earnings calculation.

So the idle time is included in the period for which the paid leave entitlement accrues. This is because the average earnings calculation takes into account the number of hours worked on the grounds that the total number of days worked excludes any days of temporary incapacity for work, vacation days, and days the worker was in an excused absence, i.e. did not work in cases specified by subsections 74(1) and (6) of the Employment Act. Since idleness is an excused absence, no receipt of salary will be reported for the worker over the relevant period.

If the worker would like to go on paid leave after six idle months during which he received idleness benefit, the average earnings calculation will take into account the pay for the six-month period before the worker started to receive this benefit.

## Wage subsidy

Unlike idleness benefit, wage subsidy is a state payment to a worker aimed at partly covering the employer's labour costs, so it has no direct impact on the average earnings calculation. This aid is set at 50% of the reported monthly average gross pay for the period from 1 August to 31 October 2020 and capped at EUR 500 per calendar month.

So the average earnings calculation should include the entire salary paid for the period worked, without deducting the wage subsidy the employer has received. So the wage subsidy remains unaffected by the calculation or payment of payroll taxes because the subsidy is paid from the full pay calculated for the worker.

## A practical example of the average earnings calculation

After terminating Andrew's six-month employment (from 1 November 2020 to 30 April 2021) the employer plans to pay compensation equal to one month's average earnings plus accrued leave. Andrew was idle (the employer did not pay any salary) for three months (February–April) before the termination. For the previous three months (November–January) Andrew had received this pay:

| Month | Number of hours worked | Basic salary, EUR | Other payments, EUR |
|---|---|---|---|
| November | 174 | 1,500 | Overtime pay – 400 |
| December | 160 | 1,500 | Bonus – 500 |
| January | 160 | 2,000 | Subsidy received towards basic salary – 500 |

The hourly average earnings calculation takes into account only the time actually worked, i.e. the last three months. The calculation ignores the period during which Andrew received idleness benefit.

| Month | Number of days corresponding to hours worked | Pay | Hourly average earnings | Daily average earnings | Monthly average earnings |
|---|---|---|---|---|---|
| November | 21 | 1,900 | 10.92 | | |
| December | 20 | 2,000 | 12.50 | 5,900 / 61 = EUR 96.72 | 96.72 x (61 / 3) = EUR 1,966.64 |
| January | 20 | 2,000 | 12.50 | | |
| TOTAL | 61 | 5,900 | 11.94 | | |