



Outline of the New Danish Holiday Act

Preface

A new Danish Holiday Act was passed by the Danish Parliament on 25 January 2018.

The passing of the new Act changes the present holiday entitlement scheme to a concept of **concurrent holiday effective on 1 September 2020**. The change will take effect for financial years ending on or after 31 August 2019.

The objective of the new Danish Holiday Act has been to address some challenges in the present holiday scheme under which e.g. different accrual models for monthly and hourly paid workers have made it complex task for both employees and employers to administer holidays.

Furthermore, the Act has been modernised and given a higher degree of flexibility, aligning it with the Danish labour market where 20-25% of the labour force take up new employment each year.

We address the accounting treatment of holiday allowance and provide examples of the calculation thereof. We do not account for HR-related aspects, e.g. whether employees are comprised by the Danish Salaried Employees Act, collective agreements, periods of notice, etc.

We hope that you will find our publication interesting. Please do not hesitate to contact us if you want any further information or if you need to discuss specific matters.

Best regards
KPMG P/S

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Contents

The new Danish Holiday Act	1
Concurrent holiday	1
Transitional provision for employers	1
Employees' holiday entitlement during the transitional year	2
Importance to financial reporting	3
Presentation in the financial statements	6
Sixth week of holiday and special holidays	6
Holiday supplement	7
Appendix	8
Financial statements at 31 December 2019	9
Financial statements at 31 December 2020	11
Financial statements at 31 December 2021	13



The new Danish Holiday Act

Concurrent holiday

The Act introduces the concept "concurrent holiday" meaning that employees may take holiday in the same year as when the holiday is accrued. This means that holiday is accrued and taken within the same 12-month period (holiday year). For instance, holiday accrued in March may already be taken in April the same year. Under the present rules, it may take up to 16 months from the holiday entitlement is accrued before the holiday can, in fact, be taken, because holiday entitlement follows the calendar year but cannot be taken before the commencement of the holiday year on 1 May the following year.

Under the new Act, the holiday year runs from 1 September – 31 August the following year (12 months). However, the period during which holiday can be taken has been extended to 16 months, meaning that an employee may take holiday during the holiday year + an additional four months, i.e. until 31 December. Accordingly, concurrent holiday accrued during the holiday year 1 September 2020 – 31 August 2021 may be taken during the period 1 September 2020 – 31 December 2021.

Furthermore, the new Act allows for the taking of paid holiday in advance within a holiday year. Additionally, it is still possible to carry over holiday to the next holiday year according to agreement with your employer.

Employees will still accrue 2.08 days of paid holiday per month and accordingly 25 days of paid holiday per year. There will still be two types of holiday pay – i.e. holiday with pay and holiday supplement or holiday with holiday allowance. Holiday allowance relates to hourly-paid employees and accrued holidays paid out upon termination of employment.

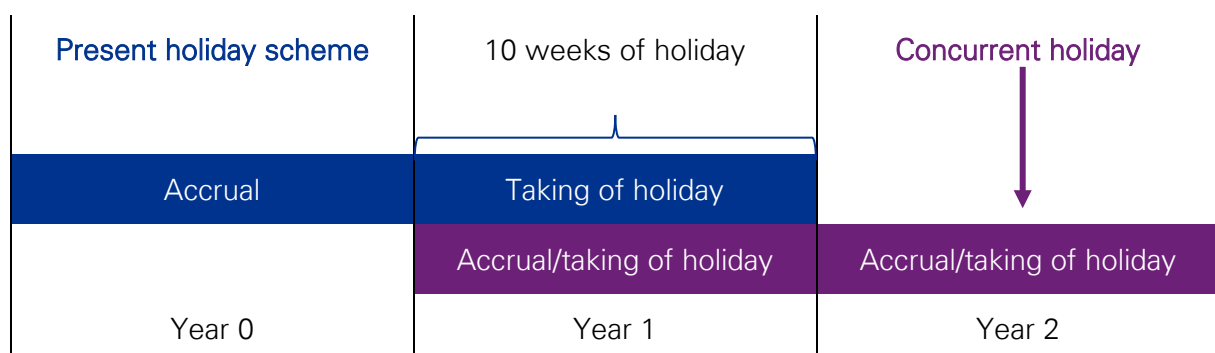
The new rules will benefit newly educated employees, employees in their first job, seconded labour into Danish entities and seconded employees returning to Denmark, as these employee groups no longer are to accrue holiday entitlement during a qualifying year before holiday can be taken in the subsequent holiday year.

Transitional provision for employers

A mandatory transitional provision is introduced with regard to holiday entitlement accrued during the period 1 September 2019 – 31 August 2020.

The need for a transitional provision arises from the fact that employees will have accrued holiday entitlement under the present Danish Holiday Act upon the transition to concurrent holiday. At the transition date, they will begin to accrue concurrent holiday which can be taken as accrued. Without a transitional provision, this will provide employees with 10 weeks of holiday during the initial year of concurrent holiday.

The figure below illustrates how 10 weeks of holiday materialise upon transition to concurrent holiday:



With the introduction of the transitional provision, employees are still only entitled to take up to five weeks of paid holidays during the transitional year, allowing employers to avoid the payment of up to 10 weeks of holiday for one single year.

Instead, holiday accrued during the transitional period under the former Act will be "frozen" and cannot be taken or paid out until the employee retires from the labour market. Employers may choose to pay the "frozen" holiday funds into a new fund named "the Employees' Fund for Residual Holiday Funds" on 1 September 2020 or wait until the employee retires from the labour market. The funds payable will be subject to annual indexation to reflect the developments in pay levels. The Fund discloses the rate of indexation annually.

In between, it will at any time be possible to make a voluntary settlement to the Fund calculating accrued indexation. Indexation is made on a proportionate basis for the period from the latest indexation and until the time of payment by the entity.

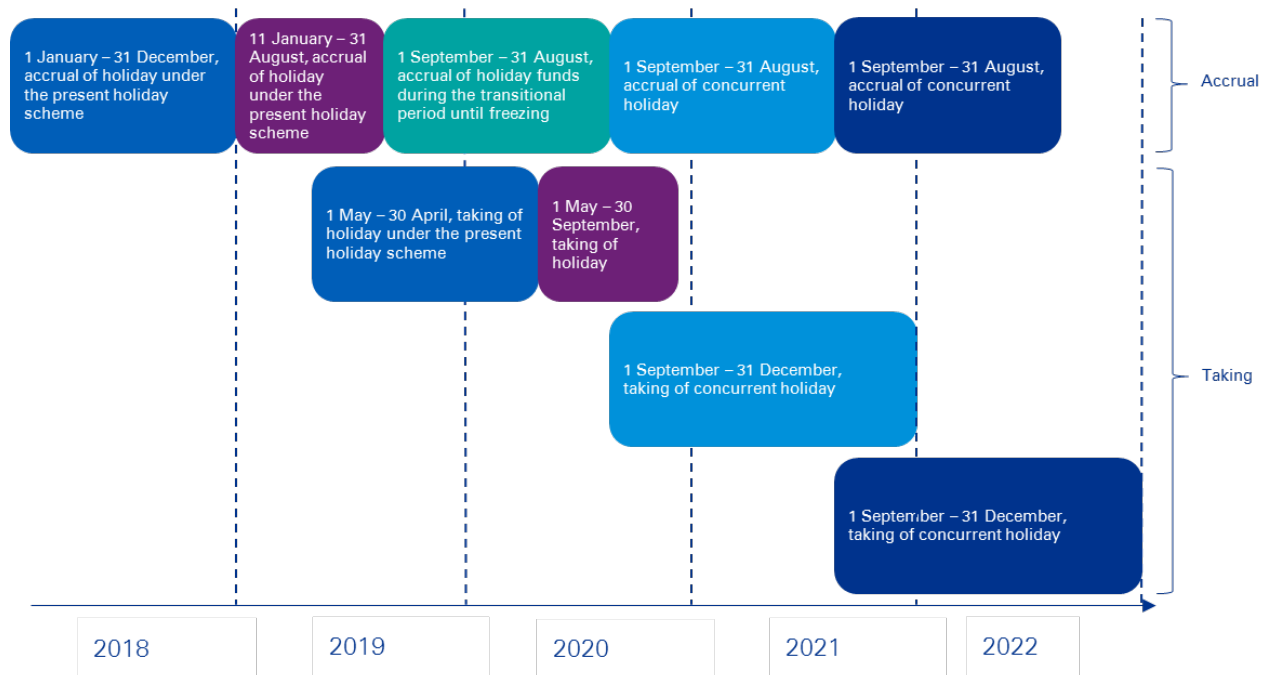
An employer who has not paid all outstanding funds to the Fund must, annually and no later than at 31 August, confirm to the Fund whether the employer will still retain all non-payable outstanding holidays funds in the entity.

If an employer chooses to pay in an employee's holiday funds including accrued indexation, the entity will no longer have any obligations to the Fund with regard to the relevant employee. Accordingly, making the payment will be advantageous in terms of administration. However, this will bring about a drain on the entity's liquidity

Employees' holiday entitlement during the transitional year

The amendment to the Danish Holiday Act will shorten the 2019 qualifying year. Holiday entitlement during the period 1 January 2018 – 31 August 2019 is accrued as usual under the current holiday scheme and may be taken during the period 1 May 2019 – 30 September 2020. If the employee has not taken all his holidays accrued under the current Danish Holiday Act at 30 September 2020, the remaining holidays will be carried over as concurrent holidays under the new Danish Holiday Act.

The figure below illustrates the timing of accrual and taking of holidays. The colour illustrates the linking, e.g. holidays accrued during the period 1 January – 31 December 2018 can be taken during the period 1 May 2019 – 30 April 2020:



The green box illustrates the accrual of holiday funds payable accrued during the transitional period.

Importance to financial reporting

Holiday funds payable – holiday entitlement under the former scheme

At the entity's balance sheet date (in this case presumed to be at 31 December 2018), the entity must make a provision for accrued holiday pay in respect of holiday to be taken during the period 1 May 2019 – 30 April 2020 and any remaining holidays from the current holiday year ending at 30 April 2019.

The liability for holiday allowance reflects the liability for future salary pay-out to the employee when taking holidays and days off without the entity receiving benefits from the salary pay-out. The financial statements are presented on the basis of the going concern principle, and therefore the objective of holiday allowance is to estimate future salary pay-outs during holidays.

In practice, there are two different methods for calculating accrued holiday allowance for accounting purposes:

1. Practical method
2. Exact method

The *practical method* relies on total gross pay for employees during the year, and the liability is calculated using a fixed average percentage reflecting the average number of holidays to which the employee is entitled at the balance sheet date. Accordingly, the percentage will vary according to the balance sheet date. Furthermore, a provision for holiday supplement is to be made, typically at a rate of 1%. Even though the method does not accurately reflect the entity's liability, it is often used as it is easy to use. It is also referred to as the tax method, as the percentages have been determined by the Danish tax authorities.

The *exact method* is based on the individual employee's actual number of holidays accrued, including any remaining holidays from the prior holiday year at the balance sheet date and the actual pay of the relevant employee. A provision is to be made for holiday supplement, typically at a rate of 1%. Accordingly, the exact method sets out the specific liability for holiday allowance for each employee.

Holiday funds payable – concurrent holidays

After the effective date of the concurrent holiday scheme, the entity must keep track of accrued and taken concurrent holidays for the individual employee. This requires a specific calculation for each employee based on the employee's accrued and taken holidays and the employee's pay entitled to holidays. Accordingly, the practical method can no longer be applied.

If holidays are, by and large, taken in line with the accrual of holiday entitlement, the entity's liability for holiday allowance will practically make up DKK 0. A provision is to be made for holiday supplement, typically at a rate of 1%.



Holiday funds payable

Entities must calculate and provide for holiday funds payable from the effective date of the transitional provision at 1 September 2019. Holiday funds payable are accrued by the employees during the transitional period (1 September 2019 – 31 August 2020). Entities must calculate and report holiday funds payable to the "Employees' Fund for Residual Holiday Funds" for each individual employee.

The entities' liability to the Fund is calculated as 12.5% of the entitled salary during the transitional period, see section 26 of the Danish Holiday Act (quoted below) and is equivalent to holiday pay to e.g. terminated employees.

"Section 26. "The employer calculates holiday allowance and holiday supplement on each salary amount and employee benefit liable to income tax for which no deductibility is allowed in income and which serves as consideration for work during employment. The value of employee benefits is calculated on the basis of the rates set for the holiday entitlement period by the Danish National Tax Board.

Subsection 2. In addition, the employer is to calculate holiday allowance and holiday supplement on the employee's contributions to

- 1) pension schemes, etc. comprised by the section in the Danish Pension Taxation Act,*
- 2) labour market contributions pursuant to the Danish Act on labour market contributions,*
- 3) special pension savings as set out in chapter 5 c of the Danish Act on the Danish Labour Market Supplementary Pension Scheme*
- 4) employee investment companies, see section 7 N of the Danish Tax Assessment Act.*

Subsection 3. Holiday allowance and holiday supplement attributable to a payroll period over the turn of a year are deemed to have been accrued in the new year.

Subsection 4. The employer is not to calculate holiday allowance and holiday supplement on holiday allowance, salary during holidays or holiday supplement. "

Initial reporting to the Fund is to be made on or after 31 December 2020. Subsequently, amounts not paid in are annually to be reported to the Fund and be subject to regular indexation based on the development in pay levels, estimated to account for 3% from year to year by the Danish Ministry of Employment. The Fund is annually to disclose the rate of indexation on or before 1 May.

Holiday funds payable are reduced either by voluntary settlements to the Fund or in line with employees' resignation from the labour market.

Balance sheet at 31 December 2018

For an entity with calendar year financial statements, the calculation of accrued holiday allowance at 31 December 2018 will not be changed.

Balance sheet at 31 December 2019

An entity with calendar year financial statements must recognise the following liabilities on the balance sheet at 31 December 2019:

- Accrued holiday allowance during the period 1 January – 31 August 2019 (before the effective date of the transitional arrangement on 1 September 2019) and any remaining holidays from the 2018 holiday entitlement year.
- Holiday funds payable accrued during the period 1 September – 31 December 2019 (transitional period).

Balance sheet at 31 December 2020

An entity with calendar year financial statements must recognise the following liabilities on the balance sheet at 31 December 2020:

- Accrued holiday funds arising from accrued, non-taken concurrent holidays (including any carried-over remaining holidays from the former holiday scheme)
- Holiday funds payable accrued during the entire transitional period 1 September 2019 – 31 August 2020 (under the assumption that these have not been settled to the Fund).

Total operating effect

At 31 December 2018, an entity with calendar year financial statements would have made a provision for holiday funds payable covering five weeks of holidays for its employees (plus any remaining holidays from the current holiday year).

At 31 December 2020, holiday funds payable of the same entity (provided that the number of employees and pay level remain unchanged) would practically have represented DKK 0. By contrast, holiday funds payable to the Fund would represent five weeks of accrued holidays from the transitional arrangement.

The net effect for the entity has been calculated at approx. DKK 0 net if holidays are taken practically in line with the accrual of holiday entitlement.

For more details, reference is made to the example calculations in the appendix.

Particular aspects regarding hourly-paid workers

As a consequence of concurrent holidays for hourly-paid workers, there will no longer be any difference between the time of the accrual and taking of the holidays, and thereby the employees can bring forward the holiday pay-out. Entities with numerous hourly-paid workers with regular payment of holiday allowance to FerieKonto (holiday administration agency) will, to a limited extent, be affected by the transition to concurrent holiday, as these entities, in contrast to the current practice of quarterly settlement, will be under a future obligation to pay holiday allowance to FerieKonto on a monthly basis. By contrast, entities with the possibility to retain holiday funds of their hourly-paid worker in the entities will be affected to a higher degree, as the holiday schemes' liquidity will be affected when the holiday payments are brought forward.

Presentation in the financial statements

As the entity going forward "owes" its employees a reduced number of accrued, non-taken holidays as the employees will take holiday, the liability for holiday allowance will be reduced to something close to zero upon full transition to concurrent holiday.

At the same time, the new Danish Holiday Act allows employees to agree with their employers to go on holiday before the accrual of holiday entitlement. This has the outcome that the entity may have an outstanding receivable against the employee until the employee has accrued sufficient holiday entitlement for set-off against holiday already taken.

Entities that chose not to pay in the frozen holiday funds from the transitional period will be liable to the Fund for an amount corresponding to five weeks' salary, which is subject to annual indexation in line with the development in pay levels. However, entities may opt for later payment to the Fund. The Fund will always collect the amount payable by the entity when the employee leaves the labour market.

Indexation reflects the addition of interest and is, therefore, to be presented as financial expenses in the income statement.

Whether the liability is to be presented as non-current or current liabilities relies on when the entity chooses to pay the frozen funds to the Fund. If the entity does not pay the funds to the Fund after the transitional period, it is a case of a non-current liability (on the assumption of being more than one year to the employee leaving the labour market). If the entity decides to pay the funds before the employee leaves the labour market, the liability will, at that time, be reclassified into a current liability.

Sixth week of holiday and special holidays

In addition to the five weeks of holiday laid down by law, employees are often granted a sixth week of holiday or special holidays according to local agreement with their employer, collective agreement, staff handbook, etc. These extra holidays do not necessarily comply with the rules of the Danish Holiday Act and must therefore be accounted for according to the agreement concluded.

Accordingly, savings, allocation and use must be separately recognised and in addition to that contained in the above and in the examples regarding the new Danish Holiday Act.

The extra holidays are not comprised by the transitional provision in the Danish Holiday Act and thereby not subject to the rules on filing with or reporting to the Fund.

Holiday supplement


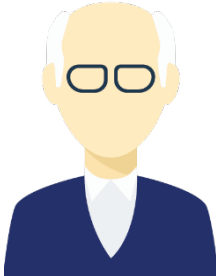

The holiday supplement of 1% contained in Danish Holiday Act will remain in force, but will be changed to the effect that the employer and the employee are to agree on whether the amount is to be paid out regularly, in line with the taking of the holidays or whether the supplement is to be paid out in two portions with the pay for May and September, respectively.

If the last approach is chosen, an entity with calendar year financial statements would have to recognise a holiday supplement payable based on 1% of the pay entitled to holidays during the qualifying period 1 September – 31 December for the relevant year.

Appendix



This appendix shows how the accrual for holiday allowance is calculated for three employees in accordance with the exact method and how holiday funds and holidays to be reported to the Fund are calculated. We assume that the entity has the following three employees:

Line Jensen, CEO	Hans Hansen, paid by the month (Salaried employee)	Mie Hansen, paid by the month (Salaried employee)
 <p>Line Jensen is employed as CEO. Her service contract lays down that she is not covered by the Danish Holiday Act, but she has accrued holiday entitlement.</p>	 <p>Hans Hansen is paid by the month and entitled to salary during vacation as set out in his contract (covered by the Danish Holiday Act). Hans Hansen has been on the labour market for many years and is scheduled to retire on 30 June 2021.</p>	 <p>Mie Nielsen will graduate from university during the summer of 2019 and will take up her first position on 1 July 2019. Mie will be paid by the month and covered by the Danish Holiday Act.</p>

Financial statements at 31 December 2019

The following examples show the computation of the liability for accrued holiday allowance at 31 December 2019 and the calculation of holiday funds payable accrued during the transitional period 1 September – 31 December 2019¹.

	Line Jensen, CEO	Hans Hansen, Salaried employee	Mie Nielsen, Salaried employee	Total balance
<u>Expected</u> gross salary	65,000	30,000	21,500	
Employer's social security contributions	5,200	2,400	1,720	
Company car	8,400	6,250	0	
Free telephone	233	233	233	
Total salary costs	78,833	38,883	23,453	
Salary costs per day (21 days)	3,754	1,852	1,117	
Computation at 31 December 2019				
Remaining holidays accrued during the 2017 financial year	0.00	2.00	0.00	
Holidays accrued during the 2018 financial year	25.00	25.00	0.00	
Holidays accrued during the period 1 January – 31 August 2019	16.67	16.67	4.17	
	41.67	43.67	4.17	
Holidays taken during the 2019 financial year	-20.00	-24.00	0.00	
Outstanding holidays at 31 December 2019	21.67	19.67	4.17	
Liability for accrued holiday allowance for at 31 December 2019	81,349	36,429	4,658	122,436

¹ Please note that the computations of accrued holiday allowance and holiday funds payable differentiate between actual salary and expected salary, meaning there will be differences in the basis of calculation in the examples.

The computation of holiday funds payable accrued during the transitional period 1 September – 31 December 2019 to be reported to the Fund. As Line Jensen's employment contract is not covered by the Danish Holiday Act, she is excluded from the computation.

	Line Jensen, CEO	Hans Hansen, Salaried employee	Mie Nielsen, Salaried employee	Total balance
Gross salary, <u>de facto</u> salary during the transitional period	-	29,500	21,500	
Employer's social security contributions	-	2,360	1,720	
Company car	-	6,250	0	
Free telephone	-	233	233	
Total salary costs	-	38,343	23,453	
Taxable earnings during the period 1 September – 31 December 2019	-	153,372	93,812	
Holiday funds payable to be reported are calculated at 12.5%, see the Danish Holiday Act, at 31 December 2019	-	19,172	11,727	30,899
Holidays accrued during the period 1 September – 31 December 2019	-	8.33	8.33	

The journal entries assume that the entity chooses not to pay the frozen funds to the Fund.

Account name	Opening figure ²	Entries	Year end
Non-current liability for holiday funds payable	0	-30,899	-30,899
Current liability for accrued holiday allowance	-103,000	-19,436	-122,436
Adjustment of liability for holiday allowance (staff costs)	-	50,335	-

² The opening balance is fictitious and only serves illustrative purposes.

Financial statements at 31 December 2020

The following example shows the computation of accrued holiday allowance at 31 December 2020 and the computation of holiday funds payable accrued during the transitional period 1 January – 31 August 2020.

	Line Jensen, CEO	Hans Hansen, Salaried employee	Mie Nielsen, Salaried employee	Total balance
<u>Expected</u> gross salary	68,000	31,000	22,000	
Employer's social security contributions	5,440	2,480	1,760	
Company car	8,400	6,250	0	
Free telephone (acquired)	0	0	0	
Total salary costs	81,840	39,730	23,760	
Salary costs per day (21 days)	3,897	1,892	1,131	
Computation at 31 December 2020				
Remaining holidays accrued during the 2018 financial year	5.00	3.00	0.00	
Holidays accrued during the 2019 financial year	16.67	16.67	4.17	
Concurrent holiday accrued during the period 1 September -31 December 2019	8.33	8.33	8.33	
	30.00	28.00	12.50	
Holidays taken during the 2020 financial year	-22.00	-30.00	-10.00	
Holidays outstanding at 31 December 2020	8.00	-2.00	2.50	
Liability for accrued holiday allowance/receivable at 31 December 2020	31,176	-3,784	2,828	30,220

The computation of outstanding holiday funds payable accrued during the transitional period 1 January – 31 August 2020 to be reported to the Fund. We point out that Hans Hansen is scheduled to retire on 30 June 2021. Accordingly, payments to the Fund will be made in 2021.

	Line Jensen, CEO	Hans Hansen, Salaried employee	Mie Nielsen, Salaried employee	Total balance
Gross salary, <u>de factory</u> salary during the period	-	30,000	22,000	
Employer's social security contributions	-	2,400	1,760	
Company car	-	6,250	0	
Free telephone (acquired)	-	0	0	
Total salary costs	-	38,650	23,760	
Taxable earnings during the period 1 January – 31 August 2020	-	309,200	190,080	
Holiday funds payable to be reported are calculated at 12.5%, see the Danish Holiday Act, at 31 August 2020	-	38,650	23,760	62,410
Holiday entitlement accrued during the transitional period 1 January – 31 August 2020	-	16.67	16.67	

Holiday funds payable to the Fund at 31 December 2020 make up:

	Line Jensen, CEO	Hans Hansen, Salaried employee	Mie Nielsen, Salaried employee	Total balance
Holiday funds payable accrued during the period 1 September – 31 December 2019	-	19,172	11,727	
Holidays funds payable accrued during the period 1 January – 31 August 2020	-	38,650	23,760	
Total amount to be reported	-	57,822	35,487	93,309
Holidays accrued during the transitional period 1 September – 31 December 2019	-	8.33	8.33	
Holidays accrued during the transitional period 1 January – 31 August 2020	-	16.67	16.67	
Holiday entitlement accrued during the transitional period	-	25.00	25.00	

The journal entries assume that the entity chooses not to pay the frozen funds to the Fund. At the same time, the entity has an outstanding account against Hans Hansen, as his holidays taken exceed those accrued at 31 December 2020. This outstanding account is presented as other receivables (current). As Hans Hansen is expected to leave the labour market on 30 June 2021, holiday funds payable are presented as current liabilities.

Account name	Begin- ning of year	Entries	Year end
Non-current liability for holiday funds payable	-30,899	-4,588	-35,487
Current liability for holiday funds payable	0	-57,822	-57,822
Current liability for accrued holiday allowance	-122,436	88,432	-34,004
Current receivable - holiday allowance receivable	0	3,784	3,784
Adjustment of liability for holiday (staff costs)	-	-29,806	-

Financial statements at 31 December 2021

The following example shows the computation of holiday allowance at 31 December 2021. Hans Hansen is assumed to have retired on 30 June 2021.

	Line Jensen, CEO	Hans Hansen, Salaried employee	Mie Nielsen, Salaried employee	Total balance
<u>Expected</u> gross salary	70,000	-	22,500	
Employer's social security contributions	5,600	-	1,800	
Company car	9,250	-	0	
Free telephone (acquired)	0	-	0	
Total salary costs	84.850	-	24.300	
Salary costs per day (21 days)	4,040	-	1,157	
Computation at 31 December 2021				
Remaining holidays accrued in prior financial years	8.00	-2.00	2.50	
Concurrent holiday accrued during the 2021 financial year	25.00	12.50	25.00	
	33.00	10.50	27.50	
Holidays taken during the 2021 financial year	-29.00	-10.50	-25.50	
Holidays outstanding at 31 December 2021	4.00	0.00	2.00	
Liability for accrued holiday allowance at 31 December 2021	16,160	0	2,314	18,474
Holiday funds payable accrued during the period 1 September – 31 December 2019	-	19,172	11,727	
Holidays funds payable accrued during the period 1 January – 31 August 2020	-	38,650	23,760	
Adjustment of holiday funds (indexation)	-	1,446	887	
Paid to the Fund		-59,268	0	
	-	0	36,374	
Holidays accrued during the transitional period 1 September – 31 December 2019	-	8.33	8.33	
Holidays accrued during the transitional period 1 January – 31 August 2020	-	16.67	16.67	
Accrued holiday funds paid to the Fund	-	-25.00	0.00	
Holiday entitlement accrued during the transitional period	-	0.00	25.00	

The journal entries assume that the entity chooses not to pay the frozen funds to the Fund.

Account name	Begin- ning of the year	Entries	Closing of the year
Non-current liability for holiday funds payable	-35,487	-887	-36,374
Current liability for holiday funds payable	-57,822	57,822	0
Current liability for accrued holiday allowance	-34,004	15,530	-18,474
Current receivable - holiday allowance receivable	3,784	-3,784	0
Bank	-	-57,822	-
Adjustment of liability for holiday allowance (staff costs)	-	-13,192	-
Indexation of holiday funds payable (financial expenses)	-	2,333	-

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