

VIDEN OM

# New Danish Holiday Act in 2020



In 2018 the Danish Parliament, Folketinget, adopted a new Holiday Act. The new Act introduces the concept of "concurrent holiday", changes the holiday year and introduces a transitional arrangement that will apply for a number of years. These changes are significant and will impact the liquidity of employers for many years and will also change the managing of holiday pay in relation to the financial reporting.

The Holiday Act will come into force on 1 September 2020. However, the change will affect the accrual of holiday already from 1 January 2019. Moreover, there are several administrative systems and internal policies that employers should address before the Act becomes effective.

## Why the need to change the present system?

The large time variation between accrual of holiday (calendar year) and the actual holiday (following 1 May to 30 April) in the current Holiday Act is in violation of EU law. This issue relates especially to new employees in the labour market, who under the present Danish system may have to wait up to 16 months from their employment date and to their taking of the accrued paid holiday.

## The new rules

As from 1 September 2020 the holiday year is changed to run from 1 September to 31 August. The concept of concurrent holiday is introduced at the same time according to which the employee currently accrues and takes holiday in the same period. Basically this means that in the period from 1 September to 31 August the employee will both accrue and take 25 holidays with pay. However, the legislature has decided to determine a period for taking holiday which runs from 1 September to 31 December in the following year (16 months).

The change of the holiday year is necessary as holiday is accrued successively during the holiday year. A holiday year beginning on 1 September will therefore to the widest possible extent mean that the holiday is accrued at the time when Danes take their holiday.

There is no change to the five weeks of holiday accrued per year, and neither is there any change in the possibility of taking either holiday with pay or holiday with holiday allowance.

In future the employees will in principle begin their holiday year without any accrued holiday. Subsequently, the 25 holidays with pay will accrue at 2.08 day per month during the holiday year. For example, in October the employee will have only 2.08 holidays at his/her disposal. If the employee desires to take a week's autumn holiday in October, the employee will have to make an agreement his/her employer that he/she takes holiday in advance. Consequently, the new Holiday Act will provide other rules for set-off of holiday against salary.

AUDITING AND ACCOUNTING  
July 2019

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**Significant changes  
in the new Holiday  
Act**  
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Accordingly there will be a number of significant changes in addition to the actual change of the holiday year and the transition to concurrent holiday, including monthly settlement of holiday allowance to Feriekonto (Danish holiday account), automatic payment of the fifth holiday week if not taken or agreed to be carried forward, changed rules for payment of holiday bonus, etc.

#### **Transitional arrangement**

In connection with the transition to concurrent holiday all employees, who are already in the labour market, will have both holiday according to the present system and at the same time accrue five weeks holiday under the new system. It has therefore been necessary to come up with a transitional arrangement, which does not involve large payments or extraordinary holidays in connection with the introduction of the new Act.

The solution is that holiday accrued over the 12 months prior to the Act's commencement, i.e. the period from 1 September 2019 to 31 August 2020 will be frozen in a separate fund. The money will then be paid to the employees as the employees leave the labour market - typically when retiring.

The employer cannot elect to pay the money to the employee, neither can the employee take the double period of holiday in year one. The money must be frozen in the fund. The transitional arrangement will last up to 60 years, depending on the age of the people employed by the employer in the "freeze period".

Employers may elect to pay amounts due into the fund. As regards employees who receive holiday with pay, the employer may instead report the amounts and then make the payment when the fund makes the payment in connection with retirement. Amounts due will of course incur interest currently.

As holiday accrued from 1 September 2019 must be frozen in the special holiday fund, 2019 will see a "mini-qualifying year", which runs from 1 January 2019 to 31 August 2019. During this period 16.64 holidays are accrued to be taken in the summer holiday of 2020 - before the new Act comes into force.

#### **Need for preparation**

Even though the new Holiday Act does not come into force until 2020, the Act involves a need for preparation in several points. The commencement date of the Act is among others determined considering the possibility of the labour market's parties to make changes to collective agreements.

However, in addition to agreements other issues require preparation, such as

- Change of payroll systems and internal systems in connection with the transition to concurrent holiday
- Possible change of employment contracts with specific references to the present Holiday Act or reduced notice rules regarding holiday
- Change/drawing up of policies for taking holiday, special holidays, etc.
- Specification of amounts to be paid or reported to the fund
- Advice on payment or reporting to the fund
- The importance of the new Holiday Act for the financial reporting relating to holiday pay obligations.

#### **Accounting issues**

The Danish Financial Statements Act prescribes that provisions for holiday pay obligations are to be made on a current basis in the financial statements corresponding to the accrued holiday balance of the employees at the time of the financial reporting.

#### **Present rules**

According to the present rules, holiday is accrued prior to the period in which the holiday is taken. This means that today there are two methods of stating the holiday pay obligation in the financial statements.

One method is the actual statement, in which the holiday pay obligation is calculated based on the actual number of holidays that the company owes the employees at the

balance sheet date, namely a specific statement of accrued holidays and residual holiday entitlement per employee.

The other method is the summary statement, in which the holiday pay obligation is calculated based on the rates of the legal guide applying to holiday pay obligations multiplied by the employee's gross salary calculated as the latest known monthly salary multiplied by 12.

#### **New rules**

The introduction of the new Holiday Act according to which the holiday entitlement is accrued in the same period as that in which the holiday is taken. This means that the summary method is no longer applicable in connection with the calculation of the holiday pay obligation. The holiday pay obligation at the balance sheet date must necessarily be calculated based on a specific statement of the residual holiday entitlement at the balance sheet date.

According to the new rules it is possible for an employee to take more holiday than is accrued at the time of the holiday. Thus, the company will have a "receivable" from the employee in the form of holiday taken but not yet accrued. Basically the gross principle of the Danish Financial Statements Act means that in such a situation a receivable must be recognised in the financial statements. However, when the total holiday pay obligation of all of the company's employees is calculated, it could be argued from a materiality point of view to calculate the holiday pay obligation as a net obligation. When an employee continues his/her employment this receivable will be eliminated by a future smaller obligation.

At the implementation of the new Holiday Act a transitional arrangement has been agreed, as mentioned above, which means that the holiday pay obligation accrued during the last 12 months before 1 September 2020 must be calculated. This obligation can alone be paid to the employees when they leave the labour market (retirement).

As described the companies may elect either to pay the entire obligation into a separate fund or keep the money and pay them into the fund when they receive a specific statement from the fund showing the employees, who are to receive payment for their holiday pay balance. In the financial statements this holiday pay obligation according to the transitional arrangement is recognised as a non-current liability under the item "Other debt". However, the share of the obligation, which is expected to be paid within the next year after the balance sheet date, is presented as short-term liabilities according to the general rules in the Danish Financial Statements Act for division of debt into current and non-current liabilities.

If the company elects to keep the holiday pay balance the company must add interest to the amount due, subject to annual salary indexation, which will affect the profit/loss on a current basis as a financial cost.

#### **Questions?**

Please feel free to contact BDO if you should have any questions regarding the new Danish Holiday Act.

**IF YOU HAVE ANY  
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