

Ireland further amends Temporary Wage Subsidy scheme

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On 15 April 2020, Ireland's Minister for Finance introduced a tiered system and amended the rates of subsidy to the Temporary Wage Subsidy (TWS) scheme. These new provisions are **effective from 4 May 2020**. The main aim of these changes is to bridge the gap between the Pandemic Unemployment Payment payable by the Department of Employee Affairs and Social Protection (DEASP) and the TWS that an eligible employer can claim and pass on to the employee. Revenue's guidance on eligible employers can be found [here](#) and all previous EY alerts on the TWS can be found [here](#).

There will be challenges in applying these new rules and in some instances, the subsidy that currently stands at €350 for those on net pay between €586 and €960 may be reduced.

There is also now the possibility to claim a subsidy, from 16 April, for employees who were on an annual salary over €76,000 in January and February and who have received a pay cut of at least 20%, reducing their net weekly pay to below €960. This provision should equally apply to an employee who was on an annual salary of less than €76,000 but was precluded from the scheme because the average net pay reported in January and February exceeded €960 per week, because of bonuses, for example, paid during the period.

Overview

A summary of the TWS rates as they currently apply, and the intended revised amounts is as follows:

| *Average Net Weekly Pay (ANWP) | 26 March to 3 May | From 16 April | 4 May to 18 June |
|--------------------------------|-------------------|---------------|------------------|
| < €412 | 70% of ANWP | | 85% of ANWP |
| €412><€500 | 70% of ANWP | | €350 |
| €500><€586 | 70% of ANWP | | 70% of ANWP |
| €586><€960 | €350 | | €205/€350 |
| >€960 | €0 | €0/€205/€350 | €0/€205/€350 |

* As is currently the case, the base for determining the amount of the subsidy is the employee payroll reports submitted to Revenue for January and February 2020. The ANWP is arrived at for each employee by taking the gross pay components, including bonus and benefits in kind, for the eight/nine weeks to 29 February 2020 and deducting the total Pay As You Earn (PAYE), Pay Related Social Insurance (PRSI) and Universal Social Charge (USC) reported through payroll for that period. This figure is then divided by eight/nine, depending on the number of insurable weeks entered for PRSI purposes during the period 1 January to 29 February. Any other deductions made through payroll e.g., pension, social club etc., are **not** to be deducted.

TWS process

When first introduced, the TWS was to operate in two phases, a Transitional Phase and then an Operational Phase. The Transitional Phase was intended to run to 20 April during which time Revenue would reimburse the respective employer €410 for every employee for whom the subsidy was claimed. On or before 20 April, Revenue were going to notify the employer of the ANWP per their submitted payroll records, the subsidy actually due based on the table above, and a reconciliation of amounts overpaid to the employer as a consequence. Due to the announcement made on 15 April, the Transitional Phase is now expected to run until 3 May, with the Operational Phase commencing on 4 May.

The TWS will continue to apply only for employees who were on payrolls submitted for January and February before 15 March 2020. Amendments may not be made to payroll reports already submitted, including a claim for TWS. Where employees were on the payroll records in January/February and were subsequently laid off, they may now be brought back onto payroll and the TWS claimed. Such employees should be advised to cease any unemployment benefit claims immediately.

The revised TWS rates will apply to payroll reports submitted to Revenue on or after 4 May 2020, with a pay date on or after that date.

Employees previously earning up to €586 net per week (ANWP)

- ▶ An 85% subsidy shall be payable in the case of employees whose ANWP does not exceed €412
- ▶ A flat rate subsidy of €350 shall be payable in the case of employees whose ANWP is between €412 and €500
- ▶ A 70% subsidy shall be payable in the case of employees whose ANWP is between €500 and €586

Employees previously earning between €586 and €960 net per week (ANWP)

Applying the new parameters is going to be a challenge for employers. Revenue are currently in consultation with payroll software providers to determine how best to process these new limits through payroll and Revenue will issue new guidance in due course. The overriding principles in determining the amount of subsidy due, if any, are as follows:

1. The employer top-up plus the subsidy cannot be greater than €960.
2. Tapering of the subsidy shall apply where the top-up paid by the employer plus the subsidy amount exceeds the ANWP.

The amount of subsidy that will be due depends on the percentage of the ANWP that the employer is providing by way of top-up.

- ▶ A subsidy of €350 will be payable for employees with ANWP greater than €586, where the employer pays a top-up that does not exceed 60% of the ANWP.
- ▶ A subsidy of €205 will be payable for employees with ANWP greater than €586, where the employer pays a top-up between 60% and 80% of the employee's ANWP.
- ▶ No subsidy will be payable for employees with ANWP greater than €586, where the employer pays more than 80% of the ANWP.

For the period up to 3 May: Where ANWP = €950, the employer will get a subsidy of €350 in this instance and can put through a gross top-up payment of €600. Any top-up amount in excess of €600 will result in a corresponding clawback on the subsidy. The net pay for any week the subsidy has been claimed would amount to €880 (after PAYE and USC on the top up amount).

From 4 May, it is our understanding that, if the employer pays a top-up of €600, then the subsidy due is €205, as the top-up is greater than 60% of the ANWP. In this instance, the net pay will be €735, which is €215 less than their ANWP and €145 less than their pay under the Transitional arrangements. An example of how the net pay varies and does not necessarily correspond to the cost to the employer is shown in the table below, where we are assuming an ANWP of €950 and an employer providing the maximum top-up.

| | ANWP | Subsidy | Employer Maximum Top-up (gross pay) | *Net Pay | **Cost to Employer |
|------------|-------------|-------------|-------------------------------------|-------------|--------------------|
| To 3 May | €950 | €350 | €600 | €880 | €603 |
| From 4 May | €950 | €205 | €600 | €735 | €603 |
| | €950 | €350 | €570 | €857 | €573 |
| | €950 | €205 | €745 | €844 | €749 |

* Calculated on the basis of a single person's standard rate bands and credits

** Includes employer PRSI @ 0.5%

As can be seen from the table above, if the employer top-up is reduced to 60% of ANWP, i.e., €570, then the subsidy due from Revenue is €350 and the net pay for the employee is €857. Therefore, if the employer reduces the top up to the employee it will cost the employer €30 less but the employee gets €122 more into their hand.

Conversely, if the employer tries to maximize on the top-up by paying €745 gross, the incremental cost to the employer is €146 and the employee still gets €13 less than applying the limits around the maximum subsidy.

Employer payroll calculation

To avail of the €350 subsidy, the first step is to identify the ANWP. The next step is to calculate the top-up at a value equal to or less than 60% of the ANWP and add this to the subsidy of €350. If this figure is €960 or less, then the full €350 is available. If it exceeds either €960 or the ANWP, then the subsidy will be correspondingly reduced. A similar exercise can be conducted for the €205, applying the 80% limit.

Previous earnings over €76,000

From 16 April 2020, the subsidy is available where an employee's pre-COVID salary was greater than €960 net per week, and their post-COVID salary has fallen below €960 net per week, subject to the tiered arrangements and tapering to ensure that the net pay does not exceed €960 per week.

- ▶ Where the employee's earnings have now been reduced by > *60%, a subsidy of up to €350 is payable.
 - ▶ Where the employee's earnings have now been reduced by > 20%, a subsidy of up to €205 is payable.
 - ▶ No subsidy is payable, if the employer pays > 80% of employee's ANWP.
- * Per Revenue's website. However, the press release from the Minister from Finance on 15 April stated 40%. We have sought clarification from Revenue on this.

The maximum subsidy payable is calculated by reference to the employee's ANWP and the payment now being made by the employer. The subsidy is tapered to ensure that the net weekly pay (employer's contribution plus wage subsidy) of the employee does not exceed €960 net per week.

Impact

While recognizing the intent behind the changes starting from 4 May, the TWS, which was already a challenge for employers to interpret, has now become even more complicated. One thing for certain is that employers will have to spend a lot of time with their employees explaining the new rules and how it will affect their employees take home pay.

Employers will need to be very careful to ensure that they apply the limits correctly to avoid the triggers for clawback on the subsidy, otherwise it could cost an employer more money to put less into the employee's hands.

It remains to be seen whether Revenue's guidance, when it is issued, will simplify the application. A new Alert will be issued when the guidance is published.

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