Top 3 Payroll Best Practices for Processing Stat Holiday Payments

Best Practice 1. Show Stat Holiday Pay as a Separate Line Item on the Pay Statement

It’s highly advisable to show stat holiday pay, i.e., the amount that must be paid for the day itself to employees who qualify, as a separate line item on the pay statement. For one thing, this is the simplest and most effective method of demonstrating compliance with stat holiday pay requirements. Employers may also wish to expense stat holiday pay to a different account from regular pay in the payroll General Ledger journal entry.

In addition, not using a separate earnings code for stat holiday pay makes it hard to track the potential impact on overtime. This is especially problematic in jurisdictions where weekly overtime thresholds are lowered for weeks that include a stat holiday. Mostly, the time off work for stat holidays doesn’t count toward weekly overtime thresholds. If payroll doesn’t separate out the hours for regular work versus the hours related to stat holiday entitlements, it’s hard to see how the impact on overtime can be properly managed.

Unfortunately, stat holiday pay *doesn’t* appear as a separate line item on employee pay statements under some of the most commonly used payroll methods, such as:

- Not processing stat holiday pay in payroll, particularly for employees on a fixed pay period salary; and/or
- Processing stat holiday pay using a memo-only code, i.e., a transaction code that doesn’t affect net pay.

Best Practice 2. Use a Separate Earning Code for Work on a Stat Holiday

Many employers process the premium pay owing for work done on a stat holiday using an earning code that’s also used to process overtime, i.e. hours worked in excess of daily or weekly overtime thresholds. There are 2 reasons why this is *not* a good practice:

First, in some jurisdictions work on a stat holiday counts toward weekly overtime thresholds. In BC, for example, if weekly overtime thresholds haven’t already been met, work on a stat holiday counts toward that threshold.

Second, when employees are paid for their overtime work (as opposed to banking for later time in lieu), all of the hours worked are EI insurable. By contrast, all hours worked on a stat holiday are not necessarily insurable. The rule is that insurable hours are the greater of the hours actually worked on the stat holiday and the hours that would otherwise have normally been worked on that day. Example: An employee works 4 hours on a stat holiday when the normal work hours would have been 8. The insurable hours are 8, not 12. And because overtime hours are always insurable and stat holidays are not, proper Record of Employment (ROE) reporting requires a separate earnings code for work on a stat holiday.

Best Practice 3. Calculate the Hours Related to Stat Holiday Average Day’s Pay

Methods of calculating stat holiday vary in terms of:

- The earnings used in the nominator;
- How the denominator is calculated (divide the earnings by a fixed 20, i.e., 5%, or by a count of the actual days worked); and/or
- The length of the averaging period (30 days in BC vs. 4 work weeks in Ontario, for example).

But in spite of these variations, stat holiday pay is always calculated as an average day’s pay. The calculation always generates a flat dollar amount owing for the stat holiday itself and never an hourly amount.

Even so, it’s best practice to calculate not only the flat dollar amount owing as stat holiday pay but also the hours related to this daily average. Calculating the related hours is necessary due to the impacts on overtime and the ROE described above.

How to Calculate the Related Hours

For employees with a regular work week (e.g., a Monday-to-Friday or regular or repeating shift schedule, such as a compressed work week of three 12-hour shifts), the hours for a stat holiday can be the regular hours that would have otherwise been worked. Note, that when a stat holiday wouldn’t otherwise be a working day for the employee, the insurable hours for ROE reporting purposes are zero.

For employees paid by the hour whose hours or days worked vary from week to week and for whom only regular hourly earnings are used to calculate stat holiday pay, the daily average for stat holiday pay can be calculated using the hours worked in the averaging period. For example, in BC, the numerator is the regular earnings in the prior 30 days and the denominator is the count of days worked in those 30 days. Assuming there’s no change in hourly rate, stat holiday pay can be calculated by:

1. Totaling the regular hours worked in the averaging period;
2. Dividing by the count of individual days worked;
3. Using result of this division as the average daily hours;
4. Processing this average in payroll as the hours to pay multiplied by the employee’s hourly rate;

5. Using the result of hours times rate as the stat holiday pay owing.

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