

The new transition allowance in the Netherlands

By Ralph Wilbers, managing director of
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The transition allowance is an allowance that employees are entitled to when they are dismissed and have been in service for a minimum of two years - even under a temporary contract. In fact, it's a kind of severance pay. The new law came into play on 1 July 2015

Despite it being a fairly new law, it has already been discussed and questioned and the minister responsible for the changes (L. Asscher) is already working on partly revising it. It is common practice for employees to get 23-month contracts, so that employers can avoid paying the transition allowance when the contract is not extended.

The allowance is meant to be used during the employee's 'transition' period between jobs, for example, a period of retraining.



The level of compensation is based on the total duration of service and monthly salary plus holiday allowance. The average shift allowance per month, average bonuses and profit share per month are also taken into account. The payment cannot total more than 76,000 Euros (the maximum in 2016).

Any costs such as training or placements that have been paid to the employee can be deducted from the calculated transition allowance. The expenses accrued between termination and the moment the employee is exempt from work (when specifically negotiated with the employee) can be deducted.



For the first 10 years in service employees are entitled to a sixth of their gross monthly salary for every full six month period worked. For the following years in service they are entitled to a quarter of their gross monthly salary for every full six month period worked.

Employees over 50 years of age who have served a minimum of 10 years (before 2020) are entitled to a sixth of their gross monthly salary for every full six month period for the first 10 years in service. Then they are entitled to a quarter of their gross monthly

salary for every full six months period for subsequent years of service. For every full six-month period worked after their 50th birthday, they are entitled to half of their gross monthly salary.

Smaller employers are excluded from these payments. You are considered to be a small employer if you have fewer than 25 employees during the second half of the previous year before terminating the labour contract or before starting the termination procedure. ►

Case studies

Less than 10 years in service

An employee of 45 years of age started his employment on 1 October 2007 and his contract was terminated on 30 November 2015. His gross monthly salary was 2,500 Euros. No extra allowances beside holiday allowance are included.

2,500 Euros + 8 per cent (8 per cent is mandatory minimum of holiday allowance in the Netherlands) = 2,700 Euros.

The employee has worked for 8 years and two months, so 16 half-year periods.

The transition allowance is: $1/6 \times 2,700 \times 16 = 7,200$ Euros

More than 10 years in service

An employee of 45 years of age who started her employment on 1 July 2003 and who contract was terminated on 31 October 2015 earned a gross monthly salary of 2,500 Euros with no extra allowances beside holiday allowance.

2,500 + 8 per cent (mandatory minimum of holiday allowance in the Netherlands) = 2,700 Euros.

She worked for 12 years and four months. So, 20 half-year periods for her 10 years in service and four half-year periods for her years of service after 10 years.

The transition allowance is: $1/6 \times 2,700 \times 20 = 9,000$ Euros + $1/4 \times 2,700 \times 4 = 2,700$ Euros

Total transition allowance = 11,700 Euros

An employee over 50 years old serves more than 10 years for a large employer

Our employee is 51 years old and their birthday is on 1 July 1964 so they were 50 on 1 July 2014.

If their total years in service are 12 years and four months, 10 years equals 20 full six-month periods. If we calculate back from their contract termination date until their 50th birthday and only the full periods in six months count, in this case there would be two full six-month periods after their 50th birthday. There are 24 half-year periods in total minus 20 for the first 10 years, minus two full six-month periods after their 50th.

The transition allowance is: $1/6 \times 2,700 \times 20 = 9,000$ Euros + $1/4 \times 2,700 \times 2 = 1,350$ Euros + $1/2 \times 2,700 \times 2 = 2,700$ Euros

The transition allowance is fairly new and has caused a lot of controversy. Make sure that you consult a specialist before terminating the contracts of any employees who have been in service for a minimum of two years. ■



When ***Payroll Resources*** founder Ralph Wilbers first had a taste of personnel and payroll administration in 2002, he decided to specialise in payroll. Ralph is now a NIPRA and Registered Payroll Professional (RPP) certified payroll professional. Payroll Resources boast a 'new approach to payroll', turning services into an experience with the help of experienced and enthusiastic professionals.

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