



## Get the most out of your frozen holiday allowance

### All Danes have the option of having three weeks of holiday allowance paid out, but the question is, whether it is a good idea?

The Danish Parliament wants to kick-start the economy and has therefore chosen to release three weeks' worth of frozen holiday allowance, thereby giving the Danes more disposable funds. An average Dane with an annual income of DKK 455,000 hence has the option of having up to DKK 19,000 paid out after taxes.

The precise amount first and foremost depends on your income, but also on whether you are in the higher tax bracket or not. According to calculations made by the Danish Association of Managers and Executives (*Lederne*), you will, if you earn DKK 40,000 a month before taxes – and thereby avoid the higher tax bracket – get DKK 19,600 paid out after taxes, should you opt for the three weeks of holiday allowance. If you earn DKK 50,000, however, the pay-out will only be DKK 18,600, because you are in the higher tax bracket.

»If you are presently in the higher tax bracket, it may be a good idea to wait with your pay-out until you retire, because, at that time, your income will probably be below the higher tax bracket level. You will therefore be liable to pay lower taxes and hence benefit more from your frozen holiday allowance,« says Head of Financial Wellbeing Jimmy Wamberg from Willis Towers Watson.

### Interest rate yield

The big question is, at what interest rate your money will grow, if you choose to leave them untouched. Employers are free to choose whether they want to keep the money, or whether they want to transfer them to the Wage-Earners Holiday Pay Fund (*Lønmodtagernes feriemidler*). The money that is transferred will be invested by LD, who historically has been good at attaining a decent interest rate yield. The money that the employers keep will be indexed, and hence also develop on an annual basis. Nobody knows how much the employers will choose to transfer, and it is hence exceedingly difficult to forecast the overall interest rate yield.

»It is important to emphasise that your employer's decision to keep or transfer money does not impact your interest rate yield. All employees will get the same interest rate yield. The interest rate yield can in some years be either positive or negative, depending on the development on the stock and bond markets, and not least on how many employers choose to keep the holiday allowance,« says Jimmy Wamberg.

### Invest the money yourself

If you think that you can obtain a better interest rate yield by investing the money yourself, you can choose to have it paid out and deposit it in a share savings account (*aktiesparekonto*) in an amount of up to DKK 100,000. The yield will be taxed at 17% at the end of the year, which is slightly higher than for savings kept with LD, which are taxed at 15.3%. You are, however, not taxed when you withdraw the money from the share savings account.

The third option is to have the money paid out now and spend it on exactly what you want – a couch, travel, repayment of a loan, or energy improvement on your condominium/house.

»There are many compelling reasons to have the money paid out now – regardless of whether you are in the higher tax bracket or not – if you have a dream or a project that you wish to realise – and especially if you are considering taking out a loan for that purpose. The Government would very much like you to spend the money now in order to help the business community keeping their businesses afloat,« says Jimmy Wamberg.

## Your expected amount

There are many options, and in the end, it is up to you to assess, whether you will benefit more from having the money paid out now or at the time of retirement.

You can get a sense of your three-week holiday allowance pay-out **before** taxes by multiplying your monthly salary by 0.9. As an example, an employee with a monthly salary of DKK 40,000 will receive a pay-out of approximately DKK 36,000 before taxes.

## Here is how to proceed

### You want the money paid out now

During the course of October or November 2020, you must make a request on [borger.dk](http://borger.dk) for your holiday allowance to be paid out. The money will be transferred to your NemKonto within a couple of weeks.

### You want the money when you retire

You do not need to do anything. Your money will automatically be paid out when you retire.

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## Frozen holiday allowance

- On 1 September 2020, a new holiday act goes into force, and hence the Danish Parliament has decided to freeze the holiday allowance, accrued between 1 September 2019 and 31 August 2020.
- This year you can receive three weeks of frozen holiday allowance, if you have been employed and received a salary between 1 September 2019 and 31 March 2020.
- Pay-out of frozen holiday allowance is not set off against social security benefits, e.g. flexi-wage subsidies, and unemployment benefits, and will also not be set off against debts to public authorities.
- Should you die before having your frozen holiday allowance paid out, the money will be paid out to your descendants.

Monthly income before taxes	Pay-out after taxes
DKK 25,000	DKK 12,300
DKK 30,000	DKK 14,700
DKK 40,000	DKK 19,600
DKK 50,000	DKK 18,600
DKK 60,000	DKK 22,300
DKK 80,000	DKK 29,700
DKK 100,000	DKK 37,200

Source: The Danish Association of Managers and Executives (*Lederne*)