WorkplaceNL
Health | Safety | Compensation

Client Services Procedure Manual

Procedure: **408.00**
Subject: **Proration of Workers' Earnings**

408.01 Introduction

This procedure explains how to allocate the earnings of common workers when they work for several accounts under the same employer name, or group of associated companies. Under no circumstances is the employer permitted to report payroll for common workers under the account that has a lower assessment rate or to have a separate account in which to report their common workers earnings at a lower rate. The WorkplaceNL assessment on the earnings of common workers must be prorated between the associated accounts as explained below. Proration is used as an allocation method when the employer does not have another method of payroll allocation that is considered more equitable in nature.

If the employer chooses not to prorate the earnings of the common workers, then the common workers must be reported in the highest rated account of the group.

408.02 Definitions

Newfoundland Industrial Classification (NIC) Code: the four digit numerical coding system used to classify the different economic activities conducted in the province of Newfoundland and Labrador. WorkplaceNL assigns each employer to a NIC code to identify the primary industrial undertaking of the employer and the corresponding assessment rate.

Multiple Classification: a situation where one legal entity, a proprietor, partnership or corporation, qualifies for two or more accounts because that entity is engaged in two or more primary industrial undertakings. WorkplaceNL determines if an employer qualifies for multiple classifications using Policy ES-03 – Classification of Employer's Operations.

Related Accounts: a situation where separate legal entities, proprietors, partnerships or corporations, are considered related for the purpose of calculating proration.

Common Worker: a worker who works for more than one account of a multiple classification, or a group of related accounts.

Common Earnings: the total assessable earnings of the common workers within a group of accounts.

Direct Earnings: the total assessable earnings directly attributable to each account in a group of accounts, **not** including the common assessable earnings. Student and out of province earnings, for which a deduction can be taken, are included in direct earnings to calculate proration. A deduction for these earnings, if applicable, is taken after the prorated earnings of common workers are allocated.

Maximum Assessable Earnings: the maximum amount of earnings WorkplaceNL will insure per worker. This amount may change yearly. The maximum assessable earnings for current and prior years are available on WorkplaceNL's website at workplacenl.ca.

Excess Earnings: Refers to the difference between a workers' gross earnings and the maximum assessable earnings.

408.03 Single Legal Entity, Multiple Classifications

A single legal entity employer may operate in more than one industry and may be assigned an account and NIC code for each. Proration is required when there are workers who work for more than one of the accounts in the group.

For example, an office manager may work for all the accounts. This work is incidental to every account and an appropriate portion of the office manager's assessable earnings must be assessed in each account. The preferred way to do this is to prorate the common earnings over all related accounts, based on the total direct earnings of each.

If the employer chooses not to prorate the earnings of the common workers, then the common workers must be reported in the highest rated account of the group.

408.04 Related Firms

In some cases WorkplaceNL considers accounts to be related for proration purposes, despite being separate legal entities. This is to ensure common workers are allocated to the classifications in which they work.

The following are some situations where WorkplaceNL may consider firms to be related for the purpose of proration:

- one firm owns the assets that another company uses in its operation and there may be common directors and/or owners;
- there are related party transactions of a financial nature between one or more firms and there may be common directors and/or owners;
- there is a parent – subsidiary relationship between the firms; or
- the firms are listed as related in the notes to the financial statements.

If WorkplaceNL considers firms to be related and classified correctly, then the employer may prorate the earnings of the common workers to the accounts in the group in which they work, based on total direct earnings of each account in the group.

If the employer chooses not to prorate the earnings of the common workers, then the common workers must be reported in the highest rated account of the group.

An employer may pay common workers out of a separate legal entity for their own administrative purposes. Under this procedure, that legal entity's earnings would be entirely prorated to the accounts representing the industries in which they work.

If the employer chooses not to prorate these earnings, the legal entity paying the common workers must be classified in the highest rate of the group.
Example of Proration:

An employer operates three different business activities and is classified in three different NIC codes.

There is one director and one office manager who are supporting all three business activities. In this example, the director's salary is $60,000 and the office manager's is $40,000. This remuneration is common to each business activity and must be prorated over the earnings attributable to each business.

Excess earnings must also be calculated and prorated because the director earns more than the maximum assessable earnings. For this example, assume maximum assessable earnings of $50,000. The maximum assessable earnings for current and prior years are available on WorkplaceNL's website at workplacenl.ca.

The employer operates a construction company, a laundromat and a convenience store. The total direct earnings, excluding common staff, for each operation is as follows:

Construction	$200,000
Convenience Store	$150,000
Laundromat	$50,000

Step 1 - Calculate total direct earnings percentage by operation:

Operation	**Earnings**	**Percentage of Total Direct Earnings**
Construction	$200,000	$200,000/$400,000 = 50.00%
Convenience Store	$150,000	$150,000/$400,000 = 37.50%
Laundromat	$ 50,000	$50,000/$400,000 = 12.50%
Total:	**$400,000**	**100.00%**

Step 2 - Apply the percentage of total direct earnings to the total common earnings in order to determine the proportion of common earnings to be assigned to each operation:

Total common earnings = $100,000 [$60,000 for Director plus $40,000 for office clerk]

Operation	**% of Earnings**	**Prorated Earnings**
Portion to construction:	50.00% * $100,000	= $50,000
Portion to convenience store:	37.50% * $100,000	= $37,500
Portion to Laundromat:	12.50% * $100,000	= $12,500
Total:	**100.00%**	**$100,000**

Step 3 - Calculate the excess earnings for the director:

Excess Earnings: Director earnings $60,000 – maximum assessable earnings $50,000 = $10,000

Step 4 - Prorate the excess earnings to each operation using percentage of total direct earnings:

Operation	**% of Earnings**	**Prorated Excess Earnings**
Portion to construction:	50.00% * $10,000	= $5,000
Portion to convenience store:	37.50% * $10,000	= $3,750
Portion to Laundromat:	12.50% * $10,000	= $1,250
Total:	**100.00%**	**$10,000**

Step 5 - Add the total direct earnings to the prorated common earnings and subtract the prorated direct excess earnings for each operation to determine the total assessable earnings for each:

Operation	**Total Assessable Earnings**
Construction ($200,000 + $50,000 – $5,000)	= $245,000
Convenience Store ($150,000 + $37,500 – $3,750)	= $183,750
Laundromat (50,000 + 12,500 – 1,250)	= $ 61,250
Total	**$490,000**

Reconciliation

Total direct earnings	$400,000
Plus total common earnings	$100,000
Minus total prorated excess earnings	($10,000)
Total assessable earnings for all three operations	**$490,000**

408.06 Exceptional Circumstances

In cases where individual circumstances of a case are such that the provisions of the procedure cannot be applied, or to do so would result in an unfair or unintended result, WorkplaceNL will decide the case based on its individual merits and justice. Such a decision will be considered for that specific case only and will not be precedent setting.

Reference: Workplace Health, Safety and Compensation Act, Sections 19, 94, and 95
Policy ES-03, Classification of Employer's Operations

Amendment History

Original Effective Date	2018 09 11