Overtime for Incentive Pay

Overtime wages are calculated using 1 ½ times the standard/regular hourly wage. Employees paid by the hour, week or month know, or can calculate, their hourly wage before they begin working.

For incentive pay, the hourly wage is not known until the work is done or the pay period is finished. Incentive pay is based on productivity, not on an hourly wage.

What is incentive pay?

Incentive pay is based on how productive employees are rather than the number of hours they work. Common examples include commission salespeople, flat-rate mechanics, and pieceworkers.

How is overtime pay calculated for employees who are paid by incentive?

For incentive pay, calculating overtime is a two-step process:

1. Calculate the regular hourly wage by dividing the total incentives earned in the pay period by the total number of hours worked in the pay period.
2. Calculate the overtime pay wage rate by multiplying the regular hourly wage by 1 ½ times.

In each pay period, employees must be paid their hourly wage for all standard hours worked and their overtime wage (1 ½ times the regular hourly wage) for all overtime hours worked.

Overtime hours are those worked over the standard hours. In most cases, standard hours are eight hours in a day and 40 hours in a week. The Overtime page provides more details on how to determine overtime hours.

Does minimum wage apply to employees paid by incentive?

Yes. Employees who are paid incentives, like commission salespeople or flat rate mechanics, must earn at least minimum wage in each pay period. Employers must top up or add wages when an employee has not earned at least minimum wage in each pay period.

How is overtime calculated for employees who are paid only on commission?

To calculate overtime for commission employees, establish the hourly wage for the pay period, determine their standard and overtime hours worked in the pay period, and calculate the overtime wages.

For example: in this pay period a commission salesperson who is paid once a week earned $1000 commission and worked 50 hours.

Calculate hourly wage by dividing the commissions earned by the total number of hours worked:

$$\frac{\textbf{Commissions}}{\textbf{Total Hours}} = \textbf{Hourly Wage} \quad \textbf{or} \quad \frac{\$1,000}{50} = \$20$$

For the regular hours worked, the salesperson's hourly wage is multiplied by the standard 40 hours of work:

Hourly Wage ×Regular Hours Worked **$20 ×40=$800**

The overtime wage rate is calculated by multiplying the hourly wage by 1 ½ times

Hourly Wage ×1.5=Overtime Wage **$20 ×1.5=$30**

Multiply the overtime wage rate by the number of overtime hours worked:

Overtime Wage ×Overtime Hours **$30 ×10=$300**

Adding the two amounts together gives the total amount the salesperson earned during the pay period.

$800 +$300=$1100

Since the salesperson already earned $1000 in commissions, the employer pays the employee an additional $100 to account for the hours worked that have not yet been paid.

How are employees who are paid a flat rate (like many mechanics and automobile repair technicians) paid for overtime?

To calculate overtime for employees paid a flat rate, establish the hourly wage for the pay period, determine the standard and overtime hours worked in the pay period, and calculate the overtime wages.

For example: a mechanic who is paid once a week earns $40 for each brake job completed. In this pay period, the mechanic does 30 brake jobs and actually works 48 hours, comprising 40 regular hours and 8 overtime hours. The total pay for the 30 brake jobs is $1,200.

Calculate the regular hourly wage by dividing the total wages earned in the pay period by the total number of hours worked in the pay period:

$$\frac{\textbf{Flat rate}}{\textbf{Total Hours}} = \textbf{Hourly Wage} \quad \textbf{or} \quad \frac{\textbf{\$1200}}{\textbf{48}} = \textbf{\$25}$$

For the regular hours worked, the mechanic's hourly wage is multiplied by the standard 40 hours of work:

Hourly Wage ×Regular Hours Worked **$25 ×40=$1000**

The overtime wage rate is calculated by multiplying the hourly wage by 1 ½ times;

Hourly Wage ×1.5=Overtime Wage **$25 ×1.5=$37.50**

The overtime wage is calculated by multiplying the overtime wage by the number of overtime hours worked :

Overtime Wage ×Overtime Hours **$37.50 ×8=$300**

Add the regular wages and the overtime wages together to calculate the total amount the salesperson earned during the pay period.

$1000 +$300=$1300

Since the mechanic was already paid $1200 as a flat rate, the employer pays $100 to account for the hours worked that have not yet been paid.

How are employees paid for piece work (like sewing machine operators) paid for overtime?

To calculate overtime for employees paid by the piece, determine the hourly wage for the pay period, determine the standard and overtime hours worked in the pay period, and calculate the overtime wages.

For example: a sewing machine operator who is paid once a week earns $0.75 for each pocket sewn. In the pay period, the employee sews 1,000 pockets, for a total pay of $750 and worked 50 hours.

Calculate hourly wage by dividing the total pay by the number of hours worked in the pay period:

Incentive Pay (Piecework) **= Hourly Wage** **or** **$750** **=** **$15**

Total Hours	**50**

For the regular hours worked, the sewing machine operator's hourly wage is multiplied by the standard 40 hours of work:

Hourly Wage ×Regular Hours Worked **$15 ×40=$600**

The overtime wage is calculated by multiplying the hourly wage by 1 ½ times;

Hourly Wage ×1.5=Overtime Wage **$15 ×1.5=$22.50**

Multiply the salesperson's overtime wage by the number of overtime hours worked:

Overtime Wage ×Overtime Hours **$22.50 ×10=$225**

Add the regular wages and the overtime wages together to calculate the total amount the sewing machine operator earned during the pay period.

$600 +$225=$825

Since the sewing machine operator already earned $750 in piecework, the employer pays $75 to account for the hours worked that have not yet been paid.

How are employees (whose productivity can be measured every hour) paid for overtime?

In some cases, employers are able to measure exactly how productive employees are during the overtime hours. In the piece work example, where employees are paid $0.75 for each pocket sewn, the employer could show how many pockets were sewn during regular hours and how many pockets were sewn during overtime.

Employers can choose to calculate the hourly wage over the pay period as shown in the previous examples, or they may pay 1 ½ times the piece rate for work done in overtime hours. In this example, the employer could simply pay $1.13 for each pocket sewn in the overtime rather than calculate the hourly wage for the pay period.

How are employees who earn a salary or wage and incentive pay paid for overtime?

There are two ways to calculate overtime for employees who earn a salary or wage, plus incentive pay.

1. If the salary or wage is more than twice the minimum wage, the overtime wage is calculated using only the salary or wage. The incentive pay is not used to calculate the hourly wage.

For example if the employee earns $30 per hour plus a commission, the overtime wage rate would be $30 X 1.5 = $45 per hour of overtime. The commission would not be used in the calculation.

2. If the salary or wage is less than twice the minimum wage, the overtime wage is calculated separately for the wage or salary and for the incentive pay. The two are then added together.

How are employees who are paid at least twice the minimum wage as a base and incentive pay, paid for overtime?

To calculate overtime for employees paid a base wage greater than twice the minimum wage, only the base salary or wage is used.

For example: a miner who is paid a base wage of $30 per hour plus incentive pay for the amount he/she produces in the period. If the base wage is more than twice the minimum wage, the overtime wage would be calculated as follows:

Base Wage ×1.5=Overtime Wage **$30 ×1.5=$45**

This equals an overtime wage of $45 for each hour of overtime. The incentive pay is not included in the calculation.

How are employees, who are paid a salary or wage less than twice the minimum wage and incentive pay, paid for overtime?

To calculate the overtime rate for employees who are paid a base salary or wage less than twice the minimum wage and incentive pay, establish the hourly wage for the pay period, determine the standard and overtime hours worked in the pay period, and calculate the wages.

For example: In this pay period, a salesperson who is paid $10 per hour plus a sales commission, earned $84 in commission and worked 42 hours (40 standard hours and two hours overtime). The salesperson’s wage is less than twice the minimum wage, so the hourly wage is calculated separately for both the base wage and the incentive pay; then the two are added together.

Divide the total commissions earned by the number of hours worked in the pay period, then add the hourly commission wage and the base pay together:

To calculate the hourly rate for the incentive pay, use the formula:

$$\frac{\textbf{Commissions}}{\textbf{Total Hours}} = \textbf{Hourly Wage} \quad \textbf{or} \quad \frac{\textbf{\$84}}{\textbf{42}} = \textbf{\$2/hour in commissions}$$

Base Pay+Hourly Wage in Commissions=Total Hourly Wage **\$10+\$2=\$12/hour**

For the regular hours worked, the salesperson's total hourly wage is multiplied by the standard 40 hours of work:

Hourly Wage ×Regular Hours Worked **\$12 ×40=\$480**

The overtime wage is calculated by multiplying the regular wage by 1 ½ times;

Hourly Wage ×1.5=Overtime Wage **\$12 ×1.5=\$18**

Multiply the overtime wage rate by the number of overtime hours worked in the pay period:

Overtime Wage ×Overtime Hours **\$18 ×2=\$36**

Add the regular wages and the overtime wages together to calculate the total amount the salesperson earned during the pay period.

\$480 +\$36=\$516

Since the salesperson already earned \$84 in commission and \$400 in regular earnings, totalling \$484, the employer pays an additional \$32 to account for the hours worked that have not yet been paid.

Must employers calculate the hourly wage in every pay period for each employee that works overtime?

Yes. The hourly wage for employees paid by incentive or commissions will generally change in every pay period, since it depends on the productivity in that period and the number of hours worked.

Are employees entitled to minimum wage for all hours worked?

Employees are entitled to at least minimum wage in each pay period and cannot agree to work for less. The hourly wage for employees must be calculated in every pay period to ensure it is at least minimum wage. The Minimum Wage page has more information.

How is overtime calculated if incentive pay is not paid at the time of production or sale, but at some later date?

Overtime is calculated based on the hours worked and the wages paid in each pay period. To calculate overtime, the wages paid in a pay period are averaged over the hours worked in that pay period, regardless of when the production actually occurred.

How do other incentives like bonuses and profit sharing affect the calculation of overtime pay?

Incentives that can be measured by the productivity of employees are considered part of the wage when calculating overtime. Incentives that are discretionary bonuses, and are not tied to employees' productivity in any way, are not considered a wage and therefore, not included in calculating overtime.

Are there exceptions to paying overtime?

There are exceptions to the overtime rules for some employees. See the pages on Employees Who Generally Perform Management Functions or Employees Who Have Substantial Control Over Their Hours of Work and Earn Twice the Industrial Average Wage. Some businesses may have an averaging permit which allows the hours of work to be varied or averaged; others have individual flex-time agreements with their employees to set up a schedule with different standard hours of work. See the Averaging Permits and Individual Flextime Agreements pages for more details.

How is general holiday pay calculated for employees who are paid by incentive for a general holiday on which they do not work?

Like other types of pay, employees who earn incentive pay are entitled to 5% of the total wages (including incentive pay) in the 4-week period before the holiday.

How is general holiday pay calculated for employees paid by incentive if they work the general holiday?

Most employees who work on a general holiday are entitled to 1½ times their regular wage rate for hours worked on a general holiday in addition to the general holiday pay of 5% of their earnings in the four-week period before the holiday. This includes employees who are paid by incentive.

To calculate the wages to which an incentive paid employee is entitled, first calculate the hourly wage by dividing the incentive pay by the total number of hours worked in the pay period. The hourly wage usually changes in each pay period since it depends on the pay earned and the number of hours worked.

For example, in this pay period, a commission salesperson paid once a week, earns $800 commission, worked 32 hours of standard time and 8 hours on the general holiday.

Commissions = Hourly Wage or $800 = $20/hour

Total Hours	40

The hourly wage is then multiplied by the regular hours worked:

Hourly Wage ×Regular Hours Worked $20 ×32=$640

To calculate wages for working on the general holiday, multiply the hourly wage by 1 ½ times:

Hourly Wage ×1.5=Overtime Wage $20 ×1.5=$30

This amount is then multiplied by the number of hours worked on the general holiday. In this example, the salesperson earned:

Wages for working on the general holiday ×Hours worked on general holiday $30 ×8=$240

Add the regular wages and the wages for working on the general holiday together to calculate the total amount the salesperson earned during the pay period.

$640 +$240=$880

Since the salesperson already earned $800 in this pay period, the employer pays an additional $80 to account for the hours worked that have not yet been paid, plus the 5% of the regular earnings in the 28 days before the holiday.

For more information contact Employment Standards:

Phone: 204-945-3352 or toll free in Canada 1-800-821-4307

Fax: 204-948-3046

Website: www.manitoba.ca/labour/standards

This is a general overview and the information used is subject to change. For detailed information, please refer to current legislation including The Employment Standards Code, The Construction Industry Wages Act , The Worker Recruitment and Protection Act, or contact Employment Standards.

Available in alternate formats upon request.

Date Published: April 14, 2020