

## Legal Memorandum: Impediments to Wage Payment in Educational Institution Cooperation

### 1. Contractual Basis: Training Agreement vs. Apprenticeship

In accordance with the Vocational Education and Training Act (531/2017), workplace learning is based on either a training agreement (*koulutusopimus*) or an apprenticeship (*oppisopimus*).

- The current arrangement is a training agreement, which is a public-law contract between the educational institution and the employer.
- Under the Act, a student in training based on a training agreement is not in an employment relationship and, therefore, is not paid a wage or other consideration.

### 2. Absence of the Criteria for an Employment Relationship

According to Chapter 1, Section 1 of the Employment Contracts Act (55/2001), an employment relationship is established when work is performed for remuneration on behalf of an employer under their direction and supervision.

- The student's current status is "student pursuing a degree," not an employee.
- Activities focus on pedagogical goals and the acquisition of skills, not on generating economic results within an employment relationship.
- Paying a wage would retroactively change the nature of the contractual relationship into an employment relationship, triggering immediate employer obligations (insurance, social security contributions, annual leave accrual) to which the organization has not committed at this stage.

### 3. Insurance Coverage and Liability Issues

Students are covered by the educational institution's accident insurance as long as the internship is unpaid and part of their studies.

- If wage payments were initiated, insurance liability would transfer immediately to the employer.
- Paying wages without a valid employment contract and proper insurance arrangements would constitute a significant legal and financial risk for both parties.

### 4. Principle of Equality

The organization's internal administrative policies and budgetary frameworks require equal treatment of all interns at the same stage of their studies. Separate wage payment in an individual case, without an established recruitment process, would violate the organization's governance practices.

## Report on the Impact of Employer Obligations on Wage Payment Requirements

### 1. Total Burden of Statutory Indirect Labor Costs

Wage payments on behalf of i4ware Software immediately create statutory employer obligations, increasing labor costs by approximately 1.3–1.5 times the gross salary. Upon exceeding the threshold of three (3) paid employees, the company must fulfill:

- **TyEL Insurance Contributions:** Approximately 17–25% of the total payroll.
- **Accident and Group Life Insurance:** Mandatory for all employees.
- **Social Security Contributions and Withholding Tax Management:** Increases administrative burden and ties up cash flow.

### 2. Statutory Audit Obligation (Auditing Act 2:2 §)

If the number of paid employees stabilizes at three (3), i4ware Software will likely exceed the small business threshold, triggering a mandatory audit obligation. This incurs a significant annual fixed cost in the form of audit firm fees.

### 3. Statutory Occupational Health Care and Sick Leave

The Occupational Healthcare Act mandates that the employer organize preventive healthcare.

- **Contract Costs:** Fixed monthly fees and service-specific expenses.
- **Sick Pay:** The employer bears the risk for the initial days of illness (deductible period), which represents a significant financial risk in a three-employee unit.

### 4. Indirect Costs of Family Leave and Absences

Although Kela (The Social Insurance Institution of Finland) compensates for part of parental leave, the employer incurs costs from:

- Accrual of annual leave during the leave period.
- Administrative and recruitment costs for substitution arrangements.
- Employer social insurance contributions during the leave.

### 5. Conclusion: Financial Risk Management

At this stage, i4ware Software's business volume does not allow for the absorption of the aforementioned cumulative costs (wages + indirect costs + insurance + auditing + healthcare) without compromising the company's liquidity.

**Legal Ruling:** A company has no right to hire new personnel if it is unable to fulfill its statutory employer obligations (Employment Contracts Act). Consequently, cooperation with educational institutions must be limited to unpaid training agreements at this time.