



NZ Leave Processing

We're often asked how to correctly pay staff for leave (Annual Leave, Sick etc.)

If you installed from the NZ-localised installer, then by default the leave settings will be correct and shouldn't be changed without expert advice.

Here's a run-down on how leave settings should be established (you or someone else may have thought they'd do it the "old" way rather than the "correct" way, so it pays to check:

Leave type	Per year	Comment
Annual leave	4 weeks accruing on each anniversary. Must be paid using Average Weekly Earnings rules.	Casual staff will have an automatic 8% Leave Loading per pay period instead, as their contract ends each time they are paid.
Sick leave	First accrual of 5 days after 6 months service, then another 5 days each 12 months thereafter.	You *may* limit the maximum accrual to 20 days (it's optional). Casual staff do not normally receive a sick leave entitlement, but you may do so if you wish.

You'll note that there is **no mention of hours or days** for Annual Leave, and no mention of accruing leave per pay period - that's because any of those methods are inaccurate and do not truly reflect the employee's leave entitlement. You may argue this with a Labour Inspector from the Department of Labour if you wish. SmoothPay is supported only if you use compliant leave accrual methods.

Similarly, Sick Leave must be in days (not hours or weeks, or per pay period). Again, if you wish to discuss this we suggest you contact the Department of Labour.

There are other leave types you need to be aware of as well - forms and separate guides for all common leave types are available on our website:

Leave type	Comment
Time-banking (RDO's, TOIL etc.)	This is available, but not recommended in NZ. In order to comply with the Holidays Act, time must be paid for at the time it is worked in order to comply with relevant daily and average weekly earnings calculations. If you fail to do so then your average values will not be correct. SmoothPay provides for TOIL accrual and usage but must be used carefully and correctly to remain compliant with the Act.

Leave type	Comment
Rostered Days Off	In Australia it's quite common to "trade" time worked for time off (e.g. the employee's time above say 40 hours is collected into RDO leave, and taken as and when required. Refer to notes for Time-banking above.
Alternative Leave (aka Time In Lieu)	The basics are these: For any time worked on a public holiday, and that day would normally have been worked by the employee, then they are entitled to time+half payment for the time worked as well as one whole day off (of their choosing) at some other time. It is <i>*not correct*</i> to accrue "time for time", e.g. if employee works 4 hours on a Public Holiday it is not correct to accrue 4 hours Alternative Leave.
Bereavement Leave	You must allow up to 3 days for close/relatives, and up to 1 day for any other bereavement (this is really wishy-washy stuff, so if you're not sure you should contact the Department of Labour).
Public Holiday	This must be paid using Relevant Daily Pay rules.
Final Pay	SmoothPay provides a Final Pay calculation (<i>use the Assistant button when you add an Annual Leave entry</i>). It automatically calculates the amount payable (based on your settings for the employee, the company settings and the employee's entitlements). This also terminates the employee at the end of the pay process.

Final Pay

SmoothPay provides a Final Pay calculation (*use the Assistant button when you add an Annual Leave entry*). It automatically calculates the amount payable (based on your settings for the employee, the company settings and the employee's entitlements).

This also terminates the employee at the end of the pay process.

If you're unsure how to proceed with final payment for a specific employee then you should examine their contract and pay records, and failing that you should seek advice from your employer service, the employee's union, a workplace law specialist, or join NZPPA (NZ Payroll Practitioners Association) and they'll provide you correct advice on your obligations.

In addition to paying out an employee's final annual leave entitlement you might also have to pay Long Service Leave, redundancy or other termination payments too. These issues are outside the scope of the HelpDesk to advise - we can only provide assistance with using the software - not what you should or should not pay.

Payment for Annual Leave

The following assumes you are using correct leave accrual methods.

Annual Leave should accrue in weeks (regardless of how your old payroll system did it), as the law stipulates weeks, not days or hours. However, most employers still accrue annual leave in hours or days - and that's OK as long as the result produces an entitlement at least as good as that produced in weeks (it won't if your employee's work pattern changes and you'll be forever making manual adjustments, and if you're not then you should be).

There is no reason not to accumulate and consume annual leave in weeks - it's easier for you because you never need to adjust the balance or accrual, and it complies with the Holidays Act, and you'll get the added benefit of support by the HelpDesk (non-compliant methods are not supported).

Step 1: Make sure your employee has completed a leave application form. You should check leave availability and approve none, some or all of the leave before processing.

Step 2: Use the following sequence to ensure the employee's pay for leave is correct:

Step		
1	Make sure your employee has completed a leave application form. You should check leave availability and approve <i>none, some or all of</i> the leave before continuing. From experience, staff may come back after termination and ask to be paid for leave that you know you paid but have no documentary evidence for. Use the leave application forms for your own protection.	
2	Add 1 week of annual leave to Pay..Leave and note it's value. Note: 1 week is based on "normal" work patterns as per the employee's current contract (assuming you have set it up correctly - otherwise change to produce a suitable value)	
3	Check, using the Assistant, for leave availability and average weekly value (you should already have done this before approving leave). If the average weekly value is greater than the value determined in Step 2, then you need to alter the hourly rate to produce the correct weekly value.	
4	Adjust the leave units to reflect the amount of leave applied for (as the hourly rate is now correct, and the number of weeks will be adjusted automatically to reflect the leave being taken)	

NOTE: Some employers simply continue to pay staff at their ordinary hourly rate for any and all leave taken (e.g. in the case of a "Salaried" employee who is paid the exact same amount every pay period, never works overtime and or is not paid overtime, never gets productivity or other bonus payments, and never works on Public Holidays, then that's possibly OK - the "**Fixed Salary**" contract setting does this automatically).

However, the Holidays Act makes no distinction, and the same rules are supposed to apply to everyone, so unless you truly have a Fixed Salary employee you should use the procedure above.

Christmas holidays

Most staff expect paid leave at Christmas, and it's reasonable to pay staff for some or all of the time requested on their [leave application form](#) (*as long as they have leave available, or in cases where the employee hasn't any leave remaining from previous accruals and the employer is prepared to advance some of the leave that they may accrue on their next anniversary*).

There are a few issues here:

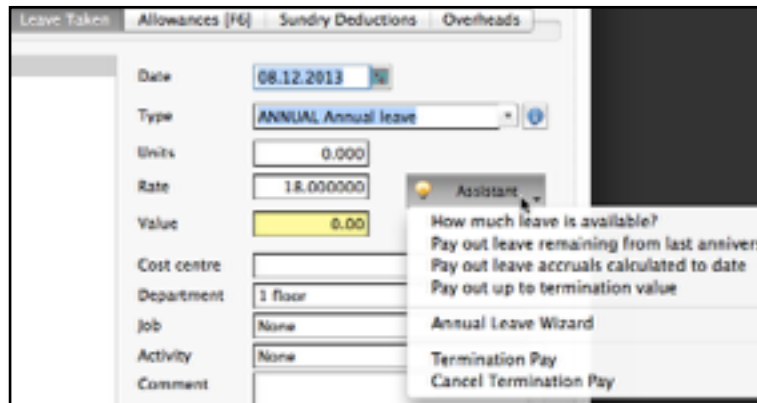
1. **Has the employee already used up more leave than they have accrued** (*and possibly more than that and maybe have a negative leave balance*)? If so, they may not be entitled to any payment at all (*excepting public holidays, if applicable*). Decide how much leave, if any, you are prepared to advance and let your employee know.
2. **Has the employee not reached their first anniversary yet?** Decide how much leave, if any, could reasonably be paid to the employee over the Christmas period (exclude public holidays, work days etc they're paid separately). If the employee is only a few months away from their next anniversary, and they haven't used any annual leave yet, then it's likely that 2-3 weeks of leave advance would be reasonable, and sometimes more.
3. **Compulsory Shutdown:** This applies if, and only if, the company ceases operation for a compulsory shutdown period. The Act provides for special rules for staff in their first year of employment, by allowing payment of 8% of their liable income (gross taxable income, excluding any discretionary payments) and to have their anniversary date for annual leave reset so that accruals occur on or before the next - see the Compulsory Shutdown section below. After that first adjustment, staff are only entitled to any unused annual leave (unless of course you are prepared to advance leave - see caution below).
4. **Are they requesting to be paid for more leave than they will actually take?** This can be a difficult question, but easily resolved by requiring use of leave application forms. Staff cannot request to be paid out more leave than they will actually consume (*e.g. you cannot claim 4 weeks of annual leave just because it's accrued and only go on leave for 2 weeks*). The employee *can* cash up 1 week in each year (*see Leave Assistant below*). In general, staff should only be paid annual leave when that leave is actually being taken. Furthermore, in that 2 week period there are likely to be 4 Public Holidays, so they'll actually only be consuming 6 days of annual leave (1.2 weeks).

Here's how to check leave balances:

1. **Reports..Staff..Leave Entitlements** (and Valuation) reports. These show the balance of accrued leave and the method of accrual, and the Valuation Report shows an "estimated" accrual and value (you should **never** pay out more than these values as you risk the ability to recoup the cost if the employee doesn't return to work).
2. **Reports for individual employees** are also available from the employee's Leave tab
3. Another method is to add an Annual Leave entry and use the leave balances facility in **the Assistant**.

Leave Assistant

Whenever you add a leave entry, the Assistant button provides access to common leave tools:



How much leave is available?	displays a breakdown of leave balances and values for all types of leave.
Pay out leave remaining from last anniversary	Leave accrues on each anniversary, this option pays out whatever remains from those accruals.
Pay out leave accruals calculated to date	This can be “expensive” in that the employee may not ever actually accrue any more leave (<i>e.g. if they don’t make it to their next anniversary, and even if they return to work they may leave before their next anniversary - in which case you are liable for 8% on the payments given in advance</i>), however this option provides an easy way to pay out to a estimated leave accrual figure.
Pay out up to termination value	This limits the amount paid to what the employee would have received if they were terminating (<i>it can sometimes be less than the “Pay out leave accruals calculated to date” option</i>). You would use this when paying the first year’s 8% leave calculation in cases where a compulsory shutdown applies or where you’re prepared to grant a maximum amount of leave value without over-extending (<i>too much</i>).
Annual Leave Wizard	This is used to consume and value leave in accordance with the Holidays Act (<i>e.g. you want to pay out 2 weeks and payment is to be made at the best of the average weekly earnings or the current contract</i>). You should use this option for all “normal” leave consumed. It also provides an option to Cash-Up (staff can cash up 1 week in any year of service).
Termination Pay	This calculates the employees final pay entries (all current pay inputs should be completed already before using this option). This may produce up to 2 different entries: a) Balance of leave remaining from last anniversary b) 8% final pay on gross earnings since anniversary The employee will be automatically terminated at the end of the pay process (and the current period ending date will be used as the termination date - you can adjust this later if you wish)
Cancel Termination Pay	Destroys the final pay entries and unsets the automatic termination.

CAUTION: If you don't get staff to complete SmoothPay's leave application forms, and you haven't explicitly included recovery of overpayments in your employee's contract, then you are not entitled to recover leave taken in advance.

Compulsory Closedown

If your company shuts down completely at Christmas (*or at any other time of year*), then you are able to make an adjustment to the employee's anniversary dates to bring them into line with the company closedown period. SmoothPay doesn't recommend this (*it's messy and not really necessary - you can use the "Pay out to termination value any time you need to, esp. at Christmas*), however the Act provides for it, and SmoothPay does too.

For example, the company might close on 23rd December and re-open 3 weeks later on the 13th January (2013/14 dates used).

In this case, any staff who have served less than 12 months can have a **one-time adjustment** made to their anniversary date, and at Christmas can be paid out the "Up to termination value" amount for their annual leave (*refer Leave Assistant options above*).

After the pay is processed you'll make an adjustment to their leave history to set their leave balance to zero.

On each "company" anniversary date that follows, the employee will accrue their 4 weeks of annual leave.

Sick leave

The following assumes you are using correct leave accrual methods.

Sick Leave should accrue in days (regardless of how your old payroll system did it), as the law stipulates days, not weeks or hours.

There is no reason not to accumulate and consume annual leave in days - it's easier for you because you never need to adjust the balance or accrual, and it complies with the Holidays Act.

Step 1: Make sure your employee has completed a leave application form. You should check leave availability and approve none, some or all of the leave before processing.

Step 2: Use the following sequence to ensure the employee's pay for leave is correct:

Step		
1	Make sure your employee has completed a leave application form. You should check leave availability and approve <i>none, some or all of</i> the leave before continuing.	

Step		
2	If you know <i>*exactly*</i> what the employee would have earned, then enter those values - you do not need to complete any additional steps.	
3	If you <i>*don't know*</i> what the employee would have earned, then use the Leave Assistant..Leave Wizard to select from the employee's Average Daily Pay or an agreed daily rate.	

NOTE: Some employers simply continue to pay staff at their ordinary hourly rate for any and all leave taken (e.g. in the case of a “Salaried” employee who is paid the exact same amount every pay period, never works overtime and or is not paid overtime, never gets productivity or other bonus payments, and never works on Public Holidays, then that’s possibly OK (the “**Fixed Salary**” contract setting does this automatically).

However, the Holidays Act makes no distinction regarding salaried staff, and the same rules are supposed to apply to everyone, so unless you truly have a Fixed Salary employee you should use the procedure above.

Payment for public holidays

The primary question to ask yourself is: Would the employee have worked if it hadn't been a holiday?

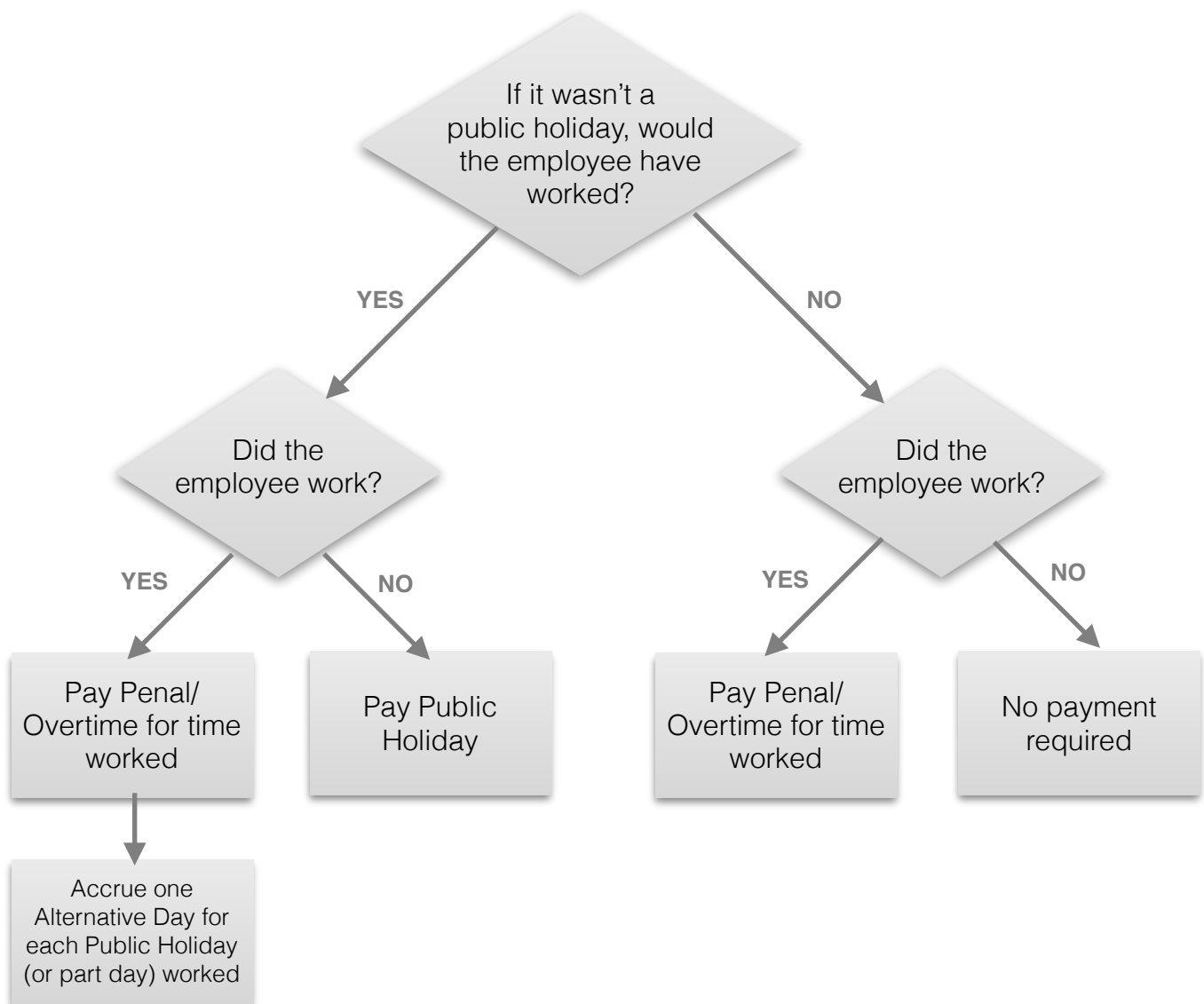
If yes, then they're entitled to payment.

CAUTION: Also, as a general rule, if the employee has worked 2 or more of the same day in the previous 4 weeks, then they may also be eligible based on recent work patterns - you need to be sure they wouldn't have worked in order to deny payment.

TERMINATIONS: Another factor that is often overlooked is that staff leaving may be entitled to payment for public holidays following the termination date. Where an employee has sufficient unused leave remaining from their last anniversary (this is NOT leave “accrued to date” - remember, leave only accrues legally on an employee's anniversary) and that remaining leave would cast a “shadow” that includes any public holidays following their termination date, then they are entitled to be paid (*of course only if they would normally have worked those days if it wasn't a holiday and if they weren't terminating*).

The secondary question is: If the employee works on that public holiday, are they entitled to accumulate an Alternative Day of leave?

Here's a handy chart that will help you decide if an employee should be paid for a public holiday:



Don't overtax the employee!

If an employee has accumulated a significant leave balance, then it's likely that the value being paid out would normally extend over more than one normal pay period.

SmoothPay automatically checks if the total hours entered might need to be taxed over more (or less) than the number of pay periods currently set for the employee. It'll prompt you with the suggested number of pay periods and ask if you want it changed.

For example, an employee paid fortnightly may have worked the fortnight and also has 4 weeks annual leave remaining to be paid as well - a total of 6 weeks pay. It would be reasonable (but not compulsory) to set the employee's number of pay periods to 3 fortnights so that the amount of tax calculated isn't excessive. You can override the number of pay periods in the Pay Summary screen:

SmoothPay Gold Payroll: Acme Widgets Pty Ltd, period ending 27/07/10, pay day 27/07/10

Pay Input Summary

This pay covers fortnight

Time earnings		Deductions	
Ordinary	<input type="text" value="0.00"/>	Sacrifice and pre-tax	<input type="text" value=""/>

Feedback

We're always keen to do better!

Any and all feedback is appreciated and if you feel we could include better examples, provide more explanation, provide references to additional information, make a process easier to use, or you spot something that isn't working the way it's supposed to - please let us know.