

MYOB Essentials Payroll

Annual Holiday Rate Calculations

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Introduction

The complexity of the New Zealand Holidays Act is universally acknowledged, and issues of implementation are an ongoing challenge for businesses across New Zealand.

In May 2019, we contacted you to advise of upcoming updates to MYOB Essentials Payroll. At that time, we released an update that we hope has prompted a review of your payroll system, and/or employee set up, as well as evaluation of your compliance with the Holidays Act (2003).

This document provides an overview of the software changes to the system and highlights key actions employers need/ed to complete prior to implementation of the product updates.

Please note that this information will apply to you if you have employees who have ever worked outside of their agreed hours or days of work.

Disclaimer: This document provides guidance on how to manage leave entitlements within our product. We recommend that you read the MBIE document "*Holidays Act 2003: Guidance on annual holidays, domestic violence, leave, bereavement leave, alternative holidays, public holidays and sick leave*" to understand how to meet your obligations as an employer under the Holidays Act 2003. If you have further questions or are in doubt, it is best to seek legal advice to ensure you are meeting your obligations.

MBIE Website: [Calculating annual holiday payment rates](#)

Background

Payment for Annual Holidays is to be paid at the greater of your employee's Ordinary Weekly Pay (OWP) i.e. what they would have been paid had they been at work, or their Average Weekly Earnings (AWE) for the previous 12 months.

The formula for AWE uses your employees Gross Earnings from the last 52 weeks and divides it by 52 to determine a weekly value. If your employee is taking less than a weeks' holiday, the weekly value is then divided by their agreed hours or days to come to an accurate rate to pay. In order for this to be accurate, you need to ensure that what genuinely represents a working week (i.e. number of hours) for your employees is very clear and/or agreed with them and that their individual employment agreements state this. This needs to be loaded to the system and kept up to date so when it is used by the calculations, you are confident you will come to an accurate rate of pay. For more information on determining and agreeing with your employees what is genuinely a working week for them please refer to the MBIE Guidance: [Holidays Act 2003](#).

What has changed

Prior to this change, when calculating Average Weekly Earnings (AWE), MYOB Essentials Payroll divided the Gross Earnings for the relevant period by the actual number of hours recorded for the same period instead of using the “Hours per week” field. The result of this is that employees’ holiday rates did not account for the working week you have agreed with your employees. This required the user to manually calculate AWE, compare it with OWP and override the rate of pay with the greater of the two.

The changes released in May 2019 updated the Annual Holiday Rate calculation to divide the Gross Earnings used for AWE by 52 and then divide by the agreed/contracted weekly hours in the “Hours per week” field to get to an hourly rate of pay.

Reviewing the change

As the holidays calculation in MYOB Essentials Payroll now uses the **Hours per week** field in an employee’s record, you will need to review this field and ensure it is accurate and up to date. Again, you must ensure that what genuinely represents a working week (i.e. the number of hours) for your employees is very clear and/or agreed with them and that their individual employment agreements state this. For more information on determining and agreeing with your employees what is genuinely a working week for them please refer to the MBIE Guidance: [Holidays Act 2003](#).

You should also review previous holiday payments for any employees who have ever worked outside of their agreed hours/days of work. Based on the previous leave calculation used by MYOB Essentials Payroll, if you haven’t manually calculated AWE, there is a risk of underpayment of leave.

Reviewing this is complex and we recommend you engage your accountant or your employment relations advisor prior to conducting this review if you think you have employees who may be affected.

What next

If a review identifies an incorrect payment of Annual Holidays, you’ll need to recalculate the correct payment to determine a [back pay](#) amount. You can then pay this in the employee’s next pay.

Software Changes

The changes released in May 2019 updated the Annual Holiday Rate calculation to divide the Gross Earnings used for AWE by 52 and then divide that amount by the agreed/contracted weekly hours in the “Hours per week” field to get an hourly rate of pay.

For more details on how leave calculates, see [Leave calculations](#).