

# MYOB Essentials Payroll

## Payment exclusions from OWP 4-week average calculation

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# Introduction

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

The latest release of MYOB Essentials Payroll includes an update which requires a review of your payroll system process, and/or employee set up and evaluation of your compliance with the Holidays Act. This document provides an overview of the software updates to the system and what you should consider before implementing any changes.

Please note that this information will apply to you if you have employees with unpredictable work patterns and/or have payments or allowances other than salary or wages.

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.

Section 8 of The Holidays Act 2003 details the payment for OWP and provides a formula to be used where you are unable to determine what the ordinary pay for your employee is. This is generally when your employee works variable hours or days or they have regular payments such as overtime, commissions or lodgings. The formula takes their Gross Earnings from the last 4 weeks and divides by 4 to determine a value.

How you calculate Gross Earnings for this OWP calculation is different to that used elsewhere in the Act (such as for AWE) as it excludes certain payments. These are:

- (i) productivity or incentive-based payments that are not a regular part of the employee's pay:
- (ii) payments for overtime that are not a regular part of the employee's pay:
- (iii) any one-off or exceptional payments

You should refer to the MBIE Holidays Act Guidance for a fuller explanation of these terms including the definition of regular and what should be included and excluded from Ordinary Weekly Pay.

When using the OWP 4-week average formula you should ensure that the Gross Earnings value includes the correct payments.

# What is changing

MYOB Essentials automatically calculates the greater of OWP and AWE for the payment of Annual Holidays [Annual Holidays Rate Calculation](#). The product has been updated to include the ability to exclude certain payments for calculating the OWP 4-week average formula. Prior to this change, when paying annual holidays, you were required to manually reduce the gross earnings by the total of any irregular payments.

The changes in this release provide an additional field to record **Irregular payments** when adding leave to a pay. Entering a value here will recalculate the hourly rate based on the updated gross.

Use Ordinary weekly pay (OWP) formula

**Ordinary weekly pay (OWP) formula**  
Enter gross earnings, and the irregular payments to be deducted, for the past 4 weeks. [Learn more](#)

**For the past 4 weeks:**

Gross earnings:		10,000.00 \$
Irregular payments:	-	5,000.00 \$
Total contracted hours for 4 weeks:	÷	160.00 hr
<b>Hourly rate</b>		<b>31.25</b>

For more details about paying leave, see our help topic about [Paying leave](#).

## Preparing for the change

There is nothing you need to do to prepare for this change.

If you have previously used the OWP/4 formula and haven't manually excluded irregular payments from the gross earnings, it's possible this has resulted in an overpayment. If wish to review your payments to identify any overpayments, you can do this by reviewing each employee's leave payments and manually identifying overpayments.

It is important to note that this overpayment gives a greater entitlement than in the Holidays Act 2003, so you won't have a risk of non-compliance. If you identify an overpayment it is important to seek guidance from MBIE or your employment relations advisor prior to deciding to recover this from your employees.

## After the change

You will be able to exclude irregular payments from gross earnings by using the new functionality as described above. For help working out what constitutes an irregular payment, see the MBIE website: [Calculating annual holiday payment rates](#).