

# MYOB Essentials Payroll

## Payment of Leave in Advance on Termination

June 2020



---

### Contents

Introduction .....	2
Background .....	2
What is changing .....	2
Preparing for the change .....	3
What next? .....	3
After the change .....	3
Software Changes .....	3

# Introduction

The complexity of the Holidays Act 2003 is universally acknowledged, and issues of implementation are an ongoing challenge for businesses across New Zealand. MYOB Essentials Payroll is committed to helping employers meet their obligations under the Act.

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.

This update will apply to you if you have terminated an employee who had a negative leave balance at the time of termination as a result of taking leave in advance.

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 [Payment for leave and holidays in final pay](#)

## Background

The Holidays Act 2003 provides all employees 4 weeks Annual Holidays after 12 months' continuous employment. Often employers allow employees to take Annual Holidays before the 12-month period is completed, and normally this is paid as leave or holidays in advance.

When employment ends before your employee has become entitled to Holidays and you have previously paid them holidays in advance, the value of the paid leave in advance is deducted from the 8% gross calculation of leave they are to be paid on termination. For example, if an employee was paid \$1000 as 8% of their gross earnings on termination but already took \$600 worth of leave in advance prior to termination, the termination pay should reduce the remaining value to \$400 for payment.

For full details please refer to the [MBIE website](#).

## What is changing

Prior to this change MYOB Essentials Payroll calculated the leave in advance deduction using the leave hours paid in advance and the current annual holiday rate (as if the leave was taken now). If your employee has had a rate change between the holiday paid and their termination date, this would deduct an incorrect amount. If the rate had increased this would have resulted in an underpayment of your employee's termination pay. Manual intervention was required to override the amount to be deducted.

In the latest release, the final pay calculation now correctly deducts the amount actually paid for leave taken in advance.

## Preparing for the change

You don't need to do anything to prepare for the change in the product, the calculation will become automatic when the update is released.

## What next?

You should review previous holiday payments for any employees who had a negative leave balance from taking holidays in advance. You will need to check that their final pay amount was correct.

To do this, you'll need to manually recalculate the final pay. The [MBIE website](#) has guidance on how to calculate a final pay.

To help with this:

1. Run the [Leave report](#) to determine the available leave as at the employee's last pay. This will be negative if they have taken leave in advance.
2. Run the [Payroll Detailed report](#) to determine the gross earnings since the employee's last holiday's anniversary.

You can then compare the recalculation to what was actually paid to see if there's a discrepancy. If there was an underpayment, you'll need to [back pay](#) this amount. To process this in MYOB Essentials payroll, you'll need to create a new employee record and process the back pay. Contact the employee to confirm how best to make this payment.

## After the change

The way you process final pays won't change. If a terminated employee has a negative leave balance due to taking leave in advance, their final pay will be calculated correctly.

<b>1</b> Employee's last day of work is:	<input type="text" value="26/05/2020"/>	
Annual leave paid in advance: Please account for any manual adjustments you've made.	-40 hours	= <input type="text" value="-1,545.20"/>
		<hr/>
		-1,545.20
<b>Holiday pay since anniversary</b>		
Earnings for current payrun:	3,863.22	
Earnings prior to current payrun:	21,266.81	
Total of holiday and leave:	<hr/>	
	-1,545.20	
Total x Holiday pay %	23,584.83	x 8%
		<hr/>
		1,886.79
	<b>Final pay amount</b>	<hr/>
		341.59

## Software Changes

To help with paying an employee's final pay, see our help topic [Processing a final pay](#).