

MYOB Exo Payroll

Annual Holiday Rate Calculations

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Contents

- Introduction2
- Background2
- What is changing.....3
 - Preparing for the change3
 - After the change3
- Software Changes4

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 Exo Payroll is committed to helping employers meet their obligations under the Act.

A prior release (2017.01) and latest release of MYOB Exo Payroll includes updates 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 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 week, 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 the number of days or hours) for your employees is very clear and/or agreed with them and that your 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](#)

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.

What is changing

Prior to this change, hourly or daily rates for AWE and the OWP 4 week average formula were calculated in MYOB Exo Payroll by dividing the Gross Earnings for the relevant period by the actual number of hours or days recorded over the same period. The result of this is that employees' holidays rates did not account for the working week you have currently agreed with your employees. Our recommendation has been to record the 'Number of Working Days/Hours' in the pay period field. This would then derive an accurate rate. However, if the field was incorrectly set it could affect the calculated rate.

Prior to the release of version 2017.01, the definition of AWE used "12 months" of Gross Earnings, divided by 52 weeks. An unintended consequence from the use of the terminology "12 months" is that it is possible for a 53rd Weekly pay or 27th Fortnightly pay to sometimes fall within a 12-month window. In some situations if the additional pay included large payments (e.g. bonuses) the Gross Earnings being used in Exo Payroll was increased and may have led to the AWE rate being calculated at a higher weekly average.

The changes in this release mean that AWE and the OWP 4 week average formula are now calculated by dividing the Gross Earnings for the relevant period by the weeks over the same period. An Hourly or Daily value is then derived from the Weekly value by dividing by the Hours or Days stored in the new **Agreed Definition of a Week** field. It is important that this field is accurate and kept up to date.

Preparing for the change

As the holidays calculation in MYOB Exo Payroll will use the new "Agreed Definition of a 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 days or hours) for your employees is very clear and/or agreed with them and that your 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 who have ever worked outside of their agreed hours/days of work. Based on the previous leave calculation used by MYOB Exo Payroll, there may be 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.

You can review the Rates and the Days or Hours used for the Rate by opening the Holiday Pay – Rate Comparison report view (**Reports menu > Report Views > Holiday Pay - Rate Comparison**).

After the change

After you adopt the new "Calculate Holiday Pay in Weeks" feature, the software will begin to use the new rate calculations. In most situations we expect the new rates to

be the same as the old. However if in the process of adopting these new features you have also updated the work pattern stored in the new **Agreed Definition of a Week** to use different values to what was previously held in **Number of working days/hours in the pay period** field there will be a difference in rate.

If you want to compare the new rate calculations to the old rates, view the Holiday Pay - Rate Comparison report by selecting **Reports menu > Report Views > Holiday Pay - Rate Comparison**.

Once the new rates are in use it is important to continue to maintain the **Agreed Definition of a Week** field, as this value is used to derive the correct Hourly or Daily values for an employee.

Software Changes

These new calculations will automatically be used when the **Calculate Holiday Pay in Weeks** setting is enabled on the Leave Management Setup window and an employee's **Calculate Holiday Pay in Weeks** option is ticked on the Holiday Pay tab of the Employee Maintenance window—see the [Holiday Pay tab](#) Help topic.

There was also a change in the release of Exo Payroll 2017.01, which ensured only 52 weeks or 26 Fortnightly pays are used in the AWE calculation.