

MYOB IMS Payroll

Managing Periods of Leave without Pay

June 2020



Contents

| | |
|--------------------------------|---|
| Introduction | 2 |
| Background | 2 |
| What is changing | 3 |
| Preparing for the change | 3 |
| After the change | 3 |
| Software Changes | 4 |

Introduction

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

The latest release of MYOB IMS 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 this information will apply to you if any of your employees take unpaid leave, i.e. Leave Without Pay (LWOP) in excess of one week in any twelve- month period. It is important to note that if you don't manage LWOP as outlined this document, you risk underpayment for Holiday pay for your employees.

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: [Leave without pay](#)

Background

Section 16 of the Holidays Act 2003 provides all employees an entitlement to 4 weeks of Annual Leave after each "12 months of continuous employment". The Act states that periods of unpaid leave (commonly known as Leave without Pay (LWOP)) greater than one week **do not** count towards the period of continuous employment. What this means is that you need to decide how you will treat unpaid leave for more than one week for your employees as it will have an impact on the rate of payment for Annual Holidays. You should ensure that this is agreed with your employee and it is recommended that their employment agreement includes what you have agreed.

The 2 options you have for managing situations where an employee takes more than one week's unpaid leave during the year are:

1. The default option is that the employee's anniversary date for the employee's entitlement to annual holidays (the point at which they receive their four weeks of Annual Holidays) moves by the period of unpaid leave in excess of one week. That is, if an employee takes two weeks unpaid leave, they would become entitled to Annual Leave one week later each year.
2. You can instead agree with your employee that the period (or periods) of unpaid leave in excess of one week **do count** towards the period of continuous employment. If you come to this agreement, your employee's average weekly earnings (AWE) calculation must be modified to reflect the number of whole or part weeks greater than one week that the employee was on unpaid leave. For example, if an employee takes two weeks unpaid leave

during the year, and you have agreed that the second week of unpaid leave **will** count towards their continuous employment, AWE must be calculated on a 51-week basis, instead of 52. Note: you will still need to compare the employee's AWE against their ordinary weekly pay (OWP) when determining their pay for any period of Annual Holidays.

What is changing

There is no change to MYOB IMS Payroll to extend your employee's anniversary for any period of unpaid leave in excess of one week. If you have chosen option 1 you can continue to manually adjust the Annual Leave Due Date field of any employee taking more than one week of LWOP (this is found on the **Leave** tab of the Employee).

Prior to this change for option 2 a manual calculation of AWE would have been required to reduce the divisor and override the rate at the time of payment.

If you agree with your employee to option 2, the changes in this release provide a new configuration window that lets you enter the number of LWOP in excess of one week. The system will then reduce the weeks divisor automatically for correct calculation of AWE.

Preparing for the change

You should ensure that the treatment of unpaid leave is agreed with your employees (i.e by adjusting their anniversary date (Option 1), or by adjusting the Average Weekly Earnings rate (Option 2)), and it is recommended that their employment agreement includes what you have agreed.

After the change

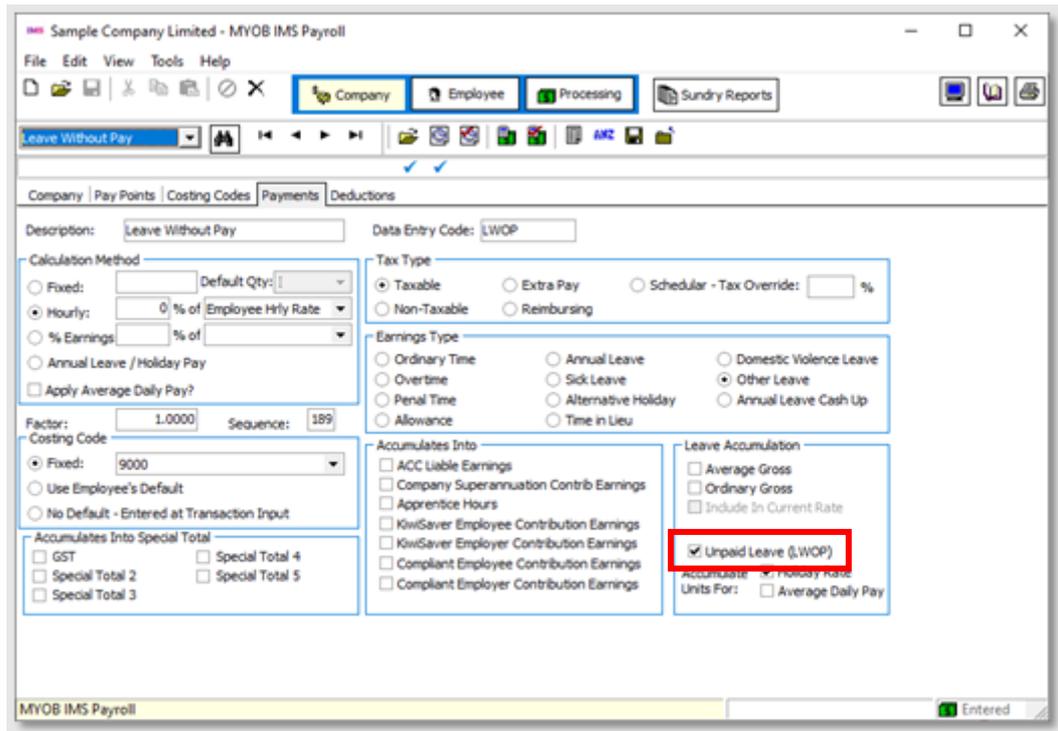
You should review previous holiday payments for employees that have taken LWOP in excess of one week and you haven't completed one of the options above. In the case of option 1 your employee may have become entitled to Annual Holidays earlier than required by the Act however there would be no impact on the Annual Holiday payments you have made to them. It is important to seek guidance from MBIE or your employment relations advisor prior to deciding to retrospectively adjust leave entitlements for your employees.

In the case of option 2 the AWE rate could be incorrect (i.e lower than it should be) and you may not have paid the greater of AWE or OWP. 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.

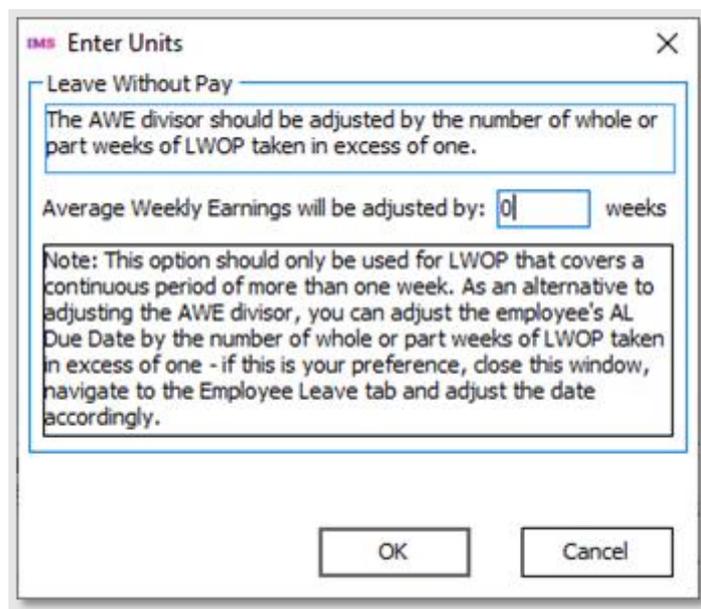
Software Changes

MYOB IMS Payroll has made the following updates to the product for managing the reduction of the divisor for AWE in option 2. This can be enabled when you are ready to use them by ticking the **Active** option on the **Annual Leave in Weeks** section of the Company tab, and then ticking the **Calculate Annual Leave in Weeks** option for the relevant employee(s).

The **Unpaid Leave (LWOP)** setting on the Company Payments tab indicates that any payment with this option will be treated as Leave Without Pay:



After adding a payment that has been marked as Unpaid Leave (LWOP) to an employee's timesheet, the Enter Units window opens:



If this option is not right and you want to adjust the employee's anniversary date as in option 1, click **Cancel** then go to the Employee Information > Leave > Annual Leave tab adjust the **Due Date**.

If you want to reduce the employee's AWE divisor, enter the number of weeks to reduce it by here. It is important to remember that the first week does not reduce the divisor.

For example:

- if the employee takes 1 week of LWOP only, the divisor does not need to be reduced
- if the employee takes 1.5 continuous weeks of LWOP, the divisor should be reduced by 1 week
- if the employee takes 2 continuous weeks of LWOP, the divisor should be reduced by 1 week
- if the employee takes 3 continuous weeks of LWOP, the divisor should be reduced by 2 weeks

The **LWOP Weeks** field on the Timesheets tab displays the number of weeks you entered on the Enter Units window:

| Payment or Deduction | Quantity | Rate | Costing Code | Costing Description | Date 1 | Date 2 | Comment |
|----------------------|----------|-----------|--------------|---------------------|--------|--------|---------|
| Salary | 1 | 1000.0000 | 1000 | Management | | | |
| Car Allowance | 5 | 20.0000 | 1000 | Management | | | |
| Leave Without Pay | 2 | 0.0000 | 9000 | Labour Overhead Co | | | |
| P.A.Y.E. | 1 | | | | | | |
| KiwiSaver | 1 | 8% | | | | | |
| Social Club | 1 | 7.0000 | | | | | |

Total Hours: 42.00
 Ordinary: 40.00 Penal: 0.00 FVL: 0.00 Alt Hol: 0.00 Annual: 31.96 Hrs Sick: 10.00 Days FVL: 10.00 Days Alt Hol: 1.00 Days
 Overtime: 0.00 Sick: 0.00 Leave: 2.00 Lieut: 1.00 Hrs

Leave Balances

Clear All Message... Global Load... Finish... KS Lump Sum... < Back Advance Next >

MYOB IMS Payroll Current Weekly Salary Entered

This number is also displayed in Average rate (AWE) section of the Employee Leave tab and on the Leave Earnings History tab.

This will automatically reduce the AWE calculation by the weeks entered for the following 52 week period and return a correct AWE calculation for comparing to OWP for the payment of Annual Holidays. If you do not enable the Annual Leave in Weeks functionality updated in the product, you will need to continue to manually adjust the employee's Annual Leave Due Date for any period of Unpaid Leave greater than 1 week.