TRADIE LAW FACT SHEET #12

DEALING WITH EMPLOYEES

Calculating holiday pay and annual leave

OVERVIEW

After an employee has been employed continuously for a year (unless you wish to allow employees to take leave in advance of its accrual), they are entitled to 4 weeks' paid annual holidays.

If the employee elects to do so, you must allow the employee to take at least 2 weeks of their annual holiday entitlement in a continuous period.

Payment for annual leave must be calculated each time the employee goes on holiday or leave. This is because the rate of payment may change even from pay period to pay period.

Up until that one year mark, an employee is entitled to holiday pay instead. This is usually paid on a pay-as-you-earn (PAYE) 8% of gross earnings basis, less any amount paid to the employee for annual holidays taken in advance.

How do I calculate annual holiday pay?

You must pay your employees when they take annual leave. Annual holidays are paid at whichever rate is the higher of:

- the employee's *ordinary weekly pay* at the beginning of the annual holiday; or
- the employee's *average weekly earnings* for the 12 months just before the end of the last pay period before the annual holiday.

Ordinary weekly pay

'Ordinary weekly pay' includes everything an employee is normally paid for a week's work, such as their salary or wages, but can include other payments as well if they are a regular part of the employee's pay and relate to the work done each week.

Average weekly earnings

'Average weekly earnings' are worked out by calculating the employee's gross earnings over the last 12 months prior to the end of the last payroll period before the annual holiday is taken, and dividing that figure by 52 weeks.

What do I pay my employee's at the end of their employment?

When an employee's employment comes to an end, even if they are dismissed, they are entitled to their final wages/salary plus any unused annual leave entitlements or holiday pay. This must be paid out in the employee's final pay or at an earlier time.

If an employee's job ends before they become entitled to annual holidays (and you have not been paying annual holidays as paid-as-you-earn) you must pay them any outstanding annual holidays at 8% of the employee's total before-tax earnings from the time they started the job to the end.

If you need help to understand your obligations to employees around holiday pay and annual leave, including how to calculate, get in touch so we can help.

Contact:

E **helpdesk@tradielaw.nz**
W **https://tradielaw.co.nz/tradie-law/contact/**

One of our team will be in touch to assist you within 24 hours.