

Annual Leave Balances can seem confusing, and may appear differently on various screens, reports or payslips depending on the purpose for which the report was designed and the options you have selected.

However, with a little guidance and common sense it's pretty easy to understand really, and this guide has been prepared to assist you in correctly interpreting the balance displayed.

We have also provided some guidelines for paying out annual leave, especially where staff accrue leave annually in days or weeks.

## The options, and how each rule value is calculated

In order to provide the wide array of leave accrual options in SmoothPay, and the option to change methods of accrual at any time (and get a reasonably accurate result), along with the ability to show leave calculated "to date" or "remaining from last anniversary" on payslips and other reports, there are 8 rules ("A" to "H") that determine what the leave balance being displayed actually means.

The following chart shows how these rules are applied:

Accrual Method	Holiday Screen, Leave Settings, Payslip etc (Rule Set 1)		Liability Report, Final Pay (Rule Set 2)	
	Remaining	To Date	Remaining	To Date
Annual hours	A	C	A	C
% each pay	B	D,E	B	E
Annual days	A	F	G	H
Annual weeks	A	F	G	H
Casual %	-	-	-	-

- ❑ **Remaining** means: balance of leave remaining from entitlements accrued to the employee's last anniversary
- ❑ **To Date** means: balance of leave estimated/calculated to the date the report is produced (or period ending date in the case of payslips). This is usually to the current period ending date, and generally excludes current pay input, except in the case of the Final Pay Assistant.
- ❑ Report columns headed "**to date**" mean the date of producing the report, unless some other date is specified in the heading.

Each rule is described in detail:

Rule	Description
A	Determined from actual balance remaining in leave transactions history, and is the same figure as shown in the <i>Annual Leave Remaining from Last Anniversary</i> field on the employee's Holiday Setup screen.
B	Determined from the actual balance accumulated each pay period into leave transactions history MINUS leave accrued since last anniversary
C	Balance remaining from last anniversary PLUS accrual on any <u>unused</u> portion of that balance PLUS accrual since anniversary. Yes, the employee is entitled to be paid out any unused annual leave remaining from their last anniversary, which then must form part of their earnings since anniversary, so therefore is subject to accrual on earnings.
D	Determined from the actual balance accumulated each pay period into leave transactions history, and as showing in the <i>Annual leave remaining calculated to last pay</i> field on the employee's Holiday Setup screen.
E	Special case for the Holiday Setup screen for <i>percentage each pay</i> accruing employees. This shows the "corrected" balance, taking into account any accrual due on <u>unused</u> leave remaining from last anniversary.
F	Same as value "C", but calculates accrual since anniversary based on the number of DAYS elapsed since last anniversary. Eg <input type="checkbox"/> 182 days elapsed / 365 x 15 days = 7.5 days <input type="checkbox"/> 182 days elapsed / 365 x 3 weeks = 1.5 weeks
G	Value "A" converted to hours on the basis of best average hours per week over two period ranges, being

	<ul style="list-style-type: none"> <li>i) last 52 weeks (as per Holidays Act requirements), and</li> <li>ii) last 4 weeks (deemed to be employee's current contract) eg. <ul style="list-style-type: none"> <li>a. 5 days @ 8 hour average = 40 hours</li> <li>b. 1 week @ 40 hour average = 40 hours</li> </ul> </li> </ul> <p>If this figure is negative (leave has been taken in advance of entitlement) then this figure is determined by applying the following rules:</p> <ul style="list-style-type: none"> <li>i) examination of historical pay records to determine ACTUAL hours and cost, or if that fails due to lack of or incorrect history</li> <li>ii) the "best average" method as applied for unused leave above.</li> </ul> <p>If a "best average" cannot be determined, the factors of 8 hours/day or 40 hours/week are used instead. This information is printed on the Leave Liability Report if it applies.</p>
H	Value "G" PLUS accrual on any <u>unused</u> balance remaining from last anniversary PLUS accrual since anniversary.

## To which reports and screens do these Rule Sets apply?

Rule Set	
Rule Set 1	Employee's Holiday Setup screen Payslips <i>Pay Out All Leave</i> button (on pay input Annual Leave Assistant) Leave Taken Analysis Report Leave Settings Report
Rule Set 2	Leave Liability report Leave Accrued report Final Pay Assistant (also takes into account any current pay input)

## But the Leave Transactions Report shows a different total...?

There are certain other reports, such as the **Leave Transactions Reports**, that merely show the transactions and adjustments that have occurred.

In the case of annual accruing employees, the balance represents their "Balance remaining from last anniversary".

In the case of percentage each pay accruing employees, the balance represents the total of the actual transactions (accruals/taken per pay and adjustments) so represents a rough total "to date". It may need adjusting for display on "to date" totals for other reports for any portion of the total that is remaining unused from last anniversary.

Note that accruals (for the year since anniversary, and for all percentage accruing employees), comprise all paid hours except overtime, and all taxable gross earnings except those that are flagged excluded (typically Bonus payments and possibly other Extra Emolument taxed allowances).

## Using the "Pay out all leave" button

For employee's who accrue leave in hours, this simply pays out any balance remaining calculated "to date". This is generally in agreement with the Final Pay Assistant, though hours are paid out at the best applicable rate.

# Interpreting leave balances

This may cause problems with employee's who accrue leave on annual days or weeks basis.

**The reason?** For employee's who accrue leave annually in days or weeks, the Assistant uses the employee's balance remaining from last anniversary plus an accrual based on the number of days elapsed since the last anniversary date. This accrual is contingent on the employee actually remaining in your employ until next anniversary.

This balance will be paid out at the best applicable rate, which is NOT necessarily the value of the unused leave remaining from last anniversary plus applicable percentage on earnings since the anniversary as in the Leave Liability report and Final Pay Assistant.

This method is "*optimistic*" as opposed to "*pessimistic*", in that it is assumed the employee will continue in your employ until their next anniversary, at which time any unused leave may be valued at their best average over the last 12 months or their current rate (whichever is greater).

**Why do it this way then?** It seems reasonable. Consider the following case:

An employee has worked on and off for 6 months, and has 15 days set as the method of accrual. You have elected to show leave calculated "to date" on his payslip. It seems reasonable to show 7.5 days accrued to date on the employee's payslip. This makes the assumption that the employee is going to stay in his current employment, which in the majority of cases is true. The employee therefore assumes he can take 7.5 days off and be paid. This is one really good reason for only showing leave balances remaining from last anniversary on payslips, so that employee's are not misled, and the employer is not coerced into paying out leave in advance of entitlement without good reason (such as Annual Closedowns, special circumstances "Rugby 7's, weddings overseas etc" etc)

If he is paid out 7.5 days at the rate attributable to his best average over the period, but this period is followed by weeks or months of less hours etc, then this serves to reduce the hours per week or day average as time goes on, so you may actually have ended up overpaying your employee for the leave taken.

**Does it matter?** In most cases it doesn't, as the employee's "advance" leave will be deducted (at the value actually paid out if that information is available) from his Final Pay if he decides to leave.

However, in certain circumstances, such as paying out "best average days", the employee decides not to return and the net Final Pay may result in a negative balance (the employee actually owes you).

You may or may not be able to collect the amount overpaid, unless you have a signed statement to that effect.

The rule then, is that if an employee is being paid leave in advance of his entitlement, then you should require the employee to have applied for and signed a signed leave application form which states that any overpayment will be recoverable from the employee, and that they agree to pay it back if they have been overpaid.

## Recommendations

There are numerous causes for incorrect leave balances being displayed. It is especially important to get these right, more so if balances are being printed on payslips.

- Make sure employee anniversary dates are correct
- Make sure opening balances (if applicable) have been captured correctly
- Make sure the employee's annual entitlement is correct
- Never pay more than the indicative "To date" balance
- Be careful when paying out leave in advance - ask yourself if the employee is likely to stay in your employment. If not, maybe you should use your judgement in determining the actual amount of leave to be paid out. You may like to view a Final Pay screen or Leave Liability report to help guide you.
- We suggest you do NOT show leave balances calculated "to date" on payslips - as you can see this can be easily mistaken for real value, which if the employee leaves may be an incorrect assumption.. In the case of employees accruing leave in days or weeks, the balance displayed calculated "to date" is contingent on their remaining in employment until their next anniversary.
- Sick and Special leave balances should NOT be shown on payslips (some staff will take anything they believe they are entitled to)
- If changing an employee's method of entitlement, do so immediately AFTER their anniversary has occurred. SmoothPay will make an attempt to convert any leave balances based on current "best averages", but it pays to check anyway to make sure the result is not wildly inaccurate.

These and other leave related matters are under constant scrutiny and revision at SmoothPay HQ, and we welcome your feedback into how we can make the system perform best for our clients. We look forward to hearing your suggestions and opinions.

Feel free to contact our HelpDesk if you have any questions.

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