



Final pay

We're often asked how best to process a final pay.

There's no "best" way, however we've prepared this very general guide to help you understand the issues you need to be aware of.

Note that SmoothPay provides a Final Pay calculation (use the Assistant button when you add an Annual Leave entry). It automatically calculates the amount payable (based on your settings for the employee, the company and the employee's entitlements). This also terminates the employee at the end of the pay process.

If you're unsure how to proceed with final payment for a specific employee then you should examine their contract and pay records, and failing that you should seek advice from your employer service, the employee's union, a workplace law specialist, or join TAPS (The Association of Payroll Specialists) and they'll provide you correct advice on your obligations.

In addition to paying out an employee's final annual leave entitlement you might also have to pay Long Service Leave, unused Sick Leave, redundancy or other termination payments too. These issues are outside the scope of the HelpDesk to advise - we can only provide assistance with using the software - not what you should or should not pay.

Annual leave accruals

SmoothPay is normally set to accrue a proportion of annual leave (and other types of leave) every pay period. These accruals appear automatically in the employee's leave history as each pay is finalised.

The reason for this is that Australian law entitles permanent employees to 4 weeks annual leave with an entitlement accrual at least once per month of continuous service.

Most employees are paid on fortnightly or weekly pay cycles, so their leave accrual will occur in smaller increments and more often than an employee on a monthly pay cycle, however the effect is the same: at the end of 12 months continuous service they will have accrued 4 weeks annual leave.

If your system is not set to accrue annual leave every pay period, or you suspect the annual leave balance is not correct, refer to the additional sections of this document to help you determine the employee's leave balance.

Annual Leave should accrue in weeks (regardless of how your old payroll system did it), as the law stipulates weeks, not days or hours. However, most employers still accrue annual leave in hours or

days - and that's OK as long as the result produces an entitlement at least as good as that produced in weeks (it won't if your employee's work pattern changes and you'll be forever making manual adjustments, and if you're not then you should be).

There is no reason not to accumulate and consume annual leave in weeks - it's easier for you because you never need to adjust the balance or accrual, and it complies with the law.

Final annual leave entitlement - where leave accrues every pay period

Balance of accrued leave entitlements	A	
Add a further accrual if it's due (at least 1 complete month of service since last accrual, more often if you wish)	B	
A + B = Final entitlement balance	C	

Final annual leave entitlement - where leave accrues annually

Balance remaining from accruals to last anniversary	A	
Plus proportion of annual leave accrual for each completed month of service since last anniversary	B*	
A + B = Final entitlement balance	C	

B* Calculating proportional leave accrual

The maths is easy: Take the annual accrual, divide it by 12 (months), multiply it by whole months of service since last anniversary.

Note, you could use weeks or fortnights or even days since last anniversary, instead of months, if you wanted to.

Here are some examples using 3 different methods:

Employee accrues 4 weeks on each start-date anniversary, and has been paid for 5 months since last anniversary: $B = 4 \text{ (weeks)} \div 12 \text{ (months)} \times 5 \text{ (months)} = 1.667 \text{ weeks}$

Employee accrues 152 hours on each start-date anniversary, and has been paid for 15 weeks since last anniversary: $B = 152 \text{ (hours)} \div 52 \text{ (weeks)} \times 15 \text{ (weeks)} = 43.846 \text{ hours}$

Employee accrues 20 days on each start-date anniversary, and has been paid for 18 fortnights since last anniversary: $B = 20 \text{ (days)} \div 26 \text{ (fortnights)} \times 18 \text{ (fortnights)} = 13.846 \text{ days}$

Final annual leave entitlement - where you don't know

If you don't know, or you want to check, the employee's leave balance to date, use the following procedure:

Whole years of service	Y	
Multiply Y by annual accrual (e.g. 4 weeks)	A	
Plus proportion of annual leave accrual for each completed month of service since last anniversary	B*	
A + B = Total entitlement accrued	C	
LESS leave taken (use same measure as accrual - e.g. weeks)	D	
C - D = Balance of leave remaining	E	

This is exactly the same procedure used to establish an employee's opening leave entitlement balance (if you don't know what it is) when taking on employee data into SmoothPay (or any payroll) for the first time). You then create an adjustment entry in Staff..Leave..History for annual leave (and other leave types too).

The employee's leave balance is NEGATIVE!

If you have allowed an employee to take more leave than they are entitled to, then you may not be able to recover the overpayment from them and should regard the employee's balance as ZERO.

In most jurisdictions it is not legal to simply deduct overpayments (or make any other type of deduction) without the written consent of the employee.

However, if you use our leave application forms then you are permitted to make a deduction, as they have a clause permitting deduction for overpayment or error. These are available in *HR..Resources* and from our website.

Final Payment

ATO provides for a payment classification for annual leave payments made on termination., however in most cases (and almost always) this is simply treated as taxable earnings and entered as leave taken on the employee's Pay input.

The screenshot shows the 'Leave Taken' tab in the SmoothPay software. The form is for an annual leave payment. The fields are as follows:

Date	27.07.2010
Type	ANN Annual leave
Units	159.60
Rate	25.000000
Value	3990.00
Cost centre	1.560 Staff Wages
Department	Factory Factory

A red circle highlights the Units field (159.60). To the right of the Units field, there is a red text box that says "auto-load remaining balance".

However, in certain instances you must split annual leave and any other termination payments into various classifications, such as ETP's (Employment Termination Payments), Long Service Leave etc so they appear in the correct place on the employee's Payment Summary. SmoothPay provides for **every** ATO payment classification and all you need to do is work out the amounts to be paid, add allowance codes reflecting the appropriate ATO classifications (if you need to), then add allowance entries for each value and classification to Pay input.

Don't overtax the employee!

If an employee has accumulated a significant leave balance, then it's likely that the value being paid out would normally extend over more than one normal pay period.

SmoothPay automatically checks if the total hours entered might need to be taxed over more (or less) than the number of pay periods currently set for the employee. It'll prompt you with the suggested number of pay periods and ask if you want it changed.

For example, an employee paid fortnightly may have worked the fortnight and also has 4 weeks annual leave remaining to be paid as well - a total of 6 weeks pay. It would be reasonable (but not compulsory) to set the employee's number of pay periods to 3 fortnights so that the amount of tax calculated isn't excessive. Note that pre-83 ETP's and Genuine Redundancy scheme payments are not taxed, so don't include these when determining the total number of pay periods for tax purposes. You can override the number of pay periods in the Pay Summary screen:

SmoothPay Gold Payroll: Acme Widgets Pty Ltd, period ending 27/07/10, pay day 27/0

Pay Input Summary

This pay covers fortnight

Time earnings		Deductions	
Ordinary	<input type="text" value="0.00"/>	Sacrifice and pre-tax	<input type="text"/>

Feedback

We're always keen to do better!

Any and all feedback is appreciated and if you feel we could include better examples, provide more explanation, provide references to additional information, make a process easier to use, or you spot something that isn't working the way it's supposed to - please let us know.