



New Zealand  
Payroll Practitioners  
Association

Developing and Supporting  
Payroll Professionals

[www.nzppa.co.nz](http://www.nzppa.co.nz)

# Submission by the New Payroll Practitioners Association (NZPPA)

**24 April 2026**

## Introduction

**[This is our full submission; we submitted a placeholder submission on 14 April 2026]**

The New Zealand Payroll Practitioners Association (NZPPA) was formed in 2007 to develop payroll as a recognised profession in New Zealand.

Since our founding, we have rapidly grown to over 1,000 members (Individual, Company, Not-for-profit, Small Business, Corporate, Overseas (Australia), and Overseas (Other)), representing over 2,000 payroll practitioners.

Payroll processes, configuration, and the nature of end-to-end payroll processing can be complex. For the NZPPA submission, we have tried to write in plain language so that the points raised can reach the widest possible audience. NZPPA is happy to expand on any part of this submission at any level of detail if required.

## **Our submission covers the following five areas:**

1. Making payroll providers of New Zealand payroll software more accountable and liable
2. Provision of a payroll specification with any new act and ongoing support in its development
3. Remediation
4. Summary of issues impacting payroll from the Employment Leave Bill
5. NZPPA's recommendations

**Note to the Committee:** NZPPA is happy to present an oral submission if requested.

## **1. Making Payroll providers of New Zealand payroll software more accountable and liable**

- a. Currently, in New Zealand, any business can set up and offer payroll software to employers to pay their employees. There is no requirement for a payroll provider to meet before they can market their software. This has created a Wild West of providers who basically do what they want with little consequence. When their software is found to be non-compliant, there is little a business (especially a small business) can do to challenge the provider, as all the power is on the provider's side. The Consumer Guarantees Act, or even the Fair Trading Act, do not provide viable options for a business to take a payroll provider to task for compliance issues with their software. There is no level playing field for liability when payroll software goes wrong, as it rests solely with the employer (this is also the case under the new bill). This is warranted when the employer made the wrong decisions about the use of the payroll software, but when the primary cause is the software itself, that is where the real issue lies and needs to be addressed in any new act to replace the Holidays Act.
  
- b. When NZPPA talks about making payroll providers liable for their software, we mean the decisions they have made in designing their systems in relation to legislative requirements. Have they provided all options that the legislation provides (or none, in the case of some overseas payroll providers), and do they match what the act requires? Or have they decided to limit what calculations are used, and in what way, or created additional calculations that undermine what the act requires, like averaging? The issue with these decisions is that they are not transparent and are hidden within the software, so users (businesses/payroll) cannot clearly see what is happening behind the outcomes the system provides for leave values and decisions on when and how leave is provided to an employee. It is only after a clear issue is identified and specialist support (at a cost to the business) is engaged that the business discovers the software has caused the issue (rather than any decision made by the business). This is where the payroll provider must be held accountable in any new act, so they are put on notice to provide software in line with the legislation, and there are real consequences if they do not.

- c. Making payroll providers accountable for their software is especially important for small businesses, which make up the largest business sector in New Zealand. Small businesses are not payroll specialists. What is needed when selecting a payroll system is a specialised set of skills that fall outside the scope of a small business owner or even a payroll practitioner who processes payroll week in and week out. NZPPA has a dedicated team of payroll consultants who specialise in this area, as it requires a different level of payroll technical skill. So, for a small business, when they go to the market looking for a payroll solution, they rely on the claims made by the payroll provider, as they have a false belief that to provide payroll software in New Zealand, the payroll must be compliant with legislation and that government departments and agencies are actually ensuring that they are.
  
- d. By just doing a 5-minute Google search asking the following question: "Payroll software that is compliant with the Holidays Act", you can find payroll providers making claims about their software, such as: "Holidays Act & KiwiSaver Compliant", "Ensures compliance with NZ legislation such as the Holidays Act", "Get Compliant with the NZ Holidays Act", and "Leave & holiday compliance made easy". This is in the public domain, but NZPPA has chosen not to name these payroll providers. As already stated, there is no certification for payroll systems in New Zealand, and nobody, public or private, signs off payroll software as being compliant with tax or employment law, so how can a payroll provider claim to be compliant? If, in fact, all these payroll systems are compliant, why do we need to change from the current Holidays Act to something new when they already meet its requirements?
  
- e. There have been a range of comments from government and other parties that simplifying leave legislation will resolve all the non-compliance issues seen in payroll, given what has happened with the present Holidays Act. This would mean there would be no issue with non-compliant software. This is a fantasy created by non-payroll people who do not understand the differences between payroll systems, how they are used, and even how they are promoted in New Zealand (see the previous section).

- g. There are full-blown payroll systems that do nothing but payroll, but you can also have a payroll system as part of job costing software, time and attendance, or integrated with an HRIS, accounting or an enterprise system (fully integrated across the organisation). There are even different levels of payroll, from entry-level for small businesses with settings locked down and limitations in what can be configured, to the opposite: customised from scratch. In all of these systems, the payroll provider makes many decisions that affect compliance. Many are unseen by the user and remain unknown until a different leave situation highlights the issues with what the law requires and how the payroll system processes their pay.
- h. What NZPPA would like to see regarding consequences for a payroll provider is that the Ministry of Business, Innovation and Employment (MBIE) Labour Inspectorate has the power to compel a payroll provider to front up and provide evidence that their software meets legislative requirements. This should be done proactively, not reactively, after an issue is found. The Labour Inspectorate already runs enforcement programmes across different industries and regions, so why can't this also apply to payroll providers? If the payroll provider does not engage or provide evidence when requested, a range of compliance notices can be issued. The most effective way to get a payroll provider to act is to have the power to publicly name and shame them as having non-compliant issues with their software. In the worst cases, a ban would be the last resort to protect businesses and their employees from non-compliant payroll software. NZPPA does not support a fine or extensive court action. As payroll is a business-critical activity and the damage could be happening now, any action needs to be taken straight away.
- i. NZPPA has extensive evidence of non-compliance from payroll provider software, stemming from the audits we have undertaken since the Holidays Act 2003 was implemented, along with numerous issues raised by our members through NZPPA's PayTech AdviceLine. NZPPA would be happy to share any number of examples, if needed, as part of our submission to demonstrate the true extent of the issues.

## **2. Provision of a payroll specification with any new act and ongoing support in its development**

- a. In this part of the NZPPA submission, we request that any new act includes a detailed payroll specification (provided as early as possible in the implementation period) so that payroll providers have the support needed to design their software from the start to ensure compliance with the new act. The bottom line is that a payroll specification provides certainty for all stakeholders (employers, employees, and government), not just payroll providers, and is an essential tool for identifying any compliance issues the act or the payroll system may have.
- b. As previously stated, NZPPA has already heard a number of times since the government started the latest process of fixing the Holidays Act that simplifying the legislation in a new act will resolve all the issues present in payroll systems. Based on the years of in-depth understanding NZPPA has gained from working across multiple payroll systems, this is just pure fantasy. It should be seen as one part in ensuring payroll system compliance, not the only part.
- c. With the present Holidays Act, NZPPA sees that you can go from one payroll system to another and calculations are done in totally different ways—especially non-compliant with the requirements of the act. This is because payroll system developers fall back on their understanding and different methodologies of how they believe calculations should be done (what should be included or excluded in the calculations, from what start and end point, to decimal places used, and what is automated, averaged or manually entered by the users of the system). The worst area NZPPA sees is when a payroll provider from overseas, with no understanding of New Zealand legislative requirements, tries to apply overseas methods and calculations to the Holidays Act. Some of the worst non-compliance we see in payroll systems comes from overseas-developed and supported systems used in New Zealand.

- d. A payroll specification for employee leave is a clear set of rules that defines how leave entitlements and accruals are granted, tracked, calculated, and ultimately reflected in an employee's pay within a payroll system. Its importance lies in ensuring payroll software manages leave accurately and in line with employment and tax laws. A well-defined specification helps prevent underpayments or overpayments, ensures correct accruals and deductions, and promotes consistency across payroll systems—providing greater certainty, transparency, and compliance.
- e. Up until the creation of MBIE, payroll had a payroll specification document for the Holidays Act 2003 (provided when the act was implemented in 2004 by the then Department of Labour). When MBIE was formed, NZPPA approached it for ongoing support to keep the existing payroll specification up to date and relevant. NZPPA was told that this support would not continue and that payroll providers would need to seek independent advice. This has been one of the major causes of issues with the Holidays Act and of non-compliance in payroll systems, due to the absence of a central payroll specification to guide and support payroll system development. NZPPA has provided a copy of the Holidays Act specification, created by the then Department of Labour, as part of our submission, so committee members can see what was provided before MBIE withdrew its support. Later, after spending 18 months using the Official Information Act, culminating in a complaint to the Ombudsman to access internal MBIE documents regarding their view of Holidays Act 2003 guidance, MBIE created the Holidays Act Guidance document. However, this document in no way serves as a payroll specification at the level required to develop payroll software.
- f. Any payroll specification needs to include payroll input (in its structure and design) from payroll providers and other industry groups, so it is for all payroll users. It must provide real guidance on which software decisions can be based, not the present Yes, No, and Maybe (a payroll system cannot understand Maybe) options that the present act and advice seem to convey. MBIE must not create a document based on vague statements that reflect its risk-averse nature, leaving any user of that information still unsure of what is required to be compliant. Also, NZPPA does not want to see it as a private document between MBIE and payroll providers that payroll providers use to dismiss users' compliance concerns by stating that it is based on MBIE's requirements, which cannot be referenced.

- g. As part of providing a payroll specification, NZPPA would also hope that a set of test data is provided for payroll developers to test calculations under the new act. Knowing the outcomes will help ensure that all payroll systems follow the specification and use the data in the same way, so that, unlike now, we see the same results from one payroll system to another. Also, the test data can be used by other parties, such as auditors and even MBIE Labour Inspectors, to test system compliance and verify that the payroll system is producing compliant results in accordance with the act. This is all about creating a compliance environment for payroll that aligns with the new act, rather than what we have had in the past, which has been ad hoc and has not worked.
- h. If the select committee wants evidence of the value of having a payroll specification, they only need to look at the established Inland Revenue (IR) Payroll calculations and the business rules document, published annually, with changes made throughout the year. NZPPA has included this in its submission, demonstrating what can be done when a department is willing to actively support payroll. This document can be found on the IR website here (<https://www.ird.govt.nz/digital-service-providers/services-catalogue/returns-and-information/payday-filing/payroll-calculations-and-business-rules>).
- i. NZPPA also believes that establishing a payroll specification for any new legislation is a critical step towards developing a whole-of-government payroll framework. Under this approach, all government departments and agencies would contribute to a centrally developed specification that defines everything an employer needs to manage in payroll for their employees. This is not a complex concept, but rather a matter of sound common sense—recognising that payments made by the government are an essential component of the broader economy.

### 3. Remediation

- a. NZPPA has been involved in auditing and remediation of issues with the current Holidays Act since its implementation and has had the opportunity to see the impact on payroll (at all levels) as well as on all other stakeholders. Remediation of any issue has a major impact on payroll operations, as does the cost of performing any remediation. The final cost overall to the business can often be substantial. This, of course, sits alongside cases where employees have not been paid correctly for leave for many years and have had to wait to finally receive payments.
- b. NZPPA fully supports a remediation process and its inclusion in a new act, as we must move forward and not be dragged back into the past by issues from the old legislation.
- c. But NZPPA is already seeing an issue with a remediation process that will be available from the implementation date of the new act (two years after its enactment). Since the bill was released and it became known that it includes a remediation process (to be further defined through regulations), NZPPA has seen some changes in employers' behaviour. NZPPA is seeing some employers who have identified issues with how they are currently paying, or have previously incorrectly paid employee leave (under the Holidays Act), now decide to wait and do nothing until the new act comes into force, so they can use the new remediation process. NZPPA knows this was not the intention of the new act, and it has been clearly stated that all present legislative requirements must still be met, but this is what is being seen.
- d. NZPPA raised this in a letter to the Minister during the previous Holiday Act Review, as building a remediation process into a new act has been considered before. To prevent employers from delaying action now, there needs to be an assessment process for any remediation that uses the new act's process to clearly identify when the breach of the previous requirements actually occurred. It needs to be very robust so that if the employer did not act when they knew there was an issue, they would be required to undertake remediation based on the previous act, with the Labour Inspectorate's involvement, including enforcement options. This needs to be clearly advertised to employers, so that issues are still resolved during the two-year implementation period, rather than in a rush to resolve them once the new act becomes law.

#### **4. Summary of issues impacting payroll from the Employment Leave Bill**

a. In this part of our submission, we have summarised as much as possible (in plain language) the impact of what has and has not been included or considered in the Employment Leave Bill on payroll in terms of:

- Operational overview (end-to-end payroll processing), on payroll time, cost, and resources.
- Ensuring compliance based on the payroll activity being undertaken.
- Impact on payroll calculations, tests, and data integrity (current and historical) is workable.
- Payroll technical terms and how they relate to what the bill is proposing.
- Impact and changes that will need to be made to payroll systems (limitations, what can be done, may not be able to be done, and testing, which could mean manual workarounds).
- Impact on other business systems with which payroll may interface.
- Wider employment law concerns (impact on employment agreements, terms, and conditions).
- Impact on other stakeholders (HR, employees, other payroll-related parties).
- Payroll practitioner upskilling (training before and after the changes are implemented).

**\*NZPPA is happy to expand on any point made in this section. Section summary.**

## **b. Annual leave based on standard hours worked**

Workers earn annual leave from day one in direct proportion to standard hours of work. Annual leave accrues at a rate of not less than 0.0769 hours per standard hour worked (providing the equivalent of four weeks' leave for workers whose standard hours do not change during a year).

There are seven areas NZPPA sees as creating payroll issues with annual leave earned from day one in direct proportion to standard hours of work, being:

### **1. Heavy dependence on accurate "standard hours" classification**

- Accrual is based only on **standard hours**, not all hours worked.
- Payroll must ensure:
  - hours are correctly defined in employment agreements
  - system correctly separates standard vs additional hours

**Payroll impact:** misclassification directly leads to **incorrect leave accruals**.

### **2. Increased system integration requirements**

- Payroll must integrate tightly with:
  - HR systems (employment agreements define standard hours)
  - time/attendance systems (hours worked data)

**Payroll impact:** higher setup cost and greater reliance on data integrity across systems.

### **3. Ongoing accrual complexity in variable-hour roles**

- If standard hours change frequently (e.g., shift workers, part-time variability):
  - accrual rates must adjust dynamically

**Payroll impact:** more complex recalculations and a higher risk of historical corrections.

### **4. Reduced "simplified entitlement" clarity**

- Traditional model: "4 weeks per year" is easy to understand and verify.
- New model: accrual requires interpreting:
  - hours worked  $\times$  0.0769

**Payroll impact:** more complex employee queries and payroll explanations.

### **5. Payroll reconciliation challenges during corrections**

- If prior pay periods are adjusted (e.g., late timesheet changes):
  - accruals must be retroactively recalculated

**Payroll impact:** more frequent backdated adjustments and reconciliation work.

## **6. Risk of small but persistent rounding and accumulation issues**

- Hourly accrual systems often generate:
  - fractional balances
  - rounding differences over time

**Payroll impact:** requires ongoing balancing controls to avoid drift.

## **7. Higher compliance exposure if the system logic is wrong**

- Errors in applying the 0.0769 rate or defining standard hours can lead to:
  - systematic under-accrual or over-accrual across many employees

**Payroll impact:** potentially large-scale remediation risk (not just individual errors).

### **c. Sick leave based on standard hours worked**

Workers earn sick leave from day one, in direct proportion to standard hours of work. Sick leave accrues at a rate of not less than 0.0385 hours per standard hour worked (providing the equivalent of ten days per year for a worker who works five days a week and the same hours every day).

There are four areas NZPPA sees as creating payroll issues with sick leave based on standard hours worked, being:

#### **1. Employees may receive less leave (in practice)**

- Leave is tied to **minimum contracted hours**, not actual worked hours
- If someone works extra shifts/overtime:
  - They **do not necessarily earn more sick leave**

**Payroll impact:** This can reduce entitlement compared to real working patterns.

#### **2. Less generous for part-time workers**

- Current system: part-timers still get **ten full days**
- New system: they only accrue based on hours worked

**Payroll impact: lower total sick leave entitlement**

#### **3. More complex to explain to employees**

- "10 days per year" is simple
- Hourly accrual requires:
  - calculations
  - understanding accrual rates

**Payroll impact:** Payroll teams may face **more employee queries**

#### **4. Potential disputes over "standard hours"**

- Issues may arise if:
  - Employment agreements do not clearly define hours
  - employees regularly work beyond contracted hours

**Payroll impact:** Payroll must carefully track:

- rostered hours
- contracted hours
- additional hours

#### **d. Provision of leave entitlements during unworked periods**

Unworked (unpaid) periods do not accrue during a period when a worker receives accident compensation or during any hours of unpaid leave not provided for by legislation. If a worker is on paid leave in addition to minimum entitlements, leave will accrue by default, but workers and employers may agree that the worker does not accrue leave.

There are five areas NZPPA sees as creating payroll issues when an employer provides leave entitlements during unworked periods, being:

##### **1. More tracking required**

- Payroll must carefully track:
  - paid vs unpaid leave
  - ACC periods
  - different types of absence

**Payroll impact:** Increases administrative workload and reliance on the payroll system.

##### **2. Complex for mixed situations**

- Example:
  - employee partly on paid leave, partly unpaid

**Payroll impact:** Payroll must **split accrual calculations**, which can be complicated.

##### **3. Reduced leave accumulation for employees**

- Employees **do not accrue leave during unpaid periods**

**Payroll impact:** This may:

- reduce total leave balances
- be seen as less generous than current expectations

##### **4. Potential employee confusion**

- Employees may expect leave to keep accruing even when not working

**Payroll impact:** Payroll/HR will need to:

- explain why accrual stops in certain situations

##### **5. System transition challenges**

- Payroll systems must be updated to:
  - recognise different leave types
  - apply accrual rules correctly

**Payroll impact:** Initial setup and training costs can be high.

## **e. The impact of changes in work hours on annual leave balances**

Accrued annual leave hours will be 'banked,' meaning balances will reflect hours actually worked in the past rather than scaling when a work pattern changes.

There are five areas NZPPA sees as creating payroll issues with the impact of changes in work hours on annual leave balances, being:

### **1. More complex calculations when hours change**

- Payroll must:
  - recalculate leave balances
  - apply conversion formulas

**Payroll impact:** Requires more advanced payroll systems and expertise

### **2. Frequent adjustments needed**

- For employees with fluctuating hours:
  - balances may change often

**Payroll impact:** Increases administrative workload

### **3. Difficult for employees to understand**

- Employees are used to:
  - "4 weeks annual leave"

**Payroll impact:** Converting to hours and adjusting balances can feel confusing or less transparent

### **4. Potential perception of loss**

- When hours decrease:
  - leave balance (in hours) may reduce

**Payroll impact:** Employees may feel like they are **losing leave**, even if the real value is preserved

### **5. System implementation challenges**

- Payroll systems must:
  - track historical and current hours
  - apply adjustments correctly

**Payroll impact:** Requires:

- system upgrades
- staff training
- testing

## **f. Taking accrued annual leave in hours**

Workers take accrued annual leave in hours and can use annual leave to take any part of a day off work.

There are five areas NZPPA sees as creating payroll issues with taking accrued annual leave in hours, and can use annual leave to take any part of a day off work, being:

### **1. Higher administrative workload**

- Payroll must track:
  - small leave increments (e.g., 1–2 hours)

**Payroll Impact:** More transactions and record-keeping

### **2. More complex payroll processing**

- Instead of simple “1 day leave”:
  - payroll must calculate exact hourly deductions

**Payroll Impact:** Requires more detailed systems and checks

### **3. Increased system dependency**

- Payroll software must:
  - manage hourly accrual and deductions
  - integrate with timekeeping systems

**Payroll Impact:** Smaller businesses may struggle with upgrades

### **4. Potential for fragmented leave usage**

- Employees may:
  - take leave in many small chunks

**Payroll Impact:** Makes leave balances harder to track and manage

### **5. Harder for employees to understand balances**

1. Instead of “weeks of leave,” employees see:
  - hour balances

**Payroll Impact:** Can feel less intuitive and harder to plan long breaks

## **g. Taking annual leave - Notional Roster**

If a worker's employment agreement does not specify when they work their standard hours, the worker and their employer must agree to a notional roster for leave purposes. It would be used if a work roster had not been created at the time leave was requested.

There are eight areas NZPPA sees as creating payroll issues with the new notional roster when the employment agreement does not specify the employee's standard hours of work, being:

### **1. High risk of mismatch with reality**

- The biggest issue: **assumed hours may not match actual hours worked.**
- If employees consistently work more or fewer hours than the notional roster assumes:

#### **Payroll impact:**

- under-accrual (employee disadvantage)
- over-accrual (employer liability risk)

### **2. Ongoing recalibration burden**

- Payroll must periodically check whether the notional roster still reflects:
  - actual working patterns
  - contractual changes
- If not, it must be adjusted.

**Payroll impact:** Frequent recalculations and historical corrections.

### **3. Increased compliance and dispute risk**

- Employees may challenge:
  - whether the notional roster reflects their real work pattern
- Especially if overtime becomes routine.

**Payroll impact:** Higher risk of payroll disputes and backpay claims.

### **4. Complex interaction with "standard hours" rules**

- The system already distinguishes:
  - standard hours
  - additional hours
  - casual hours
- The notional roster adds a **synthetic layer on top of these definitions.**

**Payroll impact:** More complex payroll logic and higher risk of inconsistent application.

## **5. System configuration complexity**

- Payroll systems must:
  - store a “deemed roster” per employee or role
  - apply it to accrual engines
  - update it when employment patterns change

**Payroll impact:** More configuration, maintenance, and testing requirements.

## **6. Risk of embedding outdated assumptions**

- If not updated frequently, a notional roster may:
  - reflect historical patterns rather than current work
- This can distort leave entitlements over time.

**Payroll impact:** Long-term drift between entitlement and reality.

## **7. Reduced transparency for payroll users and employees**

- Employees may not understand:
  - how their leave is being calculated
  - why it differs from actual hours worked

**Payroll impact:** More queries and lower perceived fairness in payroll outcomes.

## **8. Can be distorted if the employee takes other leave on a rostered day**

- If an employee takes short notice leave, like sick leave, on a rostered day, it can distort the payment if based on a salary basis.

## **h. Changes to cashing up annual leave**

Employees can cash up a maximum of 25% of their annual leave balance (with agreement from their employer) as at their most recent start date anniversary.

There are seven areas NZPPA sees as creating payroll issues with the new rules on cashing up leave that have been put forward.

### **1. Additional calculation complexity**

- Payroll must:
  - determine the **annual leave balance at the employee's anniversary date**
  - calculate the **25% maximum cashable amount**
- This is not a simple real-time balance—it is tied to a **specific historical snapshot**.

**Payroll impact:** more complex rules and higher risk of miscalculation.

### **2. System configuration challenges**

- Payroll systems must manage:
  - anniversary-based caps
  - tracking how much has already been cashed up within a 12-month period
- Many legacy payroll systems are not designed for this level of conditional logic.

**Payroll impact:** potential need for system upgrades, customisation, or manual workarounds.

### **3. Increased transaction processing**

- Each cash-up requires:
  - validation of eligibility
  - agreement documentation
  - separate payroll processing (often as a one-off payment)

**Payroll impact:** higher administrative workload and more pay-run exceptions.

### **4. Tax and earnings classification complexity**

- Cashing up leave is typically treated differently from:
  - regular wages
  - leave taken as time off
- It may require:
  - lump-sum tax treatment
  - different reporting codes

**Payroll impact:** increased compliance risk if incorrectly taxed or reported.

## **5. Audit and compliance burden**

- Payroll must ensure:
  - the 25% cap is not exceeded
  - requests are employee-initiated
  - payments align with legal requirements

**Payroll impact:** more audit checkpoints and documentation requirements.

## **6. Timing and cut-off complications**

- Because eligibility is tied to the **anniversary date balance**, payroll must:
  - lock in or reference historical balances accurately
- Errors can occur if:
  - balances are adjusted retroactively
  - corrections are made after the anniversary snapshot

**Payroll impact:** reconciliation challenges and potential disputes.

## **7. Integration with leave accrual systems**

- Cashing up reduces leave balances, which must sync with:
  - accrual calculations
  - reporting dashboards
- Any mismatch can cause:
  - inaccurate balances

## **i. Taking sick leave**

For every hour a worker takes off work, they will use an hour of accrued sick leave. Workers can use accrued sick leave hours to take any part of a day off work.

There are six areas NZPPA sees as creating payroll issues with taking sick leave, being:

### **1. Increased payroll complexity**

- Payroll must track:
  - standard hours
  - additional rostered hours
  - availability provisions

**Payroll impact:** More detailed calculations and a higher risk of mistakes

### **2. Heavy reliance on accurate rostering**

- Sick leave depends on:
  - the roster at the time leave is notified

**Payroll impact:** If rosters are incorrect or delayed:

- payroll calculations may be wrong

### **3. Challenges with notional rosters**

- When no roster exists:
  - payroll must estimate expected hours

**Payroll impact:** This can lead to:

- inconsistencies
- disputes over what should have been worked

### **4. Higher administrative workload**

- Payroll must manage:
  - partial-day leave
  - changing schedules
  - adjustments to rosters

**Payroll impact:** More time and effort required compared to simple day-based systems

### **5. More complex systems required**

- Payroll software must:
  - integrate leave with rostering systems
  - manage variable and predicted hours

**Payroll impact:** May require upgrades and staff training

## **6. Potential employee confusion**

- Employees may not understand:
  - why sick leave changes depending on shifts
  - how notional rosters affect their entitlement

**Payroll impact:** Leads to more payroll/HR queries

## **j. Bereavement and family violence leave**

All workers (including those who work casual hours) will be able to access bereavement leave and 10 days' family violence leave from day one. These entitlements will remain day-based, but workers will be able to take part-day leave.

There are six areas NZPPA sees as creating payroll issues with Bereavement and family violence leave, being:

### **1. Increased payroll costs**

- Leave is available **from day one**

**Payroll impact:** Employers may face:

- higher leave usage
- increased financial liability

### **2. More complex calculations (days vs hours)**

- Leave is:
  - recorded in days
  - taken in hours

**Payroll impact:** Payroll must convert between **days and hours**, increasing complexity

### **3. Dependence on accurate rostering**

- For casual workers, leave depends on:
  - scheduled hours

**Payroll impact:** Errors in rosters can lead to:

- incorrect payments
- disputes

### **4. Higher administrative workload**

- Payroll must manage:
  - part-day leave tracking
  - different rules for casual vs standard workers

**Payroll impact:** Requires more time and detailed record-keeping

### **5. Potential inconsistency in valuing a "day"**

- A "day" may represent different hours for different employees

**Payroll impact:** Can create:

- confusion
- inconsistency in payroll calculations

## **6. System and training requirements**

- Payroll systems must:
  - support part-day leave
  - integrate with rosters
  - manage mixed entitlement types

**Payroll impact:** May require upgrades and staff training

## **k. Payment for leave**

The same hourly leave pay rate will apply to all types of leave (including annual leave, sick leave, bereavement leave, family violence leave, non-worked public holidays, and alternative leave).

There are seven areas NZPPA sees as creating payroll issues with the payment of leave, being:

### **1. Potential underpayment for many workers**

- Using the **lowest hourly rate** and excluding:
  - bonuses
  - commissions
  - variable allowances

**Payroll impact:** Employees may receive less than their normal earnings during leave

### **2. Not reflective of actual earnings patterns**

- Workers with:
  - overtime
  - shift premiums
  - commission-based income

**Payroll impact:** Leave pay may not match their **true average income**

### **3. Equity concerns**

- Employees who regularly earn extra pay components may feel disadvantaged

**Payroll impact:** Could lead to dissatisfaction or disputes

### **4. Complexity for mixed pay structures**

- Payroll must manage:
  - waged workers
  - salaried workers
  - piece-rate workers
  - commission-based workers

**Payroll impact:** Different rules still apply depending on pay type

### **5. System upgrade and implementation challenges**

- Payroll systems must:
  - calculate lowest hourly rates
  - average piece rates
  - apply minimum wage rules
  - separate fixed vs variable allowances

**Payroll impact:** Requires significant system configuration and testing

## **6. Increased payroll administration**

- Payroll must:
  - correctly classify pay components
  - ensure only fixed allowances are included

**Payroll impact:** More detailed setup and ongoing monitoring required

## **7. Employee confusion**

- Employees may not understand:
  - why bonuses/commissions are excluded
  - why leave pay is lower than usual earnings

**Payroll impact:** Leads to more payroll queries

## **I. Payment for leave following parental leave**

After a worker returns to work following parental leave, the leave will now be paid as leave taken at any other time (and workers will continue to accrue leave during parental leave).

There are seven areas NZPPA sees as creating payroll issues with how an employee will be paid for leave on returning from parental leave, being:

### **1. Increased liability during parental leave**

- Because leave continues to accrue while the employee is away:
  - the employer's **leave liability increases without active work being performed**

**Payroll impact:** Higher balance sheet exposure that payroll must track continuously.

### **2. More complex accrual engine requirements**

- Payroll systems must:
  - keep accrual running during a non-working period
  - ensure correct "standard hours" assumptions still apply

**Payroll impact:** Requires robust logic to avoid over- or under-accrual during absence.

### **3. Risk of misalignment with actual earnings history**

- Leave taken after parental leave is paid normally, but:
  - the employee may have had no recent earnings history

**Payroll impact:** Payroll must ensure the correct application of the current rate, avoiding outdated or distorted calculations.

### **4. Interaction complexity with other leave types**

- Parental leave often interacts with:
  - sick leave
  - annual leave taken before/after leave
  - possible return-to-work transitions

**Payroll impact:** More complicated sequencing rules in payroll systems.

### **5. System burden of continuous accrual during absence**

- Payroll must track:
  - ongoing accrual without payroll run "activity" in the usual sense
- Especially challenging for:
  - variable-hour employees
  - employees with notional roster settings

**Payroll impact:** More complex backend processing logic.

**6. Potential mismatch between perception and entitlement**

- Employees may assume:
  - “I wasn’t working, so I shouldn’t accrue leave”
- But payroll continues accrual.

**Payroll impact:** Higher payroll inquiry and explanation burden.

**7. Higher long-term cost exposure if leave is not modelled correctly**

- If accrual continues incorrectly (e.g., wrong standard hours assumption):
  - errors compound over the entire parental leave period

**Payroll impact:** Large correction risk upon return or termination.

## m. **Working extra hours – workers with standard hours**

For each 'additional' hour a worker works, a leave compensation payment (LCP) will be paid in the pay period the hours are worked instead of accruing annual or sick leave. The rate will be 12.5% of a worker's 'ordinary hourly rate.' LCP must be paid in each pay period as a separate component of pay and must be shown separately in workers' records and pay statements.

There are seven areas NZPPA sees as creating payroll issues with employees working extra hours with standard hours, being:

### **1. Increased payroll classification complexity**

- Payroll must correctly identify:
  - what counts as "additional hours"
  - availability provisions
  - salaried vs waged treatment

**Payroll impact:** High risk of misclassification errors

### **2. More administrative processing each pay period**

- LCP must be:
  - calculated
  - recorded separately
  - reported on payslips

**Payroll impact:** Adds ongoing payroll workload

### **3. System upgrades required**

- Payroll systems must:
  - manage LCP as a separate pay type
  - apply automatic 12.5% calculation

**Payroll impact:** May require software changes and training

### **4. Reduced leave accumulation for employees**

- Additional hours no longer generate:
  - annual leave
  - sick leave

**Payroll impact:** Employees may feel they are losing future benefits

### **5. Potential employee dissatisfaction**

- Workers may prefer:
  - extra leave rather than small cash payments

**Payroll impact:** Especially for those valuing time off overpay

## **6. Complexity in mixed employment arrangements**

- For salaried workers:
  - some extra hours are “included in salary”
  - others attract LCP
- Other permanent employees:
  - will create additional complexity between the two rates being processed
  - rate includes annual and sick, so it could increase costs

**Payroll impact:** Payroll must carefully interpret employment agreements

## **7. Risk of inconsistency in interpretation**

- Different organisations may interpret “additional hours” differently

**Payroll impact:** Can lead to:

- payroll disputes
- compliance issues

## **n. Casual workers**

A leave compensation payment (LCP) (set at a rate of 12.5% of a worker's ordinary hourly rate) will be paid for each 'casual' hour of work in every pay period, instead of that work accruing annual and sick leave.

There are seven areas NZPPA sees as creating payroll issues with a leave compensation payment for casual employees, being:

### **1. Loss of traditional leave entitlements**

- Casual workers do not build:
  - sick leave
  - annual leave

**Payroll impact:** Payroll must manage a system that may be seen as **less generous**

### **2. Higher reliance on correct classification of "casual hours"**

- Payroll must correctly identify:
  - what counts as casual work
  - what counts as additional hours

**Payroll impact:** Misclassification can lead to compliance errors

### **3. Ongoing payroll processing complexity**

- Even though leave is removed, payroll must:
  - calculate LCP for every hour worked
  - report it separately each pay period

**Payroll impact:** Adds regular processing steps

### **4. Potential system upgrade requirements**

- Payroll systems must:
  - automatically apply 12.5% LCP rate
  - separate LCP from base pay

**Payroll impact:** Requires setup, testing, and training

### **5. Employee dissatisfaction risk**

- Casual workers may prefer:
  - accrued paid leave instead of cash-only compensation

**Payroll impact:** Can affect morale and retention

### **6. No flexibility for future leave**

- LCP removes the ability to:
  - save up leave for illness or time off

**Payroll impact:** Employees lose long-term security benefits

## **7. Complexity in mixed employment arrangements**

- Some workers may move between:
  - casual hours (LCP applies)
  - permanent hours (leave accrues)

**Payroll impact:** Payroll must track dual systems accurately

## o. **Fixed-term work**

All fixed-term workers must accrue and be able to take annual and sick leave from the first day of employment, on their standard hours. They

There are six areas NZPPA sees as creating payroll issues with fixed-term employees being able to take leave from their first day, being:

### **1. Higher short-term payroll liability**

- Leave starts accruing immediately

**Payroll impact:** Employers build up:

- annual leave liabilities
- sick leave liabilities from the first day

### **2. More complex onboarding payroll setup**

- Payroll must:
  - correctly classify fixed-term employees
  - apply immediate accrual rules

**Payroll impact:** Slightly more setup complexity compared to delayed accrual systems

### **3. Increased payroll cost forecasting complexity**

- Short-term employees may still:
  - accrue leave they never fully use

**Payroll impact:** Can increase cost uncertainty for employers

### **4. Higher administrative monitoring for short contracts**

- Payroll must track:
  - accrual and payout of leave for short employment periods

**Payroll impact:** More frequent final pay calculations

### **5. Potential system configuration requirements**

- Payroll systems must ensure:
  - correct accrual from day one
  - correct handling of termination payouts

**Payroll impact:** May require updates or configuration changes

### **6. More frequent leave payout calculations**

- Fixed-term roles often end abruptly

**Payroll impact:** Payroll must:

- calculate unused leave accurately at termination
- ensure compliance with final pay obligations

## **p. New Otherwise Working Day (OWD) Test**

The new OWD test will be satisfied if the worker has worked (or was on paid or unpaid leave) for 50% or more of the days of the week that correspond to the public holiday (e.g., Mondays) in the previous 13 weeks (or in the period they have been employed if it is fewer than 13 weeks).

There are eight areas NZPPA sees as creating payroll issues with the new test for determining a OWD, being:

### **1. Significant calculation complexity**

- Payroll must determine:
  - “Would they have worked that day?”
  - contractual pattern vs fallback test
- Requires rolling analysis of:
  - 13-week work history
  - weekday-specific frequency

**Payroll impact:** More complex payroll logic than fixed roster systems.

### **2. High dependency on accurate time and attendance data**

- The fallback test relies entirely on:
  - correct recording of work and leave for over 13 weeks

**Payroll impact:** If the data is incomplete or incorrect, the OWD determination becomes wrong.

### **3. Rolling 13-week window creates ongoing recalculation burden**

- Every pay period may require:
  - re-evaluation of eligibility

**Payroll impact:** Continuous recalculation of the workload rather than static classification.

### **4. Edge cases create payroll uncertainty**

Examples:

- employee changes pattern mid-period
- alternating shifts (e.g., rotating roster)
- seasonal fluctuations in hours

**Payroll impact:** Payroll must interpret complex and sometimes borderline cases.

### **5. Risk of inconsistent interpretation across payroll teams**

- Even with rules, judgments may still be needed for:
  - “Employment agreement specifies pattern”
  - ambiguous rostering arrangements

**Payroll impact:** Potential inconsistency across payroll processors or employers.

## **6. System integration and configuration burden**

Payroll must integrate:

- HR contract data (agreed workdays)
- rostering systems (planned shifts)
- timekeeping data (actual attendance)

**Payroll Impact:** Higher implementation cost and ongoing maintenance complexity.

## **7. Retrospective adjustments risk**

- If a public holiday OWD decision is later found incorrect:
  - payroll may need to reverse and reissue payments

**Payroll impact:** Increased risk of payroll corrections and backpay adjustments.

## **8. Higher employee query volume**

- Employees may challenge:
  - why they qualified or did not qualify
  - how the 13-week test was applied

**Payroll impact:** More payroll support workload and explanation requirements.

## q. Alternative leave entitlements for working on public holidays

Workers will accrue alternative leave in hours at a rate of one hour for every hour worked on a public holiday that is an OWD. Alternative leave can be taken on any day, or part of a day, that a worker could have worked under their employment agreement. A worker can request to cash up accrued alternative leave at any time.

There are eight areas NZPPA sees as creating payroll issues with the accrued alternative leave in hours at a rate of one hour for every hour worked on a public holiday that is an OWD, being:

### 1. Continuous tracking and balancing of the burden

- Payroll must maintain:
  - hourly accrual balances
  - partial-day usage
  - partial cash-outs

**Payroll impact:** More complex ongoing ledger management.

### 2. Increased transaction volume

Compared to “take a day in lieu,” this system allows:

- small partial leave requests
- frequent cash-ups
- fragmented usage

**Payroll impact:** Higher processing frequency and more payroll events per employee.

### 3. Greater risk of payroll errors in partial-day usage

- Employees can take:
  - part-day leave
- Payroll must split:
  - leave time vs worked time accurately

**Payroll impact:** Higher risk of misallocation in time/leave boundaries.

### 4. Cash-up flexibility increases payroll workload unpredictability

- Employees can request cash-out “at any time”
- This creates:
  - irregular lump-sum payments
  - unpredictable payroll timing

**Payroll impact:** Cash flow and payroll scheduling variability increases.

### 5. Integration complexity with leave systems

Payroll must ensure alignment between:

- alternative leave bank
- annual leave balances
- time-in-lieu systems (if they exist separately)

**Payroll impact:** Higher system integration and reconciliation burden.

## **6. Potential liability volatility if not managed well**

- If employees choose not to cash up:
  - balances accumulate quickly in active sectors (e.g., retail, hospitality)

**Payroll impact:** Short-to-medium term spikes in accrued liabilities.

## **7. Complexity in interpreting “OWD public holiday”**

- The accrual depends on:
  - whether the day is an OWD
- This requires integration with:
  - OWD test logic (previous rules you mentioned)

**Payroll impact:** Multi-layer dependency increases system fragility.

## **8. Higher employee-driven payroll variability**

- Because employees control:
  - timing of leave use
  - timing of cash-ups

**Payroll impact:** Less predictability in payroll cash outflows.

## **r. Payment for working on public holidays**

Workers will receive all payments the employer is required to pay them for working on the day under their employment agreement, not including any additional amounts for working on a particular day of the week or on a public holiday (an 'identifiable amount'). In addition, they will receive the greater of 50% of their ordinary hourly rate or any identifiable amount.

There are eight areas NZPPA sees as creating payroll issues with the greater of 50% of their ordinary hourly rate or any identifiable amount when an employee works on a public holiday, being:

### **1. High calculation complexity**

Payroll must simultaneously calculate:

- hours worked pay
- premium entitlement (50% vs identifiable amount comparison)
- leave entitlement for unworked hours

**Payroll impact:** Multi-layer calculation increases processing time and error risk.

### **2. "Identifiable amount" creates ambiguity**

- Payroll must interpret:
  - what qualifies as an "identifiable amount"
  - how it compares to the 50% minimum

**Payroll impact:** Potential inconsistency across employers or payroll systems.

### **3. Complex split-pay scenarios for partial shifts**

- If a worker only works part of the day:
  - payroll must divide the day into:
    - worked hours (paid normally + premium)
    - unworked hours (converted to leave)

**Payroll impact:** High risk of misallocation between pay and leave systems.

### **4. Increased dependency on accurate rostering data**

- The system relies on knowing:
  - what the employee "would normally have worked"

**Payroll impact:** Errors in rostering = incorrect pay and leave outcomes.

### **5. More frequent payroll exceptions and adjustments**

- Variations in:
  - partial attendance
  - changed shifts
  - overtime overlaps

**Payroll impact:** More manual overrides and correction cycles.

## **6. System integration burden**

Payroll must integrate:

- time and attendance
- leave management
- pay rule engine (holiday premium logic)

**Payroll impact:** Higher implementation cost and ongoing maintenance.

## **7. Higher employee query volume**

Employees may question:

- why they received both pay and leave
- how the 50% vs identifiable amount was chosen
- why partial entitlements differ from expectations

**Payroll impact:** More payroll support workload.

## **8. Risk of inconsistent application across scenarios**

- Different interpretations may arise for:
  - what counts as “normally worked hours”
  - how partial shifts are treated
  - whether identifiable amounts apply consistently

**Payroll impact:** Potential compliance exposure and inconsistency between employers.

## **s. Pay statements**

Employers will be required under the Employment Relations Act to provide a pay statement to a worker for each pay period.

NZPPA acknowledges that a pay statement is an essential payroll requirement that needs to be finalised in legislation.

There are six areas NZPPA sees as creating payroll issues with providing pay statements, being:

### **Increased administrative workload**

- Payroll must produce a statement **every pay period for every employee**

**Payroll impact:** More processing steps compared to less frequent reporting systems

### **2. Higher system and compliance requirements**

- Payroll systems must ensure statements include:
  - all required pay components
  - correct leave entitlements
  - correct deductions

**Payroll impact:** Requires accurate configuration and maintenance

### **3. Risk of data errors**

- More detailed statements increase risk of:
  - incorrect leave balances
  - wrong deduction entries
  - formatting or system errors

**Payroll impact:** Errors can lead to compliance issues

### **4. Privacy management complexity**

- Family violence leave must be **excluded entirely**

**Payroll impact:** Payroll must ensure:

- sensitive data is filtered correctly
- confidentiality is maintained

### **5. Cost of system upgrades**

- Employers may need to:
  - upgrade payroll software
  - implement secure online portals
  - train staff

**Payroll impact:** Adds financial and operational cost

## **6. Potential information overload for employees**

- Detailed pay statements may be:
  - difficult to interpret

**Payroll impact:** May increase (not reduce) payroll queries in some cases

## **t. Treatment of leave entitlements in restructuring situations**

Their original employer may negotiate with the employee's new employer to have their untaken annual leave and alternative holidays transferred to their new employment, rather than being paid out.

There are eight areas NZPPA sees as creating payroll issues if leave can be transferred from one employer to another in a restructuring situation, being:

### **1. High complexity in liability transfer calculations**

- Payroll must calculate:
  - exact leave balances at transfer point
  - monetary value of entitlements
  - **apportionment between employers**

**Payroll impact:** Significant increase in end-to-end payroll complexity.

### **2. Heavy reliance on accurate data transfer between employers**

- Original employer must provide:
  - leave balances
  - accrual history
  - relevant employee data

**Payroll impact:** High risk if data is incomplete, inconsistent, or delayed.

### **3. System compatibility challenges**

- Payroll systems must support:
  - export of leave liability data
  - import into a new employer's system
  - mapping of different payroll definitions

**Payroll impact:** Requires strong interoperability or manual reconciliation.

### **4. Increased compliance and legal exposure**

- Employers must agree on:
  - liability apportionment
  - accurate valuation of leave entitlements

**Payroll impact:** Disputes over liability allocation may become legally complex and payroll sensitive.

### **5. Risk of mismatched leave interpretations**

- Different employers may define:
  - accrual rates
  - "Standard hours"
  - valuation methods

**Payroll impact:** Potential inconsistency in transferred balances.

## **6. Administrative burden during restructuring**

- Payroll must:
  - coordinate between two employers
  - validate transferred data
  - ensure continuity in systems

**Payroll impact:** High workload during already complex restructuring events.

## **7. Timing and cutover complexity**

- Leave balances must be “frozen” at transfer point and then:
  - reopened in new system

**Payroll impact:** Risk of duplication, omission, or timing mismatches.

## **8. Potential disputes over valuation method**

- Employers must agree how leave liability is valued:
  - average daily pay?
  - current rate?
  - historical accrual cost?

**Payroll impact:** No single uniform method may lead to negotiation disputes.

## Transition to the new legislation

### u. 24-month implementation period

A 24-month implementation period between when the Bill is passed and when it comes into force.

NZPPA acknowledges that there must be a transition period, but more work is needed on how to do so.

There are eight areas NZPPA sees as creating payroll issues with the 24-month implementation period for a new act, being:

#### 1. Dual compliance burden (major issue)

- Payroll must run two systems simultaneously:
  - current Holidays Act rules
  - preparation for the new leave framework

**Payroll impact:** High risk of duplication, inconsistency, and administrative overload.

#### 2. Increased workload from ongoing Holidays Act remediation

- Employers must still:
  - fix historical underpayments
  - recalculate past entitlements

**Payroll impact:** Resources are split between **repairing the past and building the future**.

#### 3. High cost of maintaining parallel logic

- Payroll systems may need:
  - legacy calculation engines
  - future-state calculation modules

**Payroll impact:** Higher system maintenance and licensing costs during transition.

#### 4. Risk of staff confusion and errors

- Payroll staff must understand:
  - Which rules apply now
  - Which rules are future requirements
- Mistakes can occur if systems are misapplied.

**Payroll impact:** Higher operational error risk during transition period.

#### 5. Data migration complexity increases over time

- The longer the transition:
  - the more data must be mapped between systems
  - the more historical corrections accumulate

**Payroll impact:** Greater complexity when finally switching systems.

## **6. Delayed benefits of the new system**

- While transition is 24 months:
  - employers continue using the old, more complex Holidays Act system

**Payroll impact:** Efficiency gains from the new model are delayed.

## **7. Vendor dependency and uneven readiness**

- Not all payroll providers will update at the same pace.

**Payroll impact:** Risk of:

- inconsistent capability across organisations
- competitive disadvantage for slower systems

## **8. Transitional “cutover risk”**

- At the end of 24 months:
  - full switch must occur
- Large-scale migration risks include:
  - data loss
  - incorrect accrual conversions
  - system downtime

**Payroll impact:** A single high-risk implementation event remains.

## **v. Technical transitional provisions**

The Bill includes transitional provisions with detailed formulas to convert existing leave balances held in weeks and days into hours, on the commencement date of the new legislation.

There are seven areas NZPPA sees as creating payroll issues with the Technical transitional provisions included in the bill, being:

### **1. High complexity during transition**

- Payroll must:
  - apply conversion formulas
  - ensure accuracy for every employee

**Payroll impact:** Very high risk of calculation errors

### **2. Significant system upgrade requirements**

- Payroll systems must:
  - store old balances
  - convert them correctly
  - integrate with a new hours-based system

**Payroll impact:** Requires major setup, testing, and validation

### **3. Risk of employee disputes**

- Employees may question:
  - whether conversion is fair
  - whether they lost or gained leave value

**Payroll impact:** Payroll may face increased queries and complaints

### **4. Cash flow impact for employers (casual workers)**

- Annual leave for casual workers is **cashed out immediately**

**Payroll impact:** This creates:

- upfront financial cost
- increased payroll expenditure at transition

### **5. Inconsistent treatment between worker types**

- Standard workers → leave converted
- Casual workers → some leave paid out, some not converted

**Payroll impact:** Payroll must manage multiple transition rules simultaneously

### **6. Risk of legacy errors carrying into the new system**

- If conversion is incorrect:
  - errors persist into future payroll cycles

**Payroll impact:** Can create long-term compliance issues

## **7. Heavy administrative workload**

- Payroll must:
  - verify historical records
  - apply formulas correctly
  - reconcile balances

**Payroll impact:** Extremely time-consuming during implementation

## **8. Use of T&A systems**

The bill expects payroll to be interfaced with a highly functional T&A system so that data requirements of the new act can be collected.

### **Payroll impact:**

- The additional high cost to the business, and another activity for payroll to manage
- There are payroll providers who currently don't have T&A as part of payroll, so this will need to be created
- The cost of these new payroll additions will be expensive for a small business to purchase to be able to meet the new rules.

## w. Three-year period to update employment agreements

There will be a deadline of three years from the date the new legislation receives Royal assent for parties to agree to contractual terms consistent with the new legislation's framework.

There are eight areas NZPPA sees as creating payroll issues, a three-year period to update employment agreements, being:

### 1. High administrative workload over 3 years

- Payroll must support:
  - contract reviews
  - system updates
  - leave recalculations

**Payroll impact:** Ongoing workload throughout the transition period

### 2. Dual-system complexity during transition

- For 3 years, payroll may need to manage:
  - old contractual terms
  - new statutory rules

**Payroll impact:** Increases risk of inconsistency and errors

### 3. Risk of system mismatch

- Payroll systems may not align perfectly with:
  - outdated contracts
  - new legislation

**Payroll impact:** Can lead to miscalculations of leave or pay

### 4. Legal and compliance uncertainty

- Until contracts are updated:
  - employers must ensure both systems are compliant

**Payroll impact:** Payroll may need legal interpretation support

### 5. Large-scale contract and system overhaul required

- Employers must:
  - review every employment agreement
  - update payroll configurations

**Payroll impact:** Significant resource and cost burden

### 6. Risk of last-minute overload

- If organisations delay updates:
  - heavy workload near the 3-year deadline

**Payroll impact:** Can overwhelm payroll teams

## **7. Employee confusion during transition**

- Employees may see:
  - changing entitlements
  - different interpretations of leave rules

**Payroll impact:** More queries directed at payroll/HR

## **8. Active IEA and CEA that run past the implementation date of the new act**

- A business can have IEA's or CEA's with expiry dates set after the implementation date of the new act. This may mean payroll will still need to apply the terms and conditions from the active agreement, along with those from the new act.
- This will create complexity with two different configurations to manage.

## x. Remediation

The new legislation establishes a statutory remediation process, offering a new option (alongside the other options that already exist) for employers to address historical underpayments under the Holidays Act.

There are seven areas NZPPA sees as creating payroll issues with a statutory remediation process, being:

### 1. High administrative workload

- Payroll must:
  - review up to **6 years of historical data**
  - recalculate entitlements
  - process payments

**Payroll impact:** Extremely time-consuming and resource-intensive

### 2. Significant financial cost

- Employers must pay:
  - backdated compensation
  - potentially large sums

**Payroll impact:** Can have a major financial impact

### 3. Data limitations and accuracy issues

- Historical payroll data may be:
  - incomplete
  - inconsistent

**Payroll impact:** Makes recalculations difficult and increases the risk of error

### 4. System and technical complexity

- Payroll systems must:
  - manage retrospective calculations
  - apply new remediation formulas

**Payroll impact:** May require specialist tools or external support

### 5. Uncertainty due to incomplete details

- Some rules will be set in future regulations

**Payroll impact:** Payroll teams may face:

- planning uncertainty
- delays in implementation

## **6. Risk of disputes**

- Employees may:
  - disagree with calculated compensation
  - challenge the methodology

**Payroll impact:** Increases workload for payroll and HR

## **7. Ongoing compliance pressure**

- a. Even after remediation:
  - payroll must ensure no new errors occur

**Payroll impact:** Requires continuous monitoring and improvement

## **y. Impact on employees and the roles they work**

1. NZPPA is about processing pay correctly and on time to ensure employees are paid in accordance with legislative requirements and agreed terms. But the way this bill has been written, it may create an unwillingness among employees to do "extra work" because, when they go on leave, they get paid less than they are used to under the current act, which has been in place for over 20 years. This could have a direct impact on business.
2. There really needs to be some modelling (scenario testing) of the impacts on "People" across different sectors and employee types, to show what the change might look like based on current versus "new".

### **Examples of different roles:**

- Multi-role employees who work for the same employer but have separate employment agreements for each role. How will the changes in the bill impact these types of employees? Will each role be treated as a separate role or as one? How will that look?
- Standard versus extra pay or additional hours, how will that work in industries like rest homes, hospitals, and disability services.
- Employees who work under different time intervals, based on the role, position or location (time zones but still under NZ employment terms).

It is important to do the work now to see if the bill will work in various work situations.

## **z. Payment on Termination**

1. The bill proposes that leave paid on termination be calculated based on the lowest rate in the employee's employment agreement, excluding fixed allowances.
  - **This creates two rates:** the rate for leave when employed and the rate for leave based on the lowest agreed rate from the employment agreement.
  - This will make it hard to determine leave liability because it is based on two different situations to determine the liability at the time taken, impacting financial accounting.

**Payroll impact:** Creates two rates and undermines leave liability. Better to decide on one rate to be used for both situations (being the rate used when leave is taken).

## 5. NZPPA's Recommendations

### a. NZPPA does not support the bill in its present form for the following reasons:

- **Increased administrative complexity**  
The bill may introduce new leave categories, accrual rules, or eligibility criteria that significantly complicate payroll processing and record-keeping.
- **Higher compliance risk**  
More complex rules increase the likelihood of errors, which can lead to penalties, audits, or disputes with employees.
- **System and software limitations**  
Existing payroll systems may not be equipped to handle new calculations or tracking requirements without costly upgrades or reconfiguration.
- **Increased operational costs**  
Additional leave entitlements can increase direct wage costs, plus indirect costs from system changes, training, and compliance management.
- **Ambiguity in policy interpretation**  
If the bill lacks clarity (e.g., around accrual rates, casuals, or part-time workers), payroll teams may struggle to apply it consistently.
- **Retroactive adjustments burden**  
If the bill requires backdated entitlements, payroll teams may need to recalculate historical records—a time-consuming, error-prone process.
- **Employee confusion and disputes**  
Complex or unclear leave rules often lead to misunderstandings, increasing the number of queries and disputes that payroll must resolve.
- **Risk of inconsistent application across organisations**  
Without standardised implementation guidance, different employers may interpret the bill differently, creating inequity and legal exposure.
- **Impact on small and medium businesses**  
Smaller organisations with limited payroll infrastructure may find compliance particularly difficult and costly.

## b. NZPPA's Recommendations

Here are practical, payroll-focused recommendations to make an Employment Leave Bill more workable:

- **Adopt simplified, consistent calculation and test methods**  
Replace calculations and tests with a single, clear formula for all leave types to reduce errors and system complexity.
- **Standardise definitions of earnings and entitlements**  
Clearly define what counts as "gross earnings" across all leave categories, without additional payments, to avoid ambiguity and inconsistent interpretation.
- **Provide system-ready formulas and worked examples in a payroll specification**  
MBIE should publish detailed calculation logic, edge-case scenarios, and examples that payroll systems can directly implement.
- **Mandate certification or alignment with payroll software providers**  
Create a certification framework for payroll software providers, administered by a government department, agency, or association (NOT NZPPA), to ensure systems are compliant before the law takes effect.
- **Make payroll software providers liable for non-compliant software**  
Give the Labour Inspectorate the responsibility to investigate payroll software and apply enforcement and other measures to ensure payroll software aligns with legislative requirements.
- **Avoid retrospective application of entitlements**  
Ensure changes apply prospectively only, to prevent costly and complex back-pay recalculations.
- **Simplify accrual and tracking rules**  
Use straightforward accrual methods rather than highly variable accrual systems.
- **Ensure compatibility with IRD reporting**  
Align leave treatment with Payday Filing requirements to keep payroll reporting consistent and automated.
- **Create extra assessment criteria for any employer seeking to use the new remediation process**  
Any employer who wants to use the remediation process under the new act must meet robust criteria to demonstrate that this

was not an issue that should have been resolved during the two-year implementation period or before the act's passage.

- **Fund education and support for payroll practitioners**  
Invest in training resources, helplines, and guidance to support implementation, especially for SMEs.
- **Pilot the changes before full rollout**  
Test the legislation with a sample of NZ employers and payroll providers to identify practical issues before nationwide implementation.
- **Establish ongoing review and feedback mechanisms**  
Create a structured process for payroll professionals to report issues and for regulators to quickly clarify or amend rules.
- **Create an act that is based on common sense, is in plain language, with the focus on keeping it simple**  
See attached letter to the Minister on “Fundamental Principles”.

These recommendations aim to reduce complexity, improve compliance, and ensure that any new leave changes are delivered accurately through real-world payroll systems.