

Cashing in annual leave

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The [Holidays Act](#) allows employers and employees to mutually agree to be paid out some of their annual leave. This is known as cashing in annual leave.

There are a number of rules that apply to this scheme, so we recommend you check these rules on the [Department of Labour website](#). A summary of the changes appears below:

- Employees need to request in writing that leave is to be paid out
- Employers can decline any request
- Employers cannot require employees to have leave paid out
- Typically a maximum of one week can be paid out during an employee's entitlement year (that is, the period between holiday anniversary dates)
- Regardless of whether it is taken or paid out, leave must be paid at the greater of the employee's ordinary weekly pay as at the beginning of the holiday, or the employee's average weekly earnings for the 12 months before the holiday.
- Leave which is paid out is not included in gross earnings for the purpose of calculating leave rates and balances.
- Cashed in annual leave is considered a lump sum payment so KiwiSaver deductions will apply to the payment.

Annual leave can be cashed in as a one-off payment (a lump sum) or processed as part of a normal pay. The IRD rules for taxing lump sum payments (also known as Extra Pays) also apply to lump sums of annual leave paid out.

Paying out annual leave

There are two pay codes related to paying annual leave: **ANHL - Annual Leave** and **ANHLCASH - Annual Leave Paid Out**. You need to use the **ANHLCASH - Annual Leave Paid Out** pay code to ensure that leave balances are automatically adjusted and that leave is correctly calculated.

Do not use the **ANHL-Annual Leave** or **HP-Holiday Pay** pay codes for cashing in annual leave. Using these codes will inflate the employee's gross earnings and lead to incorrect leave calculations.

Before you can pay out annual leave, you need to add the **ANHLCASH** pay code to the employee's defaults.

To add the Annual Leave Paid Out pay code to an employee

To pay out annual leave

All holiday and leave reports have been updated to include annual leave paid out amounts.

The Employee Holiday report will display **Annual Leave Paid Out** on a separate line.

Related topics

[Holiday Act changes 1 April 2011](#)

[Payroll user guide](#)