What are the 2025 Holidays Act reforms about?

The Holidays Act 2003 is getting a shake up and employers are hoping the reforms under the Employment Leave Bill will make it easier for them to calculate work entitlements.

What's wrong with the Holidays Act 2003?

Employers have struggled with the current Holidays Act 2003 ("the 2003 Act") since it was introduced into law. The main difficulties have arisen from entitlements being calculated in weeks, but worker having variable hours between weeks.

There have been several high-profile large employers who have underpaid employees, often inadvertently and despite having sophisticated payroll systems in place. In 2018, Bunnings New Zealand acknowledged it owed $11m to current and past staff members going back as far as 2004[i]. Health New Zealand Te Whatu Ora took over more than 20 separate payrolls when it was formed, and it will take years to resolve the annual leave payments shortfalls. As of 10 October 2025, they have paid over $647.7m to over 86,000 current employees and are about to start payment to former employees[ii].

The 2003 Act penalises workers returning from parental leave, as the pay rate is affected by unworked periods. The 2003 Act grants the same amount of sick leave to part-time workers as full-time permanent workers, but worker in fixed contracts for less than 6 months have no entitlement to sick leave.

Before the new Act is passed, the 2003 Act still applies. You need to be aware of these:

2003 Act - Annual Leave Entitlement and Hours

A worker is entitled to four weeks' annual leave after twelve months' continuous employment. If a worker's weekly hours change then their leave is scaled up or down in proportion. If a worker increases their weekly hours, their leave balance increases in hourly terms.

Casual workers and employers can agree to "pay as you go" 8% of gross earnings but it isn't mandatory.

2003 Act - The Impact of Extra Hours on Annual Leave

Employers must pay the higher of Ordinary Weekly Pay (OWP) vs Average Weekly Earnings (AWE)[iii]. A waged worker who works extra hours will have a higher leave pay rate when they make their entitlement claim.

Some salaried workers are compensated for extra hours by additional pay. This is reflected in a higher leave pay rate.

2003 Act - Using Annual Leave and Cashing Up

A worker can take portions of weeks of annual leave. Employer and worker must agree on the portion of leave taken.

A worker can cash up one week of annual leave in each 12 months, by request.

2003 Act - Sick Leave and Other Entitlements

A worker is entitled to 10 days' sick leave after six months' continuous employment. A new entitlement of 10 days arises after a further 12 months, capped at 20 days unless the employment contract increases the capped days. The 10 days is not apportioned for people working fewer than 5 days a week.

Sick leave is taken as a full day. The 2003 Act doesn't allow for parts of a day.

Casual workers are unlikely to benefit from sick leave entitlement due to impracticality and compliance issues.

Workers are eligible for bereavement and family violence leave after 6 months, and the 2003 Act only provides for a full day's leave.

2003 Act - Leave Entitlements Accrue during Unworked Periods

Annual leave continues to accrue while on leave and when receiving ACC compensation and in the first week of other unpaid leave.

When a worker takes annual leave soon after returning from parental leave, the average earnings calculation gives them a very low pay rate for that leave.

2003 Act - Public Holiday Leave and Entitlements for Working

Workers are entitled to paid leave on a public holiday if it is an otherwise working day (OWD), considering a range of factors. It can be confusing for workers who don't have a set weekly pattern.

If the worker works on a public holiday, they earn 1.5 times their usual pay rate for the hours worked and receive a whole day alternative holiday in lieu, even if they only work for part of the day.

Changes under the 2025 Employment Leave reforms

There will be a transition period of 24 months to allow employers and payroll providers to adapt their systems to the new Act, after the Bill has passed. If you have underpaid your employees under the 2003 Act, you still have an obligation to make up the shortfall. The following changes have been proposed in the Employment Leave Bill but may change before the final reading.

2025 Reforms - Annual Leave Based on Hours Worked

A worker is entitled to annual leave from the first day of employment, including workers on fixed term contracts. It is calculated at a rate of 0.0769 hours per "contracted hour" (being equivalent to 4 weeks / 52 weeks). The leave hours are locked in and are not scaled up or down if the worker subsequently changes their weekly hours.

2025 Reforms - The Impact of Extra Hours on Annual Leave

A waged worker who works extra hours will not accrue additional annual leave or sick leave hours. Instead they will receive a "leave compensation" payment at the time the extra hours are worked. The rate of leave compensation is calculated at 12.5% of a worker's ordinary hourly rate.

Some salaried workers are compensated for extra hours by additional pay. The rate of leave compensation is calculated at 12.5% of a worker's ordinary hourly salary rate.

2025 Reforms - Using Annual Leave and Cashing Up

A worker can use annual leave hours to take any part of a day off work. Employer and worker must agree on the portion of leave taken.

A worker can cash up 25% of their annual leave as at their last employment anniversary, by request. This give more flexibility for cashing up balances and reducing leave liability.

2025 Reforms - Sick Leave Based on Hours Worked

A worker is entitled to sick leave from the first day of employment, including workers on fixed term contracts. It is calculated at a rate of 0.0385 hours per "contracted hour" (being equivalent to 10 days / 52 weeks at 5 days a week). It will be capped at 160 hours. A worker can use sick leave hours to take any part of a day off work. It doesn't have to be a full day off.

2025 Reforms - Bereavement and Family Violence Leave

Workers will be eligible to take bereavement leave and family violence leave from their first day of employment.

2025 Reforms - Casual Workers' Leave Compensation

Casual workers will receive a "leave compensation" which is a combined annual leave and sick leave payment, set at 12.5% of an ordinary wage rate and paid in every pay period. The leave compensation is a replacement for accruing annual leave or sick leave and starts from the first day of employment.

2025 Reforms - Leave Accruals during Parental Leave Only

Annual leave and sick leave continue to accrue while on paid leave. It doesn't accrue when receiving ACC compensation and other unpaid leave.

Workers earn leave during parental leave. If annual leave is taken soon after returning from parental leave, they will receive similar leave pay as if they hadn't been on parental leave. This increases their minimum entitlement compared to the 2003 Act.

2025 Reforms - Notional Leave Rosters

This is a new concept. If the employment agreement doesn't specify the days and times of the week worked or the number of hours for a salaried employee, then the employment agreement must include a notional leave roster.

2025 Reforms - Public Holiday Leave and Entitlements for Working

Workers are entitled to paid leave on a public holiday if it is an otherwise working day (OWD), as set out in their employment agreement. If the employment agreement is unclear then the OWD test is based on 7 of the previous 13 weeks.

If the worker works on a public holiday, they earn 1.5 times their usual pay rate for the hours worked and alternative holiday hours in lieu, not a full day. If they only work some of their contracted hours that day, the unworked hours are paid at regular leave pay rate.

2025 Reforms - Pay Statements Required

Employers will be required to provide pay statements to workers every pay period, itemising pay and leave balances.

Conclusion

We think that the Employment Leave Bill will provide welcome relief to both employers and workers, by making leave calculations easier to understand. Casual workers, fixed term workers and parents returning to the workforce will have better access to leave entitlements. The disparity for sick leave between part-time and full-time workers will be resolved. The Bill may undergo changes before being enacted, so check with your chartered accountant or HR advisor before updating employment contracts and payroll systems.

- *Serena Irving*

Serena Irving is a director in JDW Chartered Accountants Limited, Ellerslie, Auckland. JDW is a professional team of qualified accountants, business consultants, tax advisors, trust and business valuation specialists.

[i] https://www.rnz.co.nz/news/business/359845/bunnings-to-pay-staff-11m-for-holiday-pay-miscalculation

[ii] https://www.tewhatuora.govt.nz/for-health-professionals/employment-relations/holidays-act-remediation

[iii] https://www.employment.govt.nz/assets/uploads/documents/pay-and-hours/Holiday-Act-Guidance-tools-4-Ordinary-Weekly-Pay-vs-Average-Weekly-Earnings.pdf