

The big guide to NZ Payroll



Introduction

Payroll is often perceived as a back-office process, that once set up, runs seamlessly and automatically.

This would be fine if the environment and world in which payroll operates stayed static – forever. Of course, this is not the case.

The truth is, payroll is a business-critical activity, fraught with legislative complexity and employee challenges. Without the right technology and training, the risk of this vital function being compromised is high. And the importance of a well-run payroll to a business is usually only appreciated when something goes wrong.

New to payroll? This guide is NOT designed to step you through New Zealand's employment legislation (although we have included links to the information you need).

What it is designed to do, however, is to provide insights into why getting payroll right is so important, what today's payroll experts and administrators need and expect from their system, and the future trends of payroll.



The problem with payroll

Payroll is complex. Finding a solution that helps you navigate those complexities is critical to the wellbeing of your business and your people.

Issues typical of a poor payroll experience that impacts employees include incorrectly calculated pay or taxation rates, underpayments, and overpayments.

And for payroll, HR and financial administrators? Challenges include a lack of visibility of the information needed to do their job, the inability to generate the reports required for decision making, little or no transparency of payroll costs, no mobile access, and poor leave processes.

Two primary problems scream 'it's time to look for a new payroll' though: Time and accuracy.

Time and accuracy both impact the effectiveness of a payroll system. If it's become increasingly difficult to process your payroll on time using your current system, or if errors are becoming commonplace in your pay run, then the writing is on the wall. Paying staff correctly is one of the most important measures for any business. Both employees and the IRD will quickly become dissatisfied and intractable if their payments are inaccurate or running late.

And if you can't report quickly and with pinpoint accuracy on what's usually the largest cost in your business, then you have a real problem.



Payroll and the business

Nothing strikes fear to the heart of any business like a failed or non-compliant payroll solution. And quite rightly so.

Case in point (and admittedly, New Zealand's worst payroll disaster): In 2014, an [Australian IT vendor](#) pulled out of the now notorious nine-year-long Novopay project intended to manage payroll for the New Zealand school system. Many of our 90,000 teachers and education staff were underpaid, overpaid, or not paid at all.

The Novopay 'fiasco' resulted in an [official inquiry](#) which landed most of the blame squarely (and embarrassingly) on the education department. The bill for the project came to \$56.8 million.

Even by 2018, Novopay was still trying to [recover \\$3.7m of overpayments](#) from education staff. To top it all off, the Novopay solution had issues with the NZ Holidays Act, resulting in multiple instances of underpayment.

Following an [audit in 2016](#), the Ministry of Business, Innovation and Employment identified that NZ Post was just one of many New Zealand

organisations needing to change the way it calculates leave and holiday pay to fully line up with the Holidays Act 2003.

As an outcome, NZ Post had to set aside \$38 million to pay back as many as 22,000 workers who were owed additional holiday pay. And in November 2019, [McDonald's](#) agreed to backdate miscalculated holiday pay for ten years under an agreement with the Labour Inspectorate. Ironically, the [Ministry of Business, Innovation and Employment](#) was also spectacularly caught out with holiday pay miscalculations to their own staff.

An article by [Franchise NZ](#) reports that the holiday pay problem could affect 2,000,000 New Zealanders. They suggest that while the amounts payable to individual workers may be small (perhaps \$70-1800 per employee), the total back pay owed by employers is expected to be considerable. NZ Police is reported to have already spent over \$30 million correcting holiday underpayments to staff.

The underpayment problems apparently stem from historic (2003) amendments made to the Holidays Act. More specifically, the failure of many payroll providers to make the correct changes to their systems.

And it's been New Zealand employers that have had to pay the hefty price of their payroll vendors and partners getting it wrong.



Resources for getting started

Setting up a payroll from scratch requires good systems and accurate records. It also demands a thorough understanding of employee entitlements depending on individual employment agreements (full time, part-time, casual, non-residential seasonal, and more).

Adhering to employment legislation is obviously non-negotiable, and a failure to comply with the letter of the law can be costly in terms of reputation and financial penalties. However, there are a wealth of online resources available to explain and guide you through your obligations.

An overview of practically everything you need to know

This excellent [guide to paying employees](#) from business.govt.nz covers everything from paying wages and building employment agreements, minimum pay rates, calculating annual and public holiday payments, leave, employer deductions including PAYE, KiwiSaver, handling 'other' types of pay like bonuses, and more. It also provides examples and simple questions to test your knowledge.

Understanding employee entitlements

For a detailed guide to understanding and managing holiday, sick, maternity, parental and bereavement leave, and as of last year - domestic violence leave, we recommend you download this excellent, plain-language [Guide to Employees' Legal Entitlements](#) from Employment New Zealand.

Getting on the right side of your IRD obligations

The Inland Revenue Department also provide this useful guide to [Employing staff](#) which guides new businesses through registering as an employer, paying staff, [calculating PAYE rates](#), payday filing, [payroll giving](#) and more.

Being a good KiwiSaver company

While joining KiwiSaver isn't compulsory for your employees, you are required to automatically enrol them when they join your business, and contribute a minimum (specified) amount of their gross pay (unless they decide to opt-out). For details on your KiwiSaver responsibilities, download this [guide](#).

Payroll professionals

Formed in 2007, the New Zealand Payroll Practitioners Association (NZPPA) is the leading professional payroll body in New Zealand. It's a solution-agnostic, national organisation with members throughout New Zealand and overseas (basically, wherever NZ payroll is processed). You can join, or [subscribe](#) for free to their value-packed weekly ePayroll Weekly Newsletter.

What's important to payroll professionals?

We asked a range of payroll professionals what they would prioritise if looking for a new payroll solution.

Their feedback was based on lessons learned to date, looking beyond current capabilities and dependencies on old technologies and tools, and a desire to embrace new trends in payroll.

Go local

Choose a locally developed and supported solution. Why? New Zealand's employment legislation is complex and unique (especially our proliferation of public holidays), and is often not well managed or understood by international payroll solution providers.

A minimum expectation of a payroll solution should be a built-in ability to stay 100% compliant with future legislative changes and IRD requirements as they roll out, and the ability to automatically calculate payroll while factoring in the relevant NZ Holidays Act, overtime, and commission.

An effective payroll solution should support and manage local legislation and deliver timely, automated, hands-off updates to reflect changes in regulations and minimum pay rates. And help needs to be in New Zealand time, and just a phone call away.

It's also critical that you don't take a 'set and forget' approach. It's important to regularly review your pay environment for changes. They happen more often than you think. Whether it's a new contract, new employment conditions, or updated work patterns, you may have to configure changes to ensure accuracy. This has become even more important as many companies work towards flexible working conditions.



What's important to payroll professionals?

Look for integration

Having worked with siloed and non-integrated systems and data for many years, respondents said that if you're looking for ways to realise significant efficiency and productivity gains, an integrated HR and payroll system (or a ready-integrated solution) will help.

An example cited was that you can't eliminate the traditional challenge of leave processing when you don't have real-time information in your HR or Payroll systems. Most systems on the market today are batch driven and rely on accrued leave updating only when the payroll is processed. Whilst this might be ok for those paid weekly it becomes slightly problematic for those with fortnightly or monthly payments. If you add to this time sheeted staff who get paid on hours worked then the issue becomes even more prevalent.

Integration allows the HR and payroll teams to move away from using spreadsheets, or from flicking between a clunky payroll system and using a host of HR tools. And it is the key to the all-important accuracy of data – which is the very backbone of payroll.

If you don't have an integrated system, look for a payroll that has up-to-date integration capability via APIs or Web Services.



What's important to payroll professionals?

Embrace employee self-service portals

Feedback from our interviews was overwhelming when it came to employee self-service. Not only do they reduce administrative time processing employee requests, but they also empower employees to do more on their own, in their own time – removing the frustration of ‘having to email someone to ask them to action or process a request’.

Their advice? Adopt a payroll solution with an online self-service module where employees can securely access and manage their leave requests, review, and update personal info, view or download payslips and timesheet data online.

Demand flexibility, streamlined processes and real-time reporting

Being tied to time-intensive processes to set up and manage one-off transactions or move an employee from one department to another was a major frustration for many we talked to. Manually updating spreadsheets to accurately calculate final leaves and payments were also on the “things I wish I could change” list.

A modern payroll system should support flexibility and provide the data you need automatically. It should also offer detailed real-time reporting with just one click, so you have immediate access to salary expenses for the month, can generate full operational insights, gain visibility of single employee leave balances, and more. All without a spreadsheet in sight.



Payroll trends to watch out for

For many organisations, COVID-19 has accelerated the need to review their payroll set up to deal with new layers of complexity. WFH has seen offices depopulated, workforces reconfigured, and has cemented the need to improve the digital, real-time capture of working hours. Out-of-sight does not mean out-of-mind when it comes to processing payrolls.

If you're looking for a new payroll system, it should offer the ability to support some if not all of these payroll technologies and payroll processing trends.



1 Payroll in the cloud

Allied Market Research's recent report says that the [cloud-based payroll processing software market is expected to reach \\$10.33 billion by 2023](#). So it's no surprise that as we navigate the ongoing COVID crisis, the desire to upgrade to cloud-based payroll processing continues to grow. Cloud payroll applications enable employees to access data remotely, and payroll processing staff to work without interruption. They also allow businesses to scale more easily (whether that's up or down), and offers more robust cybersecurity.

2 The demand for real-time data

The days of payroll reporting taking six weeks to generate are over. Given the car crash that was 2020, clarity of up-to-the-minute payroll commitments in 2021 is critical to produce actionable insights and make timely business decisions.

Payroll trends to watch out for

3 The demise of spreadsheets

2021 will see a raft of innovations designed to rid payroll departments of their reliance on Excel, deliver touchless payroll, and enhance the employee experience through self-service and more.

4 More payroll system flexibility

As working arrangements continue to evolve under the massive cloud of COVID-19, so must the flexibility of payroll systems to cope with increasingly diverse employee agreements. And local and global freelancers, contractors, and part-timers will play an essential role in business operations and output. The emphasis will be on payroll systems that can manage compliance and taxation issues for a dynamic workforce.

5 AI-driven payroll

The addition of artificial intelligence (AI) to payroll management will simplify payroll tasks and streamline processes. Think automated employee classification which ensures everyone has the right tax code, and correctly calculated PAYE. AI will also help generate reports that have been slow, manual, and frequently error-prone in the past. And AI-based chatbots will play a significant role in cutting unnecessary expenses, saving time, and controlling budgets.



Payroll trends to watch out for

6 Integrated payroll and HR management

HR management and payroll are traditionally separate systems, which, when combined, just perform better. With successful integration comes streamlined access to accurate employee data. For example, the functions of time tracking, scheduling and leave are usually handled by HR software. But when the information is shared with the payroll system, there is a significant reduction in both under- and over-payments. With employee work hours accurately tracked and recorded, it's easier and faster to generate actionable insights. An HR integrated payroll solution also enables managers and staff to access all essential information from a single dashboard

7 Pay transparency

When you have pay transparency, your company's employee compensation figures are visible to others inside and outside the business. While it may go against everything you may have thought, and even generate feelings of anxiety, World at Work say that [disclosing your pay structure has many benefits](#). These include reducing pay disparity, building employee trust and loyalty, and increasing employee retention.



Payroll trends to watch out for

8 Pay-on-demand

New options for real-time payroll distribution are expected to grow in demand. Millennial employees prefer to get paid immediately, instead of waiting for direct deposits or weekly/biweekly payments. And with so many employees using [digital wallets](#) instead of carrying cash or accessing bank accounts, electronic delivery methods to distribute payroll will trend. These will include 24/7 instant interbank electronic fund transfers which can be accessed via channels like laptops, smartphones, and of course, digital wallets.

9 Financial wellness

Understandably, 2020 was a year of uncertainty for employers and employees alike. Workers worried about money are less likely to be productive, engaged, and motivated. Payroll experts predict that as a stress reduction measure, many forward-thinking businesses will incorporate a [financial wellness program](#) for employees into their payroll systems in 2021.



Conclusion

Successful payroll management is key to a well-run business.

Poor processes negatively affect both employer and employee - financially, operationally, and emotionally. And the inability to respond to the needs of a rapidly evolving workforce only serves to undermine your ability to champion and maintain employee engagement.

In the past, payroll software has perhaps not been regarded as the most dynamic line-of-business application. But in these changing times (and to take a small liberty with an old proverb), necessity is the mother of innovation.

If your payroll solution cannot flex, integrate, innovate, and grow, then neither will your business.



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