Pay as you go holiday pay

Genuinely casual employees, and employees on fixed term contracts of less than one year, can be paid their 8% holiday pay in the normal pay cycle, rather than accruing annual leave throughout the year. This is called ‘pay as you go’ holiday pay.

Pay as you go holiday pay can be a fraught area and many employers get it wrong. It’s really important that employees paid in this way:

- Meet the criteria for being paid their holiday pay this way.
- Understand and agree to being paid this way (there are special rules around this, see below).

If these criteria aren’t met, your employee could end up being entitled to four weeks annual leave, on top of the 8% holiday pay already paid.

Who can be paid holiday pay on a pay as you go basis?

Employees on fixed term employment agreements of less than one year

Employees on genuine fixed term employment agreements of less than one year can be paid their holiday pay on a pay as you go basis.

If the employee is made permanent, then the 8% holiday pay must stop. The employee becomes entitled to their four weeks annual leave one year after their fixed term employment has started. If there were several fixed term employment agreements during this 12 month period, the employee becomes entitled to their four weeks annual leave one year after the start of their final fixed term period. The pay for this annual leave is reduced by the 8% holiday pay already paid.

If the fixed term contract goes beyond one year, the employee becomes entitled to four weeks annual leave despite having being paid their 8% holiday pay. If there is any chance that a fixed term contract could end up exceeding one year (for instance because a project has been delayed) then it’s best to not use pay as you go holiday pay at all. Accrue the annual leave instead.
Genuinely casual employees

Casual employees can also be paid their holiday pay on a pay as you go basis. These employees must be genuinely casual i.e. their work pattern is so irregular and intermittent that it’s impossible to determine their annual leave entitlement.

It’s a good idea to keep an eye on casual employees’ patterns of work, as sometimes employment relationships change over time. If a regular pattern develops, then the 8% holiday pay must stop and the employee must begin to accrue annual leave instead.

How do I ensure my employee understands and agrees to the 8% holiday pay being paid on a pay as you go basis?

- When you are offering them the job take the time to explain that you would like to pay their holiday pay on a pay as you go basis. Ensure that this is clearly recorded in their employment agreement (this is a legal requirement).
- The agreement to pay 8% holiday pay on a pay as you go basis must be genuinely agreed between the employer and employee. An employee can ask to accrue their annual leave instead.
- Show the holiday pay as a separate and identifiable item on the payslip (this is a legal requirement). This ensures your employee understands that the 8% is for holiday pay, rather than part of their normal weekly wage.

If in doubt, it’s always best to accrue the annual leave instead.