As of 1 April 2011, an employee can request to have one week in total of their four weeks annual leave paid out in cash each year.

An employee can only request to cash up their annual leave entitlement (not their accrued annual leave). This request must be made within 12 months of the relevant entitlement date. Employees cannot request to cash up annual leave entitlements that arose before 1 April 2011.

The request to cash up annual holidays can only be made voluntarily by the employee. As an employer, you cannot pressure employees into making this request, nor can you make cashing up annual holidays a condition of employment.

Several requests to cash up annual leave can be made over the year, as long as the total amount requested doesn’t exceed one week. The requests must be made in writing. You should consider the employee’s request in good faith and respond in writing within a reasonable amount of time. You have the right to decline the request. Place copies of the employee’s request and your response in the employee’s personnel file.

It’s good practice to develop a policy on cashing up annual leave, covering whether requests will be considered and the criteria used to make a decision (e.g. high leave balance or hardship). Some employers may choose to have a blanket policy saying that they will not cash up annual holidays.

If you agree to the employee’s request to cash up their annual leave, payment should be at the greater of the employee’s ordinary weekly pay or average weekly earnings, the same as if they had actually taken the holidays. Payment should be made as soon as possible, normally on the next pay day.

If you pay out annual leave when your employee hasn’t requested it, then your employee is entitled to take the annual leave and also keep the money. You may also face a penalty.

If an employee has additional annual leave entitlement over and above the Holidays Act (e.g. five weeks annual leave instead of four weeks), this fifth week (as well as the fourth week) can also be cashed up by mutual agreement.