

# **IRIS Payroll**

Guide to creating Scottish Widows pension deductions

01/07/2015



# **IRIS**

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# Introduction

This guide will give you an overview of how to configure your pension deductions depending on your pension scheme in the payroll. Creating the output file is covered in a separate guide, see the Pension Guide for more information.

The guide covers:

- Creating an employee pension deduction
- Creating an employer pension deduction

Scottish Widows permit employers to calculate the pension deduction based on a percentage of Qualifying Earnings or Total Earnings; for more information click <u>here</u>.

The tax basis of the pension deduction can be via Salary Exchange (also known as Salary Sacrifice), or Net (also known as Relief at Source).

For instructions on how to setup the employee and employer pension deduction, select your pension scheme option from the list:

- Salary Exchange based on Qualifying Earnings
- Net based on Qualifying Earnings
- Salary Exchange based on Pensionable Earnings or Total Earnings
- Net based on Pensionable Earnings or Total Earnings



### Salary Exchange - based on Qualifying Earnings

A Salary Exchange (Salary Sacrifice) pension deduction is deducted from the employee's pay before Tax and NI is calculated, which means the employee is due to pay less Tax and NI. Scottish Widows expect employer contributions to meet or exceed the statutory minimum and employee contributions to be zero.

A Qualifying Earnings pension deduction is calculated as a percentage of the employee's Qualifying Earnings between the lower limit and upper limit. For tax year 2015/16, the lower limit is £5,824 and the upper limit is £42,385.

#### Add employee pension deduction:

- 1. Go to the **Pension** menu and select 'Configure Pensions'
- 2. Click on 'Add New'
- 3. Enter the **Name** of the pension deduction
- In the 'Type' field select Auto Enrolment (Salary Sacrifice)
- 5. In the 'Contribution' field, select 'Employee'
- Enter a Standard amount, to set an employee's deduction amount when the employee is automatically enrolled
- When Clear Totals field is set to 'Annually', during Year-end Restart the year to-date

total for this pension deduction will be clear along with other year to-date totals

- 8. Pension Fund should be the default of '<None>'
- 9. Click '**OK**'

#### Add employer pension deduction:

- 1. Go to the **Pension** menu and select 'Configure Pensions'
- 2. Click on 'Add New'

2	Create Pension	x
	Pension	
	ID:	New
	Name:	AE Salary Sacrifice - EE
	Туре:	Auto Enrolment (Salary Sacrifice)
	Method:	Percentage
	Contribution:	Employee
	Standard Amount:	1.0ζ
	Clear Totals:	Annually
	Pension Fund:	<none></none>
		Subtract Basic Rate Tax
	Save	<u>O</u> K <u>C</u> ancel <u>H</u> elp



- 3. Enter the Name of the pension deduction
- In the 'Type' field select Auto Enrolment (Salary Sacrifice)
- 5. In the 'Contribution' field, select 'Employer'
- Enter a Standard amount, to set an employee's deduction amount when the employee is automatically enrolled
- When Clear Totals field is set to 'Annually', during Year-end Restart the year to-date

 Create Pension	x
Pension	
ID:	New
Name:	AE Salary Sacrifice - ER
Туре:	Auto Enrolment (Salary Sacrifice)
Method:	Percentage
Contribution:	Employer
Standard Amount:	1.00
Clear Totals:	Annually
Pension Fund:	<none></none>
	Subtract Basic Rate Tax
<u>S</u> ave	<u>O</u> K <u>C</u> ancel <u>H</u> elp

total for this pension deduction will be clear along with other year to-date totals

- 8. **Pension Fund** should be the default of '<None>'
- 9. Click '**OK**'

#### Configure pension deduction pay elements:

- 1. Go to the Company menu and click 'Payments & Deductions'
- 2. Tick 'Qualifying Earnings' box for all pay elements to include in employees' total earnings when payroll assesses employees for automatic enrolment

> ∠	Name	Туре	Taxable	NIable	Notional	Pensionable Earnings	Qualifying Earnings	Benefit in Kind	Method
1	L Bonus	Payment							Value
2	2 Expenses	Payment							Value
3	Net to Gross	Net To Gross	V			<b>V</b>			Value
4	Salary Advance	Deduction							Value
5	i Private Mileage	Payment							Value
6	i Private Medical	Deduction							Value
7	7 SSP/SMP Contra	SSP Contra	V	1					Value
8	Salary Correction	Payment	V	1					Value
9	Savings	Deduction							Value
15	i Season Ticket Loan	Loan							Value
Ec	dit <u>A</u> dd New								Cancel <u>H</u> elp

The employees' pension contribution will also be calculated on these pay elements

3. Click '**OK'** 

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## Net - based on Qualifying Earnings

A Net pension is deducted from the employee's pay after Tax and NI is calculated, then the employee receives basic rate tax relief on that pension deduction; for tax year 2014/15 the rate is 20%. Higher rate tax payers need to claim the remaining tax relief from HMRC. This method of deducting pension contributions HMRC call relief at source (RAS).

In payroll, if say the employee's pension deduction is 1%, you would be enter 1% in the employee's pension deduction standard value but the actual deduction will be 0.8% from their pay.

A Qualifying Earnings pension deduction is calculated as a percentage of the employee's Qualifying Earnings between the lower limit and upper limit. For tax year 2015/16, the lower limit is £5,824 and the upper limit is £42,385.

#### Add employee pension deduction:

- 1. Go to the Pension menu and select 'Configure Pensions'
- 2. Click on 'Add New'
- 3. Enter the **Name** of the pension deduction
- In the 'Type' field select Auto Enrolment (Stakeholder)
- 5. In the 'Contribution' field, select Employee
- Enter a Standard amount, to set an employee's deduction amount when the employee is automatically enrolled
- When Clear Totals field is set to 'Annually', during Year-end Restart the year to-date

🐉 Create Pension Pension ١D New Name: AE Net - EE Type: Auto Enrolment (Stakeholder) Method: Percentage - O<u>p</u>tions Contribution: -Employee Standard Amount: 1.00 Clear Totals: Annually -Pension Fund: <None> -V Subtract Basic Rate Tax OK <u>C</u>ancel <u>H</u>elp Save

total for this pension deduction will be clear along with other year to-date totals

- 8. Pension Fund should be the default of '<None>'
- 9. Tick the Subtract Basic Rate Tax box
- 10. Click 'OK'

#### Add employer pension deduction:

- 1. Go to the Pension menu and select 'Configure Pensions'
- 2. Click on 'Add New'
- 3. Enter the Name of the pension deduction



- In the 'Type' field select Auto Enrolment (Stakeholder)
- 5. In the 'Contribution' field, select Employer
- Enter a Standard amount, to set an employee's deduction amount when the employee is automatically enrolled
- 7. When Clear Totals field is set to 'Annually', during Year-end Restart the year to-date total for this pension deduction will be clear along with other year to-date totals

🚏 Create Pension	3
Pension	
ID:	New
Name:	AE Net - ER
Туре:	Auto Enrolment (Stakeholder) 🗾
Method:	Percentage
Contribution:	Employer
Standard Amount:	1.00
Clear Totals:	Annually
Pension Fund:	<none></none>
	Subtract Basic Rate Tax
Save	<u> </u>

- 8. Pension Fund should be the default of '<None>'
- 9. Click '**OK**'

#### Configure pension deduction pay elements:

- 1. Go to the Company menu and click 'Payments & Deductions'
- 2. Tick 'Qualifying Earnings' box for all pay elements to include in employees' total earnings when payroll assesses employees for automatic enrolment

ID /	Name	Туре	Taxable	NIable	Notional	Pensionable Earnings	Qualifying Earnings	Benefit in Kind	Method
	1 Bonus	Payment							Value
	2 Expenses	Payment							Value
	3 Net to Gross	Net To Gross	$\overline{\mathbf{v}}$				1		Value
	4 Salary Advance	Deduction							Value
	5 Private Mileage	Payment							Value
	5 Private Medical	Deduction							Value
	7 SSP/SMP Contra	SSP Contra	$\overline{\mathbf{M}}$	M	口				Value
	B Salary Correction	Payment	$\mathbf{\nabla}$	V	口		M		Value
	9 Savings	Deduction			口				Value
1	5 Season Ticket Loan	Loan							Value
Ē	dit <u>A</u> dd New								Dancel <u>H</u> elp

The employees' pension contribution will also be calculated on these pay elements

3. Click '**OK'** 



### Salary Exchange - based on Pensionable Earnings or Total Earnings

A Salary Exchange (Salary Sacrifice) pension deduction is deducted from the employee's pay before Tax and NI is calculated, which means the employee is due to pay less Tax and NI.

The pension deduction is calculated as a percentage of earnings you specified when setting up the Scottish Widows scheme by choosing one of the following options:

- Pensionable Earnings must be at least all basic earnings. This can exclude any variable pay elements but must include geographical allowances
- **Total Earnings** includes all of the employee's earnings

#### Add employee pension deduction:

- 1. Go to the Pension menu and select 'Configure Pensions'
- 2. Click on 'Add New'
- 3. Enter the **Name** of the pension deduction
- 4. In the 'Type' field select Salary Sacrifice
- 5. In 'Method' field, select Percentage
- 6. In the 'Contribution' field, select 'Employee'
- Enter a Standard amount, to set an employee's deduction amount when the employee is automatically enrolled
- 8. When **Clear Totals** field is set to **Annually**, during **Year-end Restart** the year to-date



total for this pension deduction will be clear along with other year to-date totals

- Pension Fund should be the default of '<None>'
- Click the **'Options'** button and then tick all the pay elements you want the pension deduction to be calculated on
- 11. Click 'OK' on the Percentage Options screen
- Click 'OK' to save the new employee pension deduction

Name Selected			Name 🔺	Selected
Salary			Bonus	V
Basic Hours Pay			Salary Correction	
Overtime Hours Pay				
SSP				
SMP, SAP, OSPP & ASPP				
Holiday Pay				
Less Tax				
Less NI				



#### Add employer pension deduction:

- 1. Go to the **Pension** menu and select '**Configure Pensions**'
- 2. Click on 'Add New'
- 3. Enter the **Name** of the pension deduction
- 4. In the 'Type' field select Salary Sacrifice
- 5. In the 'Method' field, select Percentage
- 6. In the 'Contribution' field, select 'Employer'
- Enter a Standard amount, to set an employee's deduction amount when the employee is automatically enrolled
- 8. When **Clear Totals** field is set to 'Annually', during **Year-end Restart** the year to-date

ID: New Name: Salary Sacrifice Type: Salary Sacrifice Method: Percentage -Options Contribution: -Employer Standard Amount: 1.00 Clear Totals: Annually Pension Fund: <None> <u>Cancel</u><u>H</u>elp Save OK

Create Pension

total for this pension deduction will be clear along with other year to-date totals

- 9. Pension Fund should be the default of '<None>'
- Click the **'Options'** button and tick all the pay elements you want the pension deduction to be calculated on and then click **'OK'**
- 11. Click '**OK**' to save the new employer pension deduction



### Net - based on Pensionable Earnings or Total Earnings

A Net pension is deducted from the employee's pay after Tax and NI is calculated, then the employee receives basic rate tax relief on that pension deduction; for tax year 2014/15 the rate is 20%. Higher rate tax payers need to claim the remaining tax relief from HMRC. This method of deducting pension contributions HMRC call relief at source (RAS).

In payroll, if say the employee's pension deduction is 1%, you would be enter 1% in the employee's pension deduction standard value but the actual deduction will be 0.8% from their pay.

The pension deduction is calculated as a percentage of earnings you specified when setting up the Scottish Widows scheme by choosing one of the following options:

- Pensionable Earnings must be at least all basic earnings. This can exclude any variable pay elements but must include geographical allowances
- **Total Earnings** includes all of the employee's earnings

#### Add employee pension deduction:

- 1. Go to the Pension menu and select 'Configure Pensions'
- 2. Click on 'Add New'
- 3. Enter the **Name** of the pension deduction
- In the 'Type' field select Personal Pension Plan/Stakeholder
- 5. In the 'Method' field, select Percentage
- 6. In the 'Contribution' field, select Employee
- Enter a Standard amount, to set an employee's deduction amount when the employee is automatically enrolled
- 8. When **Clear Totals** field is set to 'Annually', during **Year-end Restart** the year to-date total for this pension deduction will be clear along with other year to-date totals
- 9. Pension Fund should be the default of <None>
- 10. Tick the Subtract Basic Rate Tax box

ID:	New
Name:	Net - EE
Туре:	Personal Pension Plan/Stakeholder 🗾
Method:	Percentage Options
Contribution:	Employee
Standard Amount:	1.00
Clear Totals:	Annually
Pension Fund:	<none></none>
	Subtract Basic Rate Tax
Save	OK Cancel Help

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- Click the **'Options'** button and then tick all the pay elements you want the pension deduction to be calculated on
- 12. Click 'OK' on the Percentage Options screen
- 13. Click 'OK'

asic Elements		Payment Deduction Elemen	(S
Name	Selected	Name 🛆	Selected
Salary		Bonus	V
Basic Hours Pay		Salary Correction	
Overtime Hours Pay			
SSP			
SMP, SAP, OSPP & ASPP			
Holiday Pay			
Less Tax			
Less NI			

#### Add employer pension deduction:

- 1. Go to the **Pension** menu and select 'Configure Pensions'
- 2. Click on 'Add New'
- 3. Enter the Name of the pension deduction
- In the 'Type' field select Personal Pension Plan/Stakeholder
- 5. In the 'Method' field, select Percentage
- 6. In the 'Contribution' field, select Employer
- Enter a Standard amount, to set an employee's deduction amount when the employee is automatically enrolled
- When Clear Totals field is set to 'Annually', during Year-end Restart the year to-date



total for this pension deduction will be clear along with other year to-date totals

- 9. Pension Fund should be the default of <None>
- Click the **'Options'** button and tick all the pay elements you want the pension deduction to be calculated on and then click **'OK'**
- 11. Click '**OK**'

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### Software available from IRIS

**IRIS Payroll Basics** Free, RTI compliant payroll software for companies with fewer than 10 employees

**IRIS Payroll Business** Intelligent, easy to use payroll software for smaller businesses

#### **IRIS Payroll Professional**

Flexible payroll software for medium sized businesses

IRIS Bureau Payroll Intelligent management for multiple payrolls

**IRIS OpenPayroll** Cloud-based UK payroll software – accessible from anywhere on PC, Mac or tablet

#### **IRIS P11D**

The easy way to complete employee expenses and benefits returns

#### **IRIS HR Manager**

The easy way to keep employee data up-to-date

#### **IRIS OpenPayslips**

A secure web based solution that allows your employees to access and download their e-payslips via an online portal

#### **Stationery order line**

0844 815 5656

#### **HMRC online service helpdesk**

Tel: 0300 200 3600 Fax: 0844 366 7828 Email: helpdesk@ir-efile.gov.uk

#### **HMRC employer helpline**

Tel: 0300 200 3200

#### HMRC employer helpline (for new business)

Tel: 0300 200 3211

#### Support

Tel: 0844 815 5661 (option 4) Fax: 0844 815 5665 Email: ipsupport@iris.co.uk

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