IRIS Payroll

Guide to creating Scottish Widows pension deductions

01/07/2015

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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 here.

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

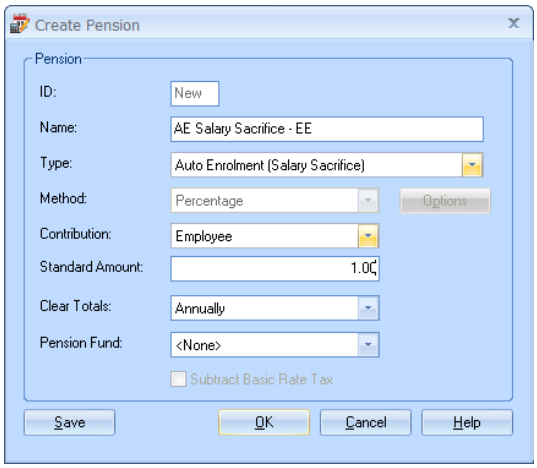
Salary Exchange - based on Qualifying Earnings

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:

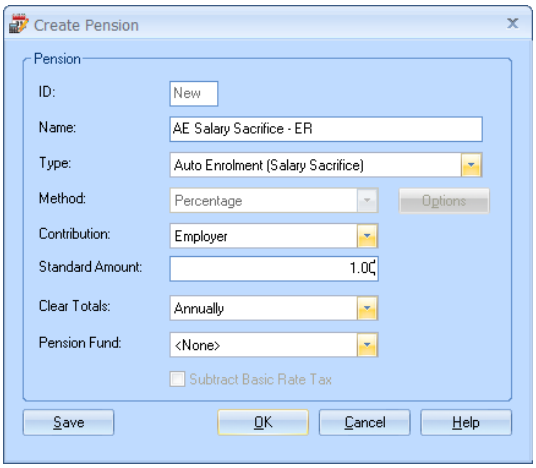
1. Go to the **Pension** menu and select '**Configure Pensions**'
2. Click on '**Add New**'
3. Enter the **Name** of the pension deduction
4. In the '**Type**' field select **Auto Enrolment (Salary Sacrifice)**
5. In the '**Contribution**' field, select 'Employee'
6. Enter a **Standard** amount, to set 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
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**'

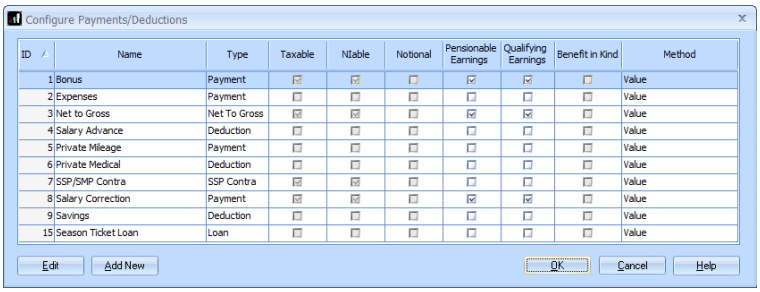
3. Enter the **Name** of the pension deduction
4. In the '**Type**' field select **Auto Enrolment (Salary Sacrifice)**
5. In the '**Contribution**' field, select 'Employer'
6. Enter a **Standard** amount, to set an employee's deduction amount when the employee is automatically enrolled
7. When **Clear 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
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

   The employees' pension contribution will also be calculated on these pay elements
3. Click '**OK**'



Net - based on Qualifying Earnings

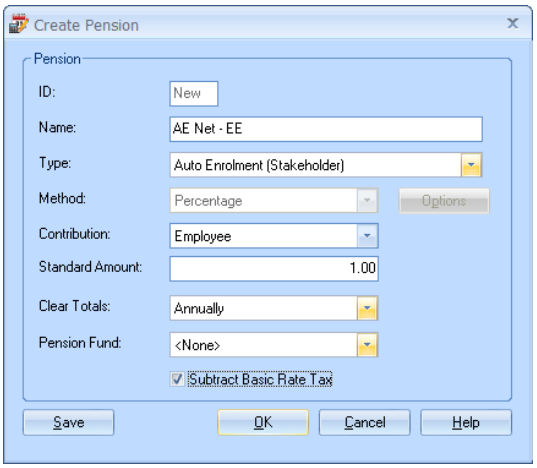
A Net pension is deducted from the employee's pay after Tax and NI is calculated, then the employee receives basic rate tax relief on that pension deduction; for tax year 2014/15 the rate is 20%. Higher rate tax payers need to claim the remaining tax relief from HMRC. This method of deducting pension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

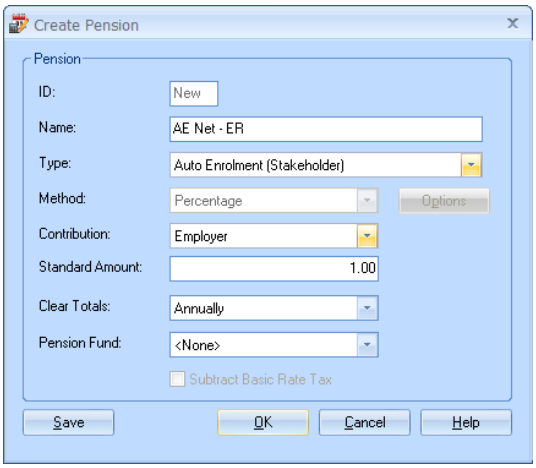
1. Go to the **Pension** menu and select '**Configure Pensions**'
2. Click on '**Add New**'
3. Enter the **Name** of the pension deduction
4. In the '**Type**' field select **Auto Enrolment (Stakeholder)**
5. In the '**Contribution**' field, select **Employee**
6. Enter a **Standard** amount, to set 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
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

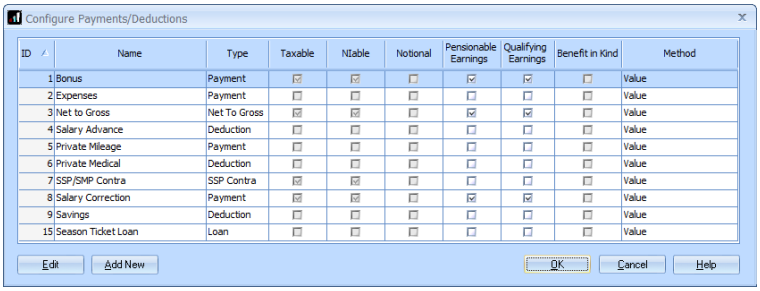
4. In the '**Type**' field select **Auto Enrolment (Stakeholder)**
5. In the '**Contribution**' field, select **Employer**
6. Enter a **Standard** amount, to set an employee's deduction amount when the employee is automatically enrolled
7. When **Clear Totals** field is set to 'Annually', during **Year-end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



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



   The employees' pension contribution will also be calculated on these pay elements
3. Click '**OK'**

Salary Exchange - based on Pensionable Earnings or Total Earnings

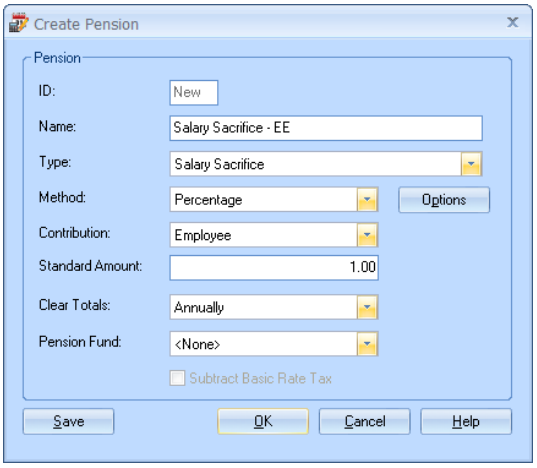
A Salary Exchange (Salary Sacrifice) pension deduction is deducted from the employee's pay before Tax and NI is calculated, which means the employee is due to pay less Tax and NI.

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:

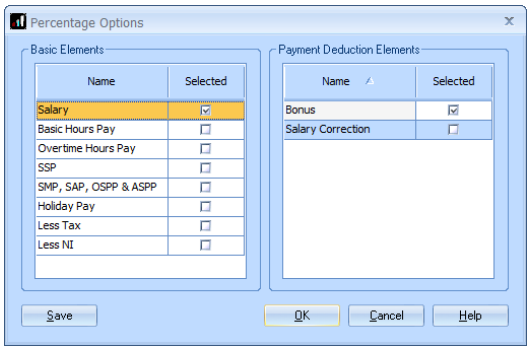
- **Pensionable Earnings** – must be at least all basic earnings. This can exclude any variable pay elements but must include geographical allowances
- **Total Earnings** – includes all of the employee's earnings

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'
7. 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

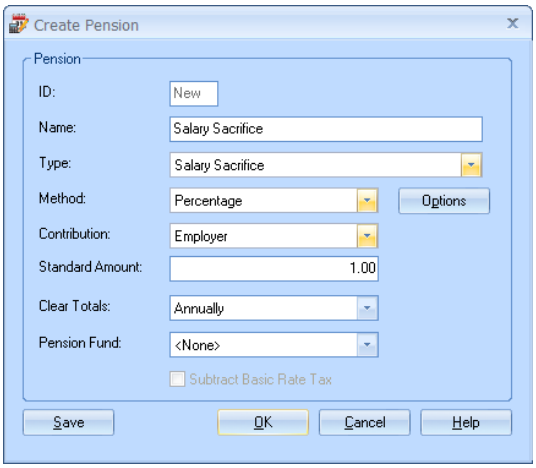


9. **Pension Fund** should be the default of '<None>'
10. Click the **'Options'** button and then tick all the pay elements you want the pension deduction to be calculated on
11. Click '**OK**' on the **Percentage Options** screen
12. Click **'OK'** to save the new employee pension deduction



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'
7. 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. 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

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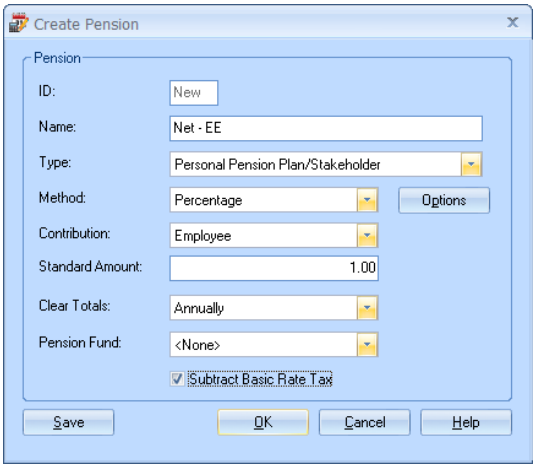
- **Pensionable Earnings** – must be at least all basic earnings. This can exclude any variable pay elements but must include geographical allowances
- **Total Earnings** – includes all of the employee's earnings

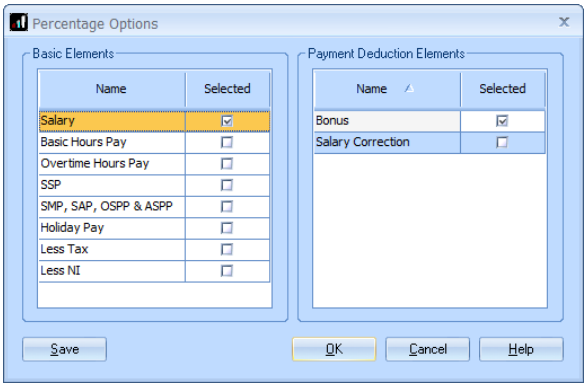
Add employee pension deduction:

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 **Personal Pension Plan/Stakeholder**
5. In the **'Method'** field, select **Percentage**
6. In the '**Contribution**' field, select **Employee**
7. Enter a **Standard** amount, to set an employee's deduction amount when the employee is automatically enrolled



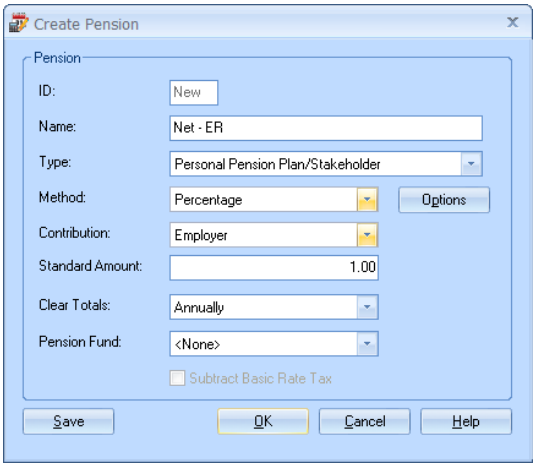
8. When **Clear Totals** field is set to 'Annually', during **Year-end Restart** the year to-date total for this pension deduction will be clear along with other year to-date totals
9. **Pension Fund** should be the default of **<None>**
10. Tick the **Subtract Basic Rate Tax** box

11. 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**'



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 **Personal Pension Plan/Stakeholder**
5. In the **'Method'** field, select **Percentage**
6. In the '**Contribution**' field, select **Employer**
7. 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. 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**'

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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