

Salary Sacrifice in UK

A salary sacrifice arrangement is an agreement between an employer and an employee to change the terms of the employment contract to reduce the employee's entitlement to cash pay. This sacrifice of cash entitlement is usually made in return for some form of non-cash benefit.

1. How salary sacrifice works?

The employee gives up part of his/her salary and, in return, the employer gives him/her a non-cash benefit **such as childcare vouchers, gym membership, cycle to work schemes or increased pension contributions.**

Many organisations now offer salary sacrifice schemes as it can be financially beneficial for both employer and employee.

For example, when part of an employee's remuneration shifts from cash - on which tax and National Insurance contributions (NICs) are due - to non-cash benefits that are wholly or partially exempt. The overall pay of the employee is lower, so he/she pays less tax and National Insurance and the employer will not have to pay the Employers' National Insurance contributions on the part of the salary sacrifice. Employer can pass on some or all of these savings to the employee.

IMPORTANT: A salary sacrifice arrangement can't reduce an employee's cash earnings below the National Minimum Wage rates.

2. Things to consider before taking a salary sacrifice

While some salary sacrifice arrangements could enable employees to save thousands of pounds a year in tax and NIC payments, it's important to get good advice before changing an employment contract.

Salary sacrifice can have a negative impact on some statutory payments, such as maternity, paternity, adoption or sick pay. That's because for them the level of pay is calculated on average weekly earnings during a certain period. As sacrificed earnings don't count towards this, statutory payments could be substantially reduced or could not be payable at all.

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3. Examples of salary sacrifice

Salary	Salary sacrificed	Non cash benefit received	Consequence
£350 per week	£50 of that salary	Childcare voucher to the same value	Only £300 is subject to tax and NICs, childcare vouchers are exempt from both tax and Class 1 NICs up to a limit of £55 per week
£350 per week	£100 of that salary	Childcare vouchers to the same value	£295 is subject to tax and NICs - PAYE is operated on the £250 cash component, childcare vouchers are exempt from both tax and Class 1 NICs up to a limit of £55 per week, £45 is reported as a non-cash benefit at the end of the tax year using forms P11D or P9D
£5,000 bonus	£5,000	£5,000 employer contribution to registered pension scheme	No employment income tax or NICs charge to the employee - the full amount is invested in the pension fund

4. Contact HMRC to confirm the tax and NICs

Once a salary sacrifice arrangement is in place, employers can ask the HMRC Clearances Team to confirm the tax and NICs implications. HMRC won't comment on a proposed salary sacrifice arrangement before it has been put in place.

HMRC Clearances Team
 Alexander House
 21 Victoria Avenue
 Southend-on-Sea
 Essex SS99 1BD

Alternatively they can email the HMRC Clearances Team at hmrc.southendteam@hmrc.gsi.gov.uk.

To be satisfied that the change has been effective at the right time and not applied retrospectively, HMRC would need to see:

- evidence of the variation of terms and conditions (if there is a written contract)
- payslips before and after the variation

5. Changes in April 2017

Salary sacrifice schemes to be subject to the same tax as cash income from April 2017 (pensions, childcare and cycle-to-work schemes exempted).

Sources: Gov.uk, Acas and moneyadviceservice.org.uk

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