Salary sacrifice

A client-friendly overview of salary sacrifice and the payroll points to check before using a scheme.

At a glance

Salary sacrifice is a contractual change where an employee gives up part of their cash pay in return for a non-cash benefit.

- Common schemes include pension salary sacrifice, cycle to work and electric vehicle arrangements.
- Salary sacrifice must not reduce cash pay below National Minimum Wage.
- Some benefits may still need to be reported as taxable benefits, such as company cars or electric vehicles made available for private use.

Statutory Maternity Pay

Salary sacrifice is where an employee agrees to give up part of their cash pay in return for a non-cash benefit. Common examples include pension salary sacrifice, cycle to work schemes and electric vehicle arrangements.

Common salary sacrifice schemes:

- **Pension salary sacrifice:** the employee gives up part of their salary and the employer pays an increased pension contribution.
- **Cycle to work:** the employer provides a bike and/or cycling equipment, usually through a salary sacrifice arrangement.
- **Electric vehicles:** the employee gives up salary for access to an electric vehicle, but the vehicle may still create a company car benefit in kind.
- **Childcare vouchers:** closed to new applicants, but some existing scheme members may still be able to continue.

Key payroll checks

- The arrangement must be a genuine contractual change.
- The employee must give up the right to the sacrificed cash pay.
- The employee's cash pay must not fall below National Minimum Wage after the salary sacrifice deduction.
- The sacrifice can reduce earnings used for some statutory payment calculations.

Maternity and family leave

Salary sacrifice can affect statutory payment calculations, and some benefits may need to continue during family leave.

Electric vehicles

Electric vehicle salary sacrifice schemes can be attractive, but they are not completely tax-free.
Where a company car is available for private use, a benefit in kind may apply and needs to be reported correctly.

Legacy childcare vouchers

- Childcare voucher and directly contracted childcare schemes are closed to new applicants.
- Employees who joined on or before 4 October 2018 may be able to continue if they meet the conditions.
- If an employee starts using Tax-Free Childcare, childcare vouchers must stop.
- If this changes a salary sacrifice arrangement, the employee contract and payroll records may need updating.

What we need from you

- Tell us the type of salary sacrifice scheme being used.
- Confirm the amount and start date
- Tell us before making any change to a sacrifice arrangement, especially during family leave or sickness.

Useful links

- Salary sacrifice and PAYE
- Cycle to work scheme guidance
- Company car benefit guidance
- Employer childcare guidance
- Childcare vouchers