Salary Sacrifice - Introduction

Salary sacrifice is where the employee agrees to give up the right to receive part of their cash pay due under their contact of employment in exchange for a non cash benefit which can be tax and NI exempt. Common salary sacrifice schemes are for employer pension contributions, childcare vouchers and cycle to work schemes.

By operating a salary sacrifice scheme in return for non-cash benefit with a different tax and NI treatment the employee can save tax and national insurance on the amount of the sacrifice. The employer saves national insurance so typically 13.8% of the amount the employee sacrifices.

For a salary sacrifice scheme to effective the employee must give up their right to future cash remuneration. It must be a contractual change to the terms and conditions between the employee and employer so that the employee is entitled to a lower cash remuneration and a non cash benefit.

The salary sacrifice will not comply with HM Revenue & Customs rules if the employee has not given up the right to future cash remuneration, i.e. a temporary reduction in the employee's gross pay.

Before an employee joins a salary sacrifice scheme they should consider the effects of contractually agreeing to reduce their salary and giving up their right to the original cash salary:

- Entitlement to Working Tax Credit or Child Tax Credit
- Entitlement to State Pension and Benefits such as Statutory Maternity Pay,

When an employee decides to sacrifice part of their salary for a tax and NI exempt benefit the employees gross pay subject to NIC reduces. As some benefits are based on the amount of national insurance and the employee's gross earnings this can affect the employee's current and future entitlement to a range of benefits. If the sacrifice reduces the gross earnings below the lower earnings limit (currently £102 per week) the employee can lose their entitlement to some benefits, for example statutory maternity pay and statutory sick pay. Please see below 'Guidance for employee's' web link for further details

Other considerations:

- An employees salary sacrifice can not reduce the employee's cash salary below the minimum wage
- While an employee is on maternity leave the employer has to continue to provide the benefit during the whole maternity leave as it's a contractual non cash benefit. This can not be deducted from the employees SMP as it's a salary sacrifice and therefore would be an employers cost.

Please see attached web links with further details on salary sacrifice.

Salary Sacrifice - https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-paye

Childcare Vouchers - https://www.gov.uk/expenses-and-benefits-childcare/overview

Childcare Vouchers from 6th April 2011

Since the 6th April 2011, there are legislative changes to childcare voucher schemes. The purpose of the changes is to even out the amount of income tax savings available to all employees joining schemes on or after 6th April 2011 regardless of the marginal tax rate that the individual pays.

From the 6th April the below limit for tax relief on childcare voucher applies:

Earnings Thresholds for 2023/24	**Weekly**	**Monthly**	**Annual**
Below £50,270	£55	£243	£2916
Between £50,271 - £125,140	£28	£124	£1488
Over £125,141	£25	£110	£1320

When a new employee joins the scheme and every April (for new joiners to the scheme since 6th April 2011) a basic earnings assessment has to be completed, taking the below payments into account:

- Annual Salary
- Contractual & Guaranteed Bonuses
- London Weighting, Shift Allowance or Other Contractual Allowances
- Guaranteed Overtime
- Special payments for specialist qualifications (i.e. First Aiders)
- Commission based previous years commission income or an average of previous 2 years, if lower)
- Annual value of taxable benefits

The information contained in this factsheet must not be relied on as giving sufficient advice in any specific case.