Cadwallader & Co
CHARTERED ACCOUNTANTS
Tel: 01938 552625
Email:
office@cadwalladerllp.co.uk

Sept 2019

BE *SMART* – CONSIDER SALARY SACRIFICE!

Income tax and/or NIC savings can be made

Overview

Salary sacrifice is an agreement between an employer and an employee whereby the employee agrees to give up part of his or her salary (or perhaps a scheduled salary increase) in return for one or more non-cash tax efficient benefits, such as childcare vouchers or enhanced employer pension contributions.

By taking a reduced salary, the employee can save income tax and/or NIC whereas the employer saves by reducing employer's NIC due to paying lower gross salaries.

This concept has been around for many years and is not viewed as aggressive tax planning. In fact, H M Revenue & Customs provide guidance themselves to employers on how to set up salary sacrifice arrangements because careful implementation is required.

What can I salary sacrifice?

Due to changes introduced by the Government in 2017, there has been a reduction in the benefits that qualify for the advantageous treatment bestowed by salary sacrifice. However, the following benefits still qualify: -

- Employer (or *Smart*) pension contributions – see below;
- Childcare vouchers;
- Work related training;
- Cycle to work schemes;
- Cars with emissions below 76 g/km.

Smart Pensions

Under *Smart* pension arrangements, employees' contributions are replaced by additional employer contributions. This coincides with the employees agreeing to a reduction in their salaries equal to the amount of the improved contributions.

Note that *Smart* pensions are fully compatible with auto-enrolment although careful implementation is required.

How does it work?

Employer pension contributions are both tax and NIC efficient while employees' contributions are only tax-efficient. By sacrificing salary for an increased employer pension contribution, it ensures that the whole pension contribution is NIC-efficient for the employee. In addition, an employer recognises an employer NIC saving on the sacrificed amount such that both employer and employee save on NIC.

This is best illustrated by way of an example.

Iestyn is considering entering into a salary sacrifice arrangement with his employer in respect of pension contributions.

Currently, he makes an employee contribution of 5% of his salary into his approved pension scheme which his employer matches this by making a 5% employer contribution.

He is considering sacrificing 5% of his salary in return for an additional employer contribution of 5%, such that his employer will make a 10% contribution to Iestyn's approved pension scheme. At the same time, Iestyn will stop his existing 5% employee contribution.

This example is based on tax rates for 2019/2020.

	Before salary sacrifice	After salary sacrifice	Savings
Gross salary	£20,000	£19,000	
Employee pension contribution	-£1,000	£0	
Personal allowance	-£12,500	-£12,500	
Taxable income	£6,500	£6,500	
Tax due @ 20%	£1,300	£1,300	
Employees NIC due	£1,364	£1,244	£120
Net Salary	**£16,336**	**£16,456**	
Employer NIC	£1,569	£1,431	£138
Total Pension Contributions	£2,000	£2,000	
SAVINGS			**£258**

What to watch out for?

Salary sacrifice is not for everyone and whether an employee can enter into such an arrangement will depend on his or her personal circumstances. It is important to remember that part of an employee's salary is genuinely being sacrificed so it will have an impact on such matters as: -

- Mortgage applications;
- Contribution-based state benefits such as state pension or incapacity benefit;
- Benefits, working tax credit and child tax credit;
- Personal loans or credit card limits;
- National Minimum Wage;
- Maternity pay.

Contact Us

We would be delighted to discuss the potential for your business to implement salary sacrifice arrangements. Please feel free to speak to Simon Rivara on 01938 552625 or e-mail him on simon.rivara@cadwalladerllp.co.uk.

Cadwallader & Co
CHARTERED ACCOUNTANTS
ICAEW CHARTERED ACCOUNTANTS
Tel: 01938 552625
Fax: 01938 555505
Email: office@cadwalladerllp.co.uk