



Did you know that salary sacrifice (also known as salary exchange, SMART Pension and Smart Pay) can provide you with an opportunity to increase your pension contributions without affecting your net income (This is the income left after you have paid tax and national insurance contributions)?

What is salary sacrifice?

A Salary sacrifice scheme is an arrangement between you and your employer in which you agree to a reduction in your salary or bonus, and in return you receive a benefit. The benefit here is a contribution by your employer of an equivalent amount into your pension. This way you can save on income tax and both you and your employer can save on national insurance contributions (NIC)

The sacrifice is achieved by varying your terms and conditions of employment as you are giving up your contractual right to future cash payments to the amount sacrificed.

Advantages of salary sacrifice for you

1. Salary sacrifice can be used to maintain your level of pension savings and see an increase in your net take home income
2. Or salary sacrificed can be used to boost your pension savings while leaving your net take home income unchanged.
3. You can save NIC of 12% (from 6 November) of the amount sacrificed on earnings above the primary threshold (£9,880 for tax year 2022/23). For any earnings above the upper earnings limit (£50,270 for tax year 2022/23) your NIC Saving will be 2% (From 6 November).
4. Your earnings that would be taxed can be sacrificed into pension contribution which are not taxed.
5. It provides you with a tax-efficient way to save for your retirement

Depending on your circumstances there may be disadvantages to salary sacrifice and it is important you understand these.

We explain these in 'What you need to be aware of about salary sacrifice' later in this guide, and it is important you read this section

How is salary sacrifice arranged?

Strict rules apply to salary sacrifice to protect both you and your employer. The following factors laid down by HM Revenue and Customs (HMRC) for salary sacrifice need to be met:

1. Your terms and conditions of employment need to be revised.
2. This revised contract must state that you are entitled to a lower cash payment and separately a benefit (in this case enhanced employer pension contribution) because of a sacrifice.
3. The agreement between you and your employer must refer to the benefit being given in exchange for the sacrifice.
4. Only your entitlement to future salary can be sacrificed and this must be done before it is treated as received for tax purposes.

The information contained in this guide is based on current interpretation of current, taxation law and HMRC Practice for the 2022/23 tax year, which may change in the future.

The value of any tax relief depends on your financial circumstances.

A guide for employees

Salary Sacrifice and Pension



JWL Accountancy

The purpose of this table is to demonstrate the amount by which your net (take home) income increases under salary sacrifice whilst maintaining the same total pension contribution.

You can also choose to use the savings generated by salary sacrifice to increase your pension contribution which would mean that you take home income would be the same.

This is just an example calculation and how much you save will depend on by how much you choose to reduce your monthly pay.

BASIC RATE TAXPAYER		
	Current Pension Scheme	Salary sacrifice
Annual salary	£30,000	£28,500
Monthly Salary	£2,500	£2,375
Employee contribution before tax relief	£100	£0
Employee contribution after tax relief	£125	£0
Tax	£290.40	£265.40
National Insurance	£174.24	£159.24
Take Home pay*	*£1,935.36	*£1,950.36
Employer Contribution	£75	£200
Total Invested per month	£200	£200
Employer monthly NI Saving	£0	£17.25
*Take home pay is £15 per month greater under salary sacrifice		

HIGHER RATE TAXPAYER		
	Current Pension Scheme	Salary sacrifice
Annual salary	£60,000	£57,000
Monthly Salary	£5,000	£4,750
Employee contribution before tax relief	£200	£0
Employee contribution after tax relief	£250	£0
Tax	£952.06	£852.06
National Insurance	£393.14	£388.14
Take Home pay*	*£3,454.80	*£3,509.80
Higher/Additional Tax relief reclaimed via self-assessment	£50	-
Employer Contribution	£150	£400
Total Invested per month	£400	£400
Employer monthly NI Saving	£0	£34.50
*Take home pay is £5.00 per month greater under salary sacrifice (after allowing for higher rate tax relief) however does not allow of any additional savings like Child Benefit		

A guide for employees

Salary Sacrifice and Pension



JWL Accountancy

Example monthly payslip

Ann Example Month Ending 30 Apr 2022

DEMO COMPANY

Employee Details	Payments	Deductions
Tax code: 1257L National Insurance number: National Insurance table: A	Monthly pay: £2,500.00 Total: £2,500.00	Tax: £265.20 National Insurance: £205.64 Salary sacrifice: £125.00 Total: £595.84

1.25% uplift in NICs funds NHS, health and social care

This Month

Taxable gross pay	£2,375.00
Employer National Insurance	£243.36
Net pay	£1,904.16

Year to Date

Taxable gross pay	£2,375.00
Tax	£265.20
Employee National Insurance	£205.64
Employer National Insurance	£243.36

Payment

£1,904.16

Employer PAYE Reference: 123/0000000

Created with brightpay

This monthly Salary is your pre-sacrificed salary

Salary sacrificed shown on a standard payslip as a reduction to salary before tax and NIC.

Overall post-sacrificed salary, reported to HMRC



What you need to be aware of about salary sacrifice

Like any financial decision salary sacrifice is not suitable for everyone. You should be aware of the potential drawbacks and take these into account before deciding.

You need to be aware that salary sacrifice could affect your current or future entitlement to a range of state benefits, including the receipt of tax credits.

If your earnings (after salary sacrifice) fall below a certain limit (currently £6,396* a year), you will not be eligible for.

- Statutory sick pay.
- Statutory maternity, Paternity or adoption pay.
- Incapacity benefit
- Jobseekers allowance (although means-tested benefits may still be claimed)

If you have not paid enough NIC on your income, state pension benefits may also be reduced on retirement.

Salary sacrifice should not reduce your cash pay to below the national minimum wage. This means that if you are working full time and earn around £18,525.00 a year or less, you should take care when considering any salary sacrifice scheme.

Any amount that you sacrifice is taken from your pay before tax is deducted. If you are a non-taxpayer (you earn less than your personal allowance) you do not benefit from the tax relief that a taxpayer would receive. If you are paying into a personal pension, it may be more cost effective to pay personal contributions rather than use salary sacrifice, as personal contributions are automatically deducted net of basic rate tax relief regardless of the amount you earn.

Other impacts are on your borrowing levels, such as mortgage borrowing, credit card and personal loan limits, income protection insurance benefits and redundancy entitlements.

Pay-related benefits, such as overtime payment, life insurance, salary increments and final salary pension benefits may be calculated on your pre-sacrificed salary, this depends on what your employer has stated in your employment contract.

***2022/23 Limits**



Question & Answers

If I decided not to opt for salary sacrifice initially, when can I join in the future?

Joining a salary sacrifice scheme is subject to eligibility, the terms and conditions of the scheme, your acceptance of a change to your contract of employment, and the scheme continuing in existence. You will need to check with your employer if you can join the salary sacrifice scheme later.

Can I withdraw from salary sacrifice at any time?

Subject to rules of the salary sacrifice scheme of your employer, you can withdraw from salary sacrifice for pension at any time although you will need to check with your employer to find out when you will be able to choose salary or bonus sacrifice again

Are there any restrictions on eligibility for salary sacrifice?

There is certain restriction on eligibility. At any time during your employment your gross pay must not fall below the national minimum wage or national living wage rates, either before or after the salary sacrifice reduction. The rates from April 2022 are as follows:

- £6.83 for those aged 18-20
- £9.18 for those aged 21-22
- £9.50 for those 23 and above

You cannot sacrifice statutory maternity, paternity, adoption pay or sick pay. If you have already joined the scheme before taking maternity, paternity, or adoption leave, you will receive statutory maternity, paternity, or adoption in full and your employers' contributions will be maintained at the level they were prior to you taking the leave including the amount you have been sacrificing. While in receipt of Statutory sick pay, employer contributions will be based upon your sick pay received at the percentage agreed under your salary sacrifice agreement.

How will salary sacrifice affect my tax credits or Universal Credits?

Tax credit and Universal Credit are benefits for families with children and working people on low incomes. The amount of tax credits you receive depends on your total family income and your own family circumstances.

HMRC/DWP Administers tax credits and for more information on how salary sacrifice could affect the amount received please contact HMRC or DWP.

If I work additional hours, what rate will I get paid?

Your terms and conditions of employment with your employer will show whether your overtime pay is based on your salary before or after sacrifice.

If I apply for a mortgage, a Loan or similar Credit, what should I advise as my earnings?

You should quote your revised gross pay (post-Sacrifice). Using the illustration from earlier pre-sacrifice salary would have been £30,000, however once opt in you will need to quote £28,500.

Should I get independent financial advice?

This is entirely up to you, if you do not presently have one, use the contact below: (However you may be charged for this service)

www.unbiased.co.uk