

## Salary Sacrifice

The concept of salary sacrifice is fairly simple. It is an agreement with your employer where you request that they reduce your salary and have the sacrificed salary paid into your pension.

### The advantages of Salary Sacrifice can be summarised as follows

Pension contributions are recorded as “employer” contributions which means they do not have to be declared on a tax return in order to receive the full tax relief you are due.

There will also be a saving of National Insurance (NI) contributions for you. For the tax year 2011/2012 National Insurance (NI) of 12% is payable by an employee on earnings between £7,225 and £42,475. In addition, employees pay 2% NI on any earnings above £42,475. By electing to have the employer pay the pension contribution in lieu of the sacrificed salary, the employee’s NI is saved.

Your employer also saves NI on the amount sacrificed. If they pass some or all of this saving back to you this will be confirmed by letter.

### The potential disadvantages are as follows:

1. A number of State benefits depend on maintaining a minimum level of National Insurance contributions (for example, the State Second Pension, Incapacity Benefit, Statutory Sick Pay, Statutory Maternity Pay and Job Seekers Allowance). However, for most employees, paying less in National Insurance will not adversely affect your entitlement to State benefits. The limit is currently £102 per week (2011/2012 tax year).
2. Reducing your salary could have an adverse effect on your borrowing capacity for Mortgages, credit card limits, personal loans etc.
3. Any reduction of salary between £14,400, and £40,040 will reduce your entitlement to the State Second Pension (S2P) or the level of your rebate if you are contracted out.

### You should be aware of the following:-

All other benefits provided by your employer, for example Death in Service will be calculated in relation your pre sacrificed salary (Base Salary).

A salary sacrifice is a permanent change to your terms & conditions of employment.

Families with children may be entitled to claim Child Tax Credit dependent upon their income and other circumstances. It is our understanding that you can disclose your post salary sacrifice salary for this purpose. However we recommend that anyone already in receipt of this benefit should seek individual advice from your nearest HM Revenue & Customs enquiry centre if they are in doubt about how it will affect them.

Working Tax Credit is a benefit for low earners and the same principle applies as for the Child Tax Credit.

Your employer reserved the right to withdraw this salary sacrifice arrangement.

The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested.

Levels and bases of relief from taxation are subject to change and their value depends on the individual circumstances of the investor.

The information contained in this leaflet is our understanding of current legislation, taxation law, HM Revenue and Customs practice which are subject to change.

Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate on the date it is received or that it will continue to be accurate in the future.

We do not assume legal responsibility for any errors or omissions contained in this leaflet.