

Benefits Brief

Employee edition/November 2022

An employee guide to salary sacrifice – frequently asked questions

What is salary sacrifice?

Salary sacrifice (also known as ‘salary exchange’) is a fairly simple concept. It’s an arrangement between you and your employer where you request to reduce your salary in exchange for a contribution into your pension.

How does it work?

You agree to reduce your salary, giving up a percentage that you wish your employer to pay directly into your pension, before any National Insurance or tax is deducted. This reduces your annual gross salary, but because it decreases the amount of National Insurance you pay, it reduces the cost of your pension contribution, but you still invest the same amount.

For those earning less than £50,270 for the tax year 2022/23 this equates to a 12% NI saving. If you earn more than £50,270 you will save 2% National Insurance (NI) on the amount you sacrifice on earnings above this threshold.

What are the other advantages of salary sacrifice?

Instead of increasing your net income salary sacrifice can be used to increase the amount going into your pension scheme without affecting your current net income. Your contributions to your pension are increased by an amount equivalent to the NI saving. This means that you will benefit from the saving, plus tax relief, being invested into your pension.

Are there any other disadvantages?

It’s important to note that salary sacrifice may not be appropriate for everyone. When you apply for a mortgage, most lenders now look at affordability, however a small number of lenders still use of a multiplication of salary to calculate affordability. With these lenders a salary sacrifice arrangement could have an adverse effect on your borrowing capacity. Your employer can provide a letter, if needed, confirming your pre-sacrifice salary and that you are part of a salary sacrifice scheme.

Salary sacrifice could also affect your entitlement to some state benefits. If your earnings fall below a certain limit (currently £6,240 for the tax year 2022/23), you won’t be eligible for some state benefits such as statutory sick pay; statutory maternity, paternity or adoption pay; incapacity benefit; jobseekers’ allowance and tax credits.

Is salary sacrifice right for me?

Salary sacrifice should not reduce your pay below the national living wage. So, if you are working full-time and earn around £19,000 or less then you should carefully consider whether salary sacrifice is right for you.

My employer runs the salary sacrifice arrangement on a ‘negative affirmation’ basis. What does this mean?

If your employer runs this arrangement on a negative affirmation basis then they’ll automatically arrange for your pension contributions to be made via salary sacrifice, providing you do not earn below the minimum earning threshold that your employer has set.

If you decide that you don’t want to make your pension contributions via salary sacrifice, then you can opt-out. You should contact your HR department to let them know.

Which figure will be used as a base figure for future wage reviews and redundancy calculations?

There is usually no change to how the figures will be calculated, your employer will usually continue to use your pre-sacrificed salary. The New Actual Salary/Pay is your new gross salary/pay after all deductions via salary sacrifice. This includes for example pension contributions, childcare vouchers, and cycle to work scheme where relevant.

What is the maximum % of salary I can sacrifice?

Your employer will usually have a maximum that they will allow you to sacrifice. You also cannot sacrifice salary which means you would receive less than the National Minimum/Living Wage.

This does not mean you can't pay pension contributions above this amount just that they can't be paid using salary sacrifice.

What is the annual threshold for pension contributions?

The annual allowance is a limit on the amount that can be contributed to your pension each year, while still receiving tax relief. It's based on your earnings for the year and is capped at £40,000. If you have taxable income over £200,000 your annual allowance may be less than this. For more information on this please visit this link: <https://www.gov.uk/tax-on-your-private-pension/annual-allowance>

I pay income tax on my salary that is higher than the basic rate, how does salary sacrifice impact me?

If you pay income tax at a rate higher than the basic rate (20% for 2022/23) then you would previously have had to claim your additional tax relief directly from HMRC. This may have been through a self-assessment tax return or by receiving an adjustment to your tax code. The good news is that when you use salary sacrifice you will receive all of the tax relief you are entitled to immediately without having to make any further claims.

It is important however that you notify HMRC immediately that you are moving to salary sacrifice so that you don't receive your tax relief twice and build up an unexpected tax bill. You can notify HMRC by phone or using their online chat service. The contact details are here:

<https://www.gov.uk/government/organisations/hm-revenuecustoms/contact/income-tax-enquiries-for-individuals-pensioners-and-employees>

Where can I find out more about salary sacrifice?

If you want to find out more about salary sacrifice, you can visit the Money Helper (formerly Money Advice Service) website; <https://www.moneyadviceservice.org.uk/en/articles/salary-sacrificeschemes>

The information contained within this guide is based on SecondSight's understanding of current legislation which may change in the future. The value of any tax relief depends upon your financial circumstances. Tax rules may change.

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