## Time to review your salary sacrifice arrangements?

**New rules for taxing many salary sacrifice arrangements come into force from 6 April.**

One of the employment trends of recent years has been to make employee remuneration more flexible. Instead of pay and, if you were lucky, a company car and healthcare, 'cafeteria remuneration' has become common, giving employees the choice of sacrificing pay for a wide range of benefits from extra holiday to gym membership and mobile phones. Employers and employees have both gained from these arrangements:

- The employer saved on national insurance contributions (NICs) at a rate of 13.8% of pay, although some – or even all – of that reduced bill may have been passed on to the employee.
- The employee also saved NICs, generally at 12% if they were basic rate taxpayers and 2% if they paid higher or additional rates.
- Crucially, the taxable value of the benefit was less than the pay forgone. In some instances, such as the mobile phone or gym membership, the tax liability was nil.

The main loser from salary sacrifice arrangements has been HM Treasury, so it was little surprise when George Osborne signalled a review in last year's Budget. This produced a consultative document that has now been transformed into draft legislation.

The changes, which took effect from the start of the 2017/18 tax year, remove most of the advantages of salary sacrifice, with a few important exceptions. For new schemes, income tax and employer's NICs will be based on the *greater* of:

- The salary forgone; or
- The taxable value of the benefit received (which will be less, as otherwise the arrangement would normally not make sense).

There are some inevitable transitional measures for arrangements in force before 6 April 2017, but apart from cars, employer-provided accommodation and school fees funding, the new rules will bite in no more than 12 months' time.

There is also a handful of specific exemptions, one of the most important of which is salary sacrifice arrangements for pension contributions. These continue to provide major benefits, as the example shows.

**Still a sensible sacrifice**

Frank is a higher rate taxpayer who normally contributes £5,000 a year (before tax relief) to a self-invested personal pension. Instead, he could sacrifice £4,394 of his salary to achieve the same result via an employer pension contribution and save £778 in salary (an extra £451 net, after tax and NICs), assuming his employer rebates their full NIC saving:

| | **Personal Payment** | **Salary sacrifice** |
|---|---|---|
| | **£** | **£** |
| Salary | 5,172 | 4,394 |
| Employer's NIC Saving @ 13.8% | - | 606 |
| Employee's NIC @ 2% | -103 | |
| Tax @ 40% | -2,069 | |
| Net income | 3,000 | |
| Pension Contribution net of tax reliefs | 3,000 | |
| Tax relief £5,000 @ 40% | 2,000 | |
| Gross Pension Contribution | 5,000 | 5,000 |

For a personalised illustration of how salary sacrifice could boost your pension contributions, please talk to us. It could make up for the extra tax you will end up paying on other sacrifice arrangements…

*The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.*