

## Press Release

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### Reducing Employee Costs through Salary Sacrifice

Salary sacrifice is an arrangement where employees agree to exchange earnings for non cash benefits in kind. Large and small organisations alike are now using salary sacrifice to realise substantial savings in respect of National Insurance, and in some cases tax, which can benefit both employers and employees.

Ian Prescott, Employment Tax Manager at accountants Armstrong Watson, advises on the benefits of salary sacrifice:

“Reduction of earnings due to salary sacrifice means an employer pays less National Insurance. Employees will also see National Insurance savings and, with some benefits, a tax saving as well.

Significant National Insurance savings can usually be achieved through pensions salary sacrifice. Employee pension contributions are converted into employer contributions, which do not attract National Insurance. The pension scheme becomes non-contributory while all other aspects of the scheme remain the same.

Employees benefit from a National Insurance saving. In addition employers have the option to pass on some of their employer National Insurance saving to the employees if they wish which often improves the perception of the pension scheme, at no extra cost to the employer, and increases employee pension contributions.

Employer savings are typically 12.8% of the original employee pension contributions, and savings are taken the tax month following implementation of the scheme, by reduction of National Insurance Contributions payable to HM Revenue & Customs.

Salary sacrifice can be utilised for a number of tax and National Insurance efficient benefits such as:

- Childcare vouchers
- Car parking
- Cycles
- Public transport season ticket loans
- Daily subsistence allowances for employees required to work away from their base or normal place of work

All of these have the benefit of saving both tax and National Insurance.

Additionally, employee only National Insurance savings can be made, by exchanging salary for a taxable benefit, which going forward would only attract employer's Class 1A National Insurance, thus eliminating employees' Class 1 Contributions:

- Private healthcare
- Dental insurance
- Motor insurance
- Wine club subscriptions
- Gym membership

All of these have the benefit of saving employees' National Insurance.

It is extremely important to recognise that salary sacrifice may not be appropriate for all employees, however, consideration will be given to employees' pay with wages not permissible to be reduced below national minimum wage levels, together with any interaction of state benefits and allowances carefully considered.

Good communication from employer to employees is the key to a successful implementation of a salary sacrifice scheme arrangement.

**So what does salary sacrifice achieve?**

- The employer's overheads are reduced
- The employer has more to offer employees
- The employer helps the employees have a greater say on how their remuneration package is provided
- The value the employer gets from benefit spend is maximised."

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