



not for profit | salary sacrifice schemes

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Salary sacrifice schemes are well established and accepted by HM Revenue & Customs (HMRC) as a legitimate planning opportunity. A salary sacrifice occurs when an employee gives up their right to receive part of the cash pay due under their contract of employment in return for the employer's agreement to provide the employee with some form of non-cash exempt benefit. The "sacrifice" is achieved by varying the employee's terms and conditions of employment relating to pay.

Salary sacrifice is a matter of employment law, not tax law. Where an employee agrees to a salary sacrifice in return for a non-cash benefit, they give up their contractual right to future cash remuneration. It is important to ensure that the sacrifice is "effective" otherwise the scheme fails, but it is not a difficult result to achieve. Salary sacrifice arrangements are effective when the contractual right to cash pay has been reduced.

For that to happen, two conditions have to be met:

- the potential future remuneration must be given up before it is treated as received for tax or national insurance contribution (NIC) purposes; and
- the true construction of the revised contractual arrangement between employer and employee must be that the employee is entitled to lower cash remuneration and a benefit.

Typically, salary sacrifice is used to offer exempt benefits such as childcare vouchers up to £55 per week, work-related training, bike to work schemes or additional pension contributions, because all of these benefits are exempt from tax.

The result is that the employee receives a benefit, tax and NIC free and, although they are sacrificing salary to obtain the benefit, the amount they need to sacrifice is the net rather than gross amount.

pension scheme salary sacrifice

Although pension contributions are tax-exempt, employee pension contributions, unlike employer contributions, are liable to NICs. Salary sacrifice for pension contributions enables NIC savings as well. The salary sacrifice can cover the employees' usual pension and additional contributions if permitted by the scheme rules.

setting up a scheme

haysmacintyre can assist you to implement a scheme and gain HMRC approval of the scheme for you. We work in conjunction with employment lawyers to offer you a complete service.

about haysmacintyre

haysmacintyre, Chartered Accountants and business advisers, works with over 550 charities and not for profit organisations in the UK and overseas. Our services include the full range of audit, tax, VAT and comprehensive advisory services. Our multi-disciplinary specialist team has extensive sector experience working for a diverse range of charities. We are based in one location which ensures an integrated and comprehensive approach to our clients' requirements.

haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries.



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