



tax | flexible salary arrangements

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Taking a flexible approach to the total remuneration package can have significant benefits for employees and employers alike.

This factsheet sets out how flexing salary payments, sometimes referred to as salary sacrifice arrangements works and highlights the benefits. This type of arrangement is a legal concept and requires the variation of the terms and conditions to contracts of employment. Legal advice should be sought in relation to this.

Flexible salary arrangements can have a valuable role to play in controlling payroll costs. This type of arrangement has been around for some time and is tried and tested. Flexible salary arrangements work most effectively in respect of benefits that do not attract a tax or National Insurance (NIC) liability.

A flexible salary arrangement simply describes what happens when an employee gives up the right to part of their salary and in return the employee receives a benefit in kind that is valuable to them. This could include (but is not restricted to) for example:

- childcare vouchers,
- contributions into their pension or
- maybe a bike used to travel to work.

The flexibility is that the employee chooses the arrangement(s) that best suits them at that particular time. For example, the benefit might take the form of an enhanced contribution into the employee's pension fund for those concerned over their retirement provision or, possibly, the provision of childcare vouchers for those employees with young families.

The employee receives a lower salary, but still has the full value of the childcare vouchers whilst also paying less PAYE/NIC. The employer also saves the employer NIC costs. Employers save 12.8% (rising to 13.8% in 2011/12) in respect of Class 1 NIC.

Such schemes demonstrate how employees are valued and takes account of their life outside work. For many employees this type of arrangement has had a positive effect on attracting new staff or retaining existing employees.

The flexible arrangement can be extended to benefits that attract a low benefit charge, (where only a marginal cost arises); this may include goods or services that your organisation provides as part of its business or in return for buying or selling holiday entitlements. The arrangements can be as restricted or far-reaching as you wish them to be.

If you think that this type of arrangement would be suitable for you please contact our Employment Tax Team.

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