

Technical Note

Salary Sacrifice

Scottish Widows Platform

Salary Sacrifice is where an employee sacrifices part of their salary and/or bonus in return for their employer paying the amount sacrificed as an employer pension contribution on their behalf.

Such an approach can be far more attractive than the employee making a direct pension contribution on his/her own behalf, particularly where their employer is prepared to increase the employer pension contribution by part or all of their NIC saving.

The following example, based on a 40% UK (non-Scotland) taxpayer, will help to demonstrate this.

Example

The phasing out of the personal allowance at income between £100,000 and £125,140 creates an opportunity for salary sacrifice planning.

In the example, a salary sacrifice of £13,003 gives the same net income as if the pension contribution had been paid personally. By also passing on the employer NIC saving of £1,795, the total pension contribution will be £14,798.

Full SIPP	No pension contribution (£)	Personal pension contribution (£)	Salary sacrifice pension contribution (£)
Taxable income	112,570	112,570	99,567
Personal Allowance	6,285	12,570	12,570
NIC (employee)*	6,130	6,130	5,870
Tax (employee)	34,974	29,946	27,259
Employee pension contribution (net)	0	10,056	0
Take home pay	71,466	66,438	66,438
Employer contribution	0	0	14,798

Notes

* NIC band £12,571.00 – £50,270 at 12%, 2% on excess.

These figures are based on the yearly NIC and tax rates for the 2025/26 tax year.

For Scottish taxpayers, the Scottish Rate of Income Tax may produce a different result to the rest of the UK due to the different tax rates and bands.

For Welsh taxpayers, the overall rates of income tax payable will be the same as UK taxpayers (excluding Scotland).

Timing of salary sacrifice

For a salary sacrifice to be effective it must be made before the remuneration being given up is treated as received for employment income tax purposes.

For an employee this will normally be the earlier of:

- the date the payment is made, and
- the time the individual becomes entitled to the payment.

Where a company director is concerned, the following additional dates also need to be considered:

- the date when remuneration is credited in the company's accounts or records
- where the remuneration is determined during the course of a company's accounting year (or other period in respect of which the remuneration is paid) it is deemed to be paid at the end of that year or period
- where the amount of remuneration is determined after the end of the period to which they relate, the date the amount is determined.

Where there is any doubt as to the date a director's remuneration becomes assessable to tax as employment income this should be checked with the company or the director's accountant.

HMRC's Employment Income Manual sets out the criteria for a successful salary sacrifice from page EIM42700 onwards.

Tapered Annual Allowance

Individuals need to be aware that their Annual Allowance will be reduced by £1 for every £2 their "Adjusted Income" is above £260,000 (£150,000 for 2016/17 to 2019/20 tax years), but only where their "Threshold Income" is above £200,000. The Annual Allowance cannot, however, be reduced to be less than £10,000.

"Adjusted Income" is broadly taxable income plus employer pension contributions, whereas "Threshold Income" is broadly taxable income less personal pension contributions.

There are anti-avoidance measures for anyone entering into an arrangement on or after 9 July 2015 to avoid or reduce the impact of the tapered Annual Allowance.

Other considerations

Where any employee is assessing a salary sacrifice it is important to consider the impact the salary sacrifice may have on other benefits. For example, if the individual is a member of an occupational pension scheme or a group life scheme, the reduced salary may result in a reduction of his benefits, unless the employer is prepared to continue to base those benefits on their pre-sacrifice salary.

Similarly a reduced salary could potentially reduce the loan available to an individual seeking a mortgage.


For lower paid employees the impact of a reduced salary on state benefits and the impact of the national minimum/ living wage should also be assessed – note that a salary sacrifice arrangement must not reduce an employee's earnings below the national minimum rates.

Key point summary

The attractions of salary sacrifice when making pension contributions should not be ignored.

However, it is important to consider the impact salary sacrifice may have on other benefits and the implications on entering into an arrangement to avoid the tapered annual allowance.

For more information on the Scottish Widows Platform, please contact your consultant.
We may record or monitor calls to improve our service.

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