

Castle Court Consulting Guide to Salary Sacrifice

What is salary sacrifice?

In its simplest terms, salary sacrifice is where you give up the right to some of your salary or bonus in exchange for a non-cash benefit. This can cover a variety of non-cash benefits including childcare vouchers or nursery places, however, this factsheet focuses solely on the benefit of pension contributions.

There are some simple rules that must be followed in order for a salary sacrifice arrangement to be successful.

1. The salary sacrifice arrangement must be in place and the right to the salary must be given up before you would become entitled to the pension contribution.
2. You accept that if you choose a pension contribution via the salary sacrifice option, your salary will be reduced and/or you will not receive your bonus.
3. Once you have opted for the salary sacrifice option, you are unable to change your mind and revert back to your original cash salary and give up your benefit. The outcome, should this occur, would be that your selected benefit may be taxable as earnings.

How does Salary Sacrifice work?

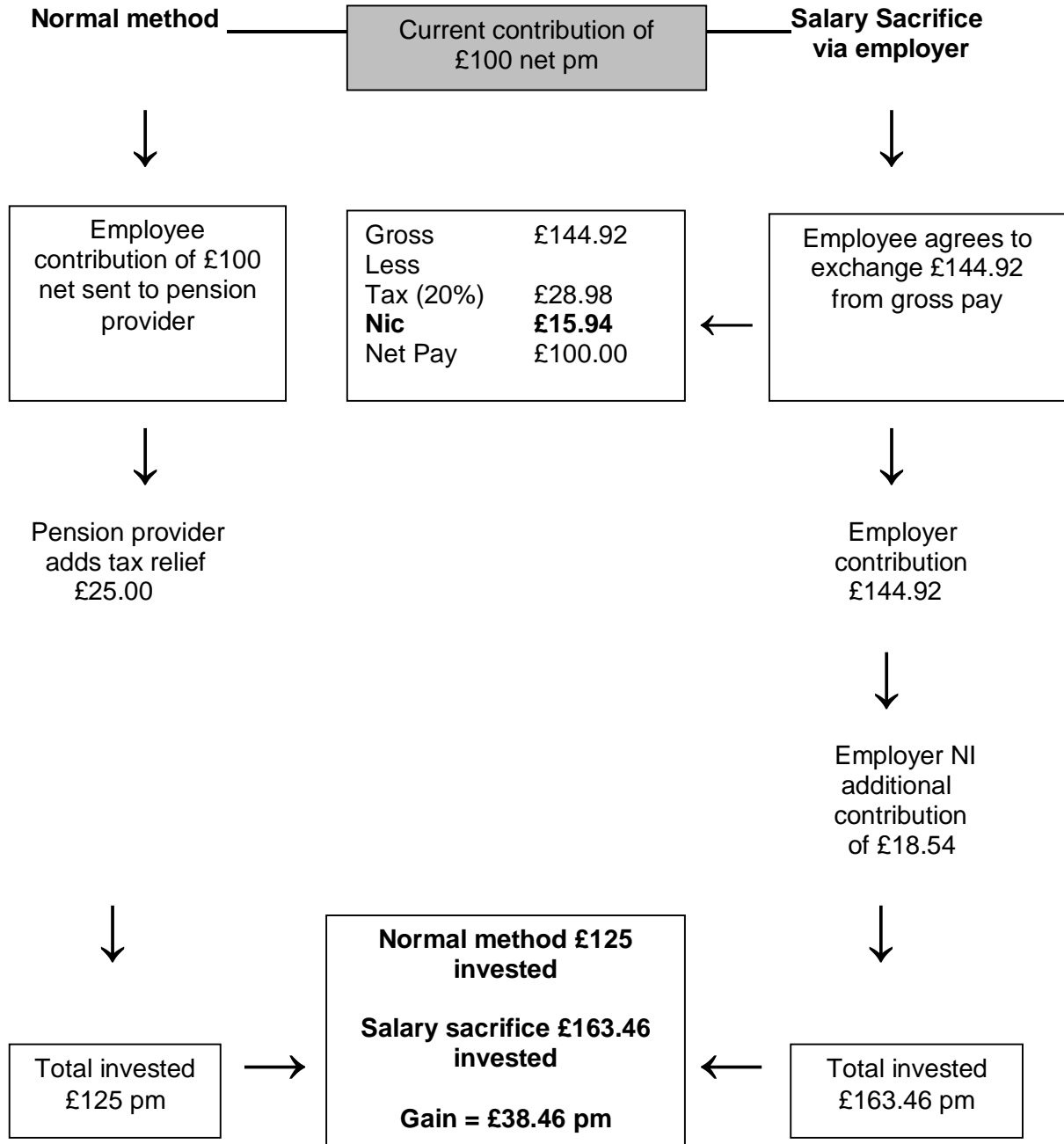
When you opt for a Salary Sacrifice option, you are effectively choosing to take a reduction in salary in return for a benefit, in this case, a pension contribution. As a result of your reduced salary, your employer will pay less in National Insurance. You then opt to have the amount of salary you have sacrificed via the scheme plus your employer National Insurance savings paid into your pension scheme as an employer contribution.

This means that your pension contribution will be enhanced as a result of the Salary Sacrifice, and at the same time, at no extra cost to your employer.

The easiest way of demonstrating the benefits of making pension contributions via salary sacrifice is detailed in the following example:

Example of How Salary Sacrifice Works

Personal Contributions vs Salary Sacrifice



This example shows that for the same cost to your employer, your pension contribution can be enhanced by £38.46 and, most importantly, at no further cost to you.

The impact of this additional £38.46 per month on future pension fund values is significant over just 5 years (assuming a net annual return of 6%) it would provide an additional fund of £2,683. Over 10 years the fund increase is £6,500 and over 20 years is £17,770.

Things to consider before opting for Salary Sacrifice

- Your future salary increases and other salary linked benefits may be affected if based on your lower pay.
- The sacrifice is a permanent alteration to your contract of employment, and as such, your employer may not revert to the original (higher) salary level.
- Your ability to borrow personally (for example a mortgage) may be reduced due to your lower salary
- As a result of your lower salary, your entitlement to state benefits, both present and in the future, could affect your current or future entitlement to some state benefits, for example statutory sick pay, statutory maternity pay, incapacity benefit, jobseekers allowance and the basic state pension.
- Other salary related benefits (e.g. death in service) might be correspondingly affected due to your lower salary.

What Next?

To find out more and get a personalised assessment of how salary sacrifice would work for your own circumstances email Richard Gough (rdig@castlecourt.biz) or call on 029 2034 8630.

Risk Warnings

The assumptions about the tax position of the plans and recommendations made in the report are based on our understanding of current law and HMRC practice which may be subject to alteration in the future. In particular, what assets, gains or income are taxed and the levels of taxation on them are all subject to change. Tax reliefs may also change and their value to you will depend on your individual circumstances.