In the Know....

New Salary Sacrifice Restrictions

The Government announced in the Autumn Statement that it would be placing restrictions on employers' use of salary sacrifice schemes. Here, we take a look at what's going to happen.

How Salary Sacrifice Works

Salary sacrifice arrangements are, normally, where the employee agrees to formally amend their contractual entitlements and give up part of their salary in return for a non-cash benefit in kind. The overall effect is that their take home cash pay is lowered and the remainder is converted into, for example, the equivalent value of tax free benefit such as childcare vouchers. The scheme effectively means the employee gets more value for their wage than they would if they did not convert a portion. Once the salary is given up, the amount of sacrificed salary is not chargeable to income tax or liable for employee or employer National Insurance Contributions (NICs).

Concern at Overuse

The Government initially raised concern at the rising costs of salary sacrifice schemes at the Summer Budget 2015. Following an evidence gathering exercise, the Government announced in the 2016 Budget plans to consider limiting the range of benefits that attract income tax and National Insurance advantages. The scheme creates a significant cost to the Exchequer and HMRC saw an increase of a third in PAYE clearance requests from employers for salary sacrifice arrangements between 2009/10 and 2014/15.

Plans Confirmed

In the Autumn Statement, the Chancellor confirmed the restrictions that are to be placed on salary sacrifice schemes.

From April 2017, tax and employer National Insurance advantages of salary sacrifice schemes entered into on or after this date will be removed in almost all cases. The only schemes that will allow the tax benefits to continue are those sacrificing salary for pensions, childcare vouchers, Cycle to Work schemes and ultra-low emission cars. Although salary sacrifice in relation to anything else - school tuition fees, white goods for example - may continue if employers wish, they will not carry the tax advantages that they previously have.

Phased Implementation

The changes will not take effect straight away for existing schemes; arrangements already in place before April 2017 will be protected until April 2018. Arrangements already in place for cars, accommodation and schools fees will be protected until April 2021.

The content of this briefing is correct at the time of publishing.

Summary

- Salary sacrifice schemes are great incentives for employee recruitment and retention so employers may look at benefits to offer staff;
- Participation in salary sacrifice schemes may be halted during times of non-full pay e.g. maternity leave, where there is no salary to sacrifice;
- Benefits offered in relation to childcare vouchers, cars etc which are not done by salary sacrifice are not affected by these changes.

Please contact the 24 Hour Advice Service for advice on your specific situation before acting on the information in this publication.

Croner
HR · Tax · H&S · Reward