

Salary Sacrifice – the basics

IRIS Payroll

April 2016



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Salary Sacrifice – The Basics

Note: Salary Sacrifice Schemes are governed by employment legislation. We present a simplified explanation here but it is your responsibility to ensure that you comply with the official regulations. For more information, click [here](#) to view the Salary Sacrifice Q&A page of HMRC's website.

What is Salary Sacrifice?

Sometimes a company may offer its employees a non-cash benefit, such as child care vouchers, in place of part of their normal pay. The employee agrees to have his salary or pay reduced accordingly; in other words he sacrifices part of his salary (or pay). The arrangement is recorded in an amendment to the employee's contract, or a new contract is drawn up.

Salary Sacrifice Schemes Pros and Cons

Advantages

The non-cash benefit often has different tax and NI rules or it may be completely exempt, so the employee may be due to pay less tax and/or NI.

In addition, the employer may be due to pay less employer's NI. In some salary sacrifice pension schemes this saving is also passed on to the employee.

Disadvantages

The employee's gross pay is reduced as part of a salary sacrifice scheme. This means that any benefits which are based on the employee's gross earnings may be affected, such as pensions, pay increases and maternity pay. If the salary sacrifice takes an employee's earnings below the Lower Earnings Limit (LEL), for example, she may not be entitled to SMP. Also any personal financial arrangements which are based on the employee's gross pay, such as mortgage offers or other loans, may be affected.

Minimum Wage

The employee's pay after the salary sacrifice is deducted must not be below the national minimum wage.

Types of Salary Sacrifice Scheme

Some common types of salary sacrifice schemes are:

- Pension Contributions – the employer pays the sacrificed amount into the employee's pension
- Childcare Vouchers – up to £55 per week can be provided free of tax and NI
- Bikes for work – the employer helps the employee to pay for a bicycle which is used to travel to and from work

Changes to Contracts

HMRC require the salary sacrifice scheme to be 'effective', which means the employee's contractual right to cash pay has been reduced. Therefore it is important that the change to the employee's salary or pay is reflected in their contract. HMRC also state 'If the terms and conditions provide the right to revert to cash within the period of time they are set to cover, any tax exemption may be lost.' This means that it is also important that the employee cannot opt in and out too easily (except if the benefit is exempt from this rule). Examples of exempt benefits are:

- Employer provided childcare
- Workplace parking
- Employer provided cycles and cycle safety equipment

Additional Software and Services Available

IRIS AE Suite™

The IRIS AE Suite™ works seamlessly with all IRIS payrolls to easily manage auto enrolment. It will assess employees as part of your payroll run, deduct the necessary contributions, produce files in the right format for your pension provider* and generate the necessary employee communications.

IRIS OpenPayslips

Instantly publish electronic payslips to a secure portal which employees can access from their mobile phone, tablet or PC. IRIS OpenPayslips cuts payslip distribution time to zero and is included as standard with the IRIS AE Suite™.

IRIS Auto Enrolment Training Seminars

Choose from a range of IRIS training seminars to ensure you understand both auto enrolment legislation and how to implement it within your IRIS software.

Useful numbers

HMRC online service helpdesk	HMRC employer helpline
Tel: 0300 200 3600	Tel: 0300 200 3200
Fax: 0844 366 7828	Tel: 0300 200 3211 (new business)
Email: helpdesk@ir-efile.gov.uk	

Contact Sales (including stationery sales)

For IRIS Payrolls	For Earnie Payrolls
Tel: 0844 815 5700	Tel: 0844 815 5677
Email: sales@iris.co.uk	Email: earniesales@iris.co.uk

Contact support

Your Product	Phone	E-mail
IRIS PAYE-Master	0844 815 5661	payroll@iris.co.uk
IRIS Payroll Business	0844 815 5661	ipsupport@iris.co.uk
IRIS Bureau Payroll	0844 815 5661	ipsupport@iris.co.uk
IRIS Payroll Professional	0844 815 5671	payrollpro@iris.co.uk
IRIS GP Payroll	0844 815 5681	support@gppayroll.co.uk
IRIS GP Accounts	0844 815 5681	gpaccsupport@iris.co.uk
Earnie or Earnie IQ	0844 815 5671	support@earnie.co.uk