

## Salary Sacrifice - a better way to save

### ***What is Salary sacrifice?***

Salary sacrifice is an arrangement where employees agree to give up some salary or bonus. The amount given up is used by the employer to provide a non-cash benefit to the employee. E.g. remit a pension contribution. As the employee is being paid less gross salary the employer makes National Insurance Contribution (NIC) savings and the employee pays less tax and NIC's.

**Salary Sacrifice arrangements will be more attractive from April 2011 as National Insurance rises by 1%, however, the associated changes to higher rate pensions tax relief means those people with pre tax incomes of £130,000 and over may not find salary sacrifice in exchange for an employer pension contribution suitable.**

### ***What are the savings?***

For employees on earnings between £5,720 and £45,968 per annum (2009/10 NIC rates)

- Employee saving is 11% of their gross pension contribution
- Employer saving is 12.8% of the employee's gross pension contribution

For employees with earnings above £45,968 per annum

- Employee saving is 1% of their gross pension contribution
- Employer saving is 12.8% of the employee's gross pension contribution

***Alternatively the savings can be re-invested into a pension as shown in the worked example below.***

### ***Changing from an Employee and Employer pension contribution to salary sacrifice***

It is easiest to demonstrate how salary sacrifice works through an example. Mike earns £35,000 and pays 5.5% gross contribution to his employer pension scheme. This is calculated as follows:

Salary per annum	£35,000
5.5% gross contribution	£1,925
Tax relief @ 20%	£385
Net cost to Mike per year	£1,540

By using the salary sacrifice method instead the pension contribution is increased by £306.88 to £2,231.88 per year. Additionally the employer saves £285.68 per year in NICs. This is calculated as follows:

Salary	£35,000.00
Salary after sacrifice	£32,768.12
Amount of salary sacrifice	£2,231.88
Saving in tax @ 20%	£446.38
Saving in NIC @ 11%	£245.50
Net cost to Mike	£1,540.00

Amount paid to the pension by the employer £2,231.88

### ***How can we help you?***

Jay Financial will help you re-organise your existing pension scheme or group pension scheme and explain to you and your staff how the concept works. We will provide you with the necessary documents to comply with current guidelines to ensure national insurance relief is allowable.

### **Jay Financial**

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Partners: Jacqueline Fancourt and William George Fancourt (non-advising)  
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