



SALARY EXCHANGE FOR PENSION CONTRIBUTIONS (SxP)

Generate savings in National Insurance by exchanging salary for additional employer pension contributions.

With tax professional support you will experience a smoother transition to salary sacrifice, greater employee appreciation, maximum company savings in National Insurance and the minimum of tax risk.

The Opportunity

Salary Exchange (also referred to as Salary Sacrifice) is now a well recognised concept that has been adopted by a large number of employers across many industries in the UK whereby salary is formally exchanged for another form of payment or benefit usually having a beneficial tax or national insurance treatment. Most employers now operate their pension arrangements via Salary Exchange.

Under a Salary Exchange for Pension Contributions (SxP) savings in National Insurance arise where employee pension contributions, usually made from salary after the calculation of National Insurance, cease. Instead, employees agree to a salary sacrifice in exchange for enhanced employer contributions which can be provided without National Insurance liability arising. SXP can mitigate the cost of compliance with Pensions Auto-Enrolment.

Example (2014/15)

	Current Arrangements		With Pensions Salary Sacrifice	
Employee	£		£	
Gross Pay		30,000		28,500
Pension (1,500 to fund)	5%	-1,200	0%	0
Tax		-4,112		-3,812
National Insurance		-2,669		-2,489
		22,019		22,199 Save £180
Company	£		£	
Pay		30,000		28,500
Pension	5%	1,500	10%	3,000
National Insurance		3,078		2,871
		34,578		34,371 Save £207

It is usually feasible to have notional earnings for pension contributions, thus the new 13.8% employer contribution above is based on notional earnings of £30,000.

For employees earning above the national insurance Upper Earnings Limit, employee savings will be reduced to 2% National Insurance (from 12%).

Based upon the example above, employer National Insurance savings in relation to 100 employees would be £20,700 per year.

The Mechanics

Salary sacrifice involves the alteration of employee contractual terms which must be legally effective to achieve the desired tax and National Insurance treatments. It is common for 'passive agreement' to be used in the process of introducing the arrangements whereby employees are included by default if they do not take up the opportunity to 'opt out'.

The concept of 'notional salary' needs to be reflected in any policies relating to employee benefits to ensure employees do not lose out. For example, rules affecting pension contributions, death in service, bonuses and redundancy should be reviewed and revised.

With any implementation of changes in reward structure, it is important to engage employees early, consistently, positively and effectively in order to achieve maximum take up and therefore optimum savings for the company. Our expertise enables us to support you with easy to read and understand written material and we can help present changes directly to your workforce.

Your Project, Our Support

We are able to guide you through the salary sacrifice process ensuring an effective arrangement to maximise your savings. If the salary sacrifice should fail in the eyes of HMRC, they would seek to recover PAYE tax and National Insurance that would otherwise have been deducted via the payroll.

We are able to help you by:

- Establishing potential savings
- Formulating a policy in relation to the SxP arrangements
- Communicating the changes to employees
- Drafting documentation affecting the salary sacrifice to ensure that this is effective
- Redefining relevant policies and procedures within the business
- Providing training and education to managers and administrators who need it
- Setting out alterations to payslips and payroll adjustments needed
- Obtaining HMRC Clearance when the arrangements have been implemented
- Undertaking periodic post implementation review to ensure continued compliance and value