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ALL MATTERS FINANCIAL

SALARY EXCHANGE

What is it and how can it benefit my company?

SALARY EXCHANGE EMPLOYER'S GUIDE

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Salary Exchange (also known as Salary Sacrifice) is an arrangement employers may make available to employees – the employee agrees to reduce their earnings by an amount equal to their pension contributions. In exchange, the employer then agrees to pay the total pension contributions.

What is it?
A Salary Exchange arrangement is an agreement to reduce an employee's entitlement to cash pay, usually in return for a non-cash benefit.

Why use it?
As lower gross salaries are being paid to employees, the amount of National Insurance Contributions (NICs) owed by the employer and employees are reduced.

What are the savings?
The amount you can save will depend on the number of employees in your workplace pension scheme.

See the table below for examples. Please note this assumes 5% employee pension contribution on average pensionable earnings of £35,000.

This can result in significant savings, which can be re-invested in wider employee benefits or retained by the company.

Your employees could also save 8% of the amount they exchange, depending on their earnings (2% for higher tax rate payers).

What are the advantages?

- You save on NICs
- Your employees save NICs
- You can choose to keep any NIC savings or reinvest them into your employees' pension plans
- The pension contribution cost is not increased

How does it affect higher rate taxpayers?
As the pension contribution will be paid by Salary Exchange no income tax is deducted as the salary has been given up.

Higher rate taxpayers effectively get the tax relief immediately and do not have to claim it through their self assessment tax return.

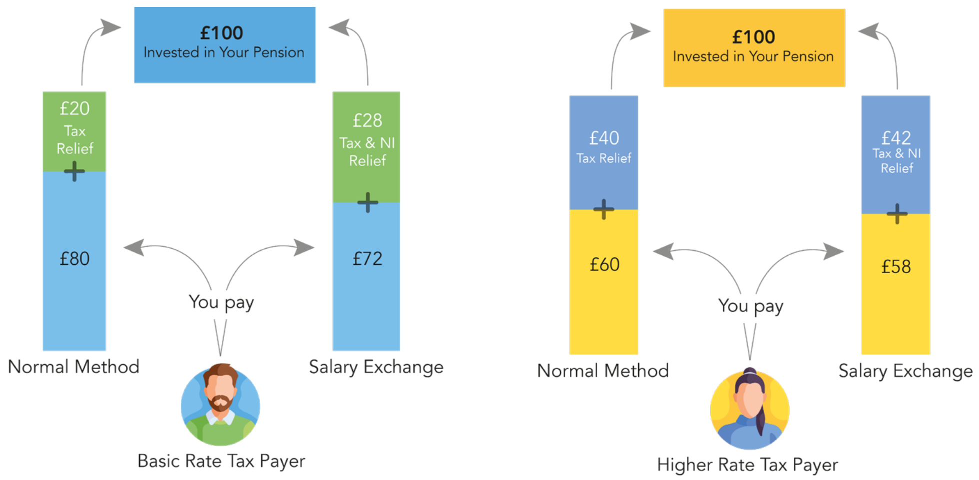
Important things to consider
It is important to be aware that Salary Exchange may not be suitable for all of your employees. For example:

- A Salary Exchange arrangement must not reduce an employee's cash earnings below the National Minimum Wage (NMW) or National Living Wage rates (NLW) rates.
- Salary Exchange is a contractual agreement. This means that you need to alter the terms and conditions of employment for the employees who choose to opt in.
- It is important that Salary Exchange is clearly communicated to employees so they understand fully whether it is suitable for them.

Number of Employees in Pension Scheme	Potential Employer National Insurance Saving 2024/25
25	£6,600
50	£13,000
75	£20,000
100	£25,000
150	£40,000
250	£65,000
500	£130,000

**Rounding Applied*

Example Employee Contribution
The following illustrations summarise the comparison of the two methods for employee contributions for basic rate and higher rate tax payers:



For the higher rate tax payer example, £20 of the £40 tax relief using the normal method is claimed via a self assessment return. With the Salary Exchange Method there is full and immediate tax relief.

HOW CAN PARETO HELP?

Summary of how Pareto can help you to implement Pensions Salary Exchange, including

- Support with HMRC and the Pension Regulator rules
- Design a Pensions and Salary Exchange process and rules document
- Draft of pension communications
- Project Management of pension change
- Pension and salary exchange presentation with employees

What next?
To find out if Salary Exchange is right for your company or to discuss your situation and options, please speak to your adviser or call us on 0161 819 1311.

You can view the full HM Revenue & Customs (HMRC) guidance on Salary Exchange on their website: http://www.gov.uk/salary-sacrifice-and-the-effects-on-paye

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