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 and SMART pensions) 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 is reduced. Employees also save money too.

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 £24,000.

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 12% of the amount they exchange, depending on their earnings (2% for higher tax rate payers).

Does this affect other salary related employment benefits?
It is common for an employer to retain an employee's 'Reference Pay', i.e. their basic annual salary, hourly rate or day rate before any Salary Exchange arrangements. This can be used for all pay related benefits such as:

- Any future salary/pay increases
- Calculating any overtime or bonus payments
- Providing information about earnings for income references, e.g. a mortgage application
- For life assurance purposes for calculating any termination payments
- Pay in relation to family leave

Number of Employees in Pension Scheme	Potential Employer National Insurance Saving 2022/23
25	£4,140
50	£8,280
100	£16,560
150	£24,840
250	£41,400
500	£82,800

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

Can Salary Exchange be used with existing pension plans?
Yes, Salary Exchange can be introduced into an existing plan as well as new plans.

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.

How do I set it up?
As an employer, you can set up a Salary Exchange arrangement by changing the terms of your employee's employment contract. Your employee needs to agree to this change.

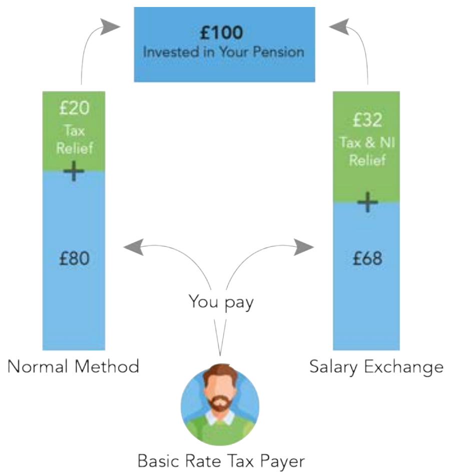
Important things to consider
It is important to be aware that Salary Exchange may not be suitable for all of your employees. For example:

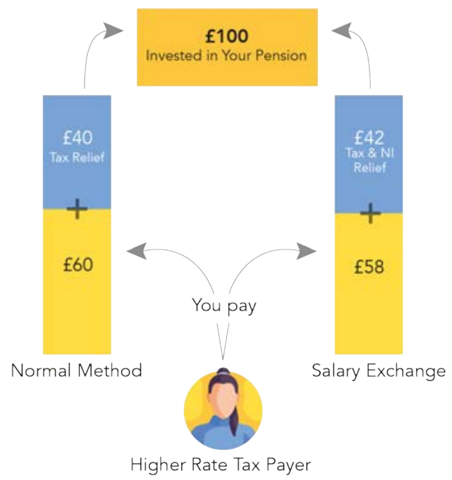
- A Salary Exchange arrangement must not reduce an employee's cash earnings below the National Minimum Wage (NMW) or National Living Wage rates (NLW) rates.
- Your employees' yearly pre-tax salaries will reduce by agreeing to Salary Exchange. If your employees' earnings fall below the lower earnings limit, this can affect their entitlement to things such as statutory and salary related benefits.
- 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.

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: www.gov.uk/salary-Exchange-and-the-effects-on-paye

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.

Supporting and rewarding your most valuable asset

Pareto Financial Planning is proud to support businesses that value their employees and the important role they play in their ongoing success.

Working alongside your organisation we are able to assist with the development of employee benefit schemes that work for everybody, helping you and your business to not only retain your best employees, but attract new members of staff – ahead of your rivals.

Our dedicated Employee Benefits team have decades of experience in advising companies and helping them to meet the needs of their employees. Visit our website or contact Alan Makinson on 07559 903 671 to find out more.

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