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## Proposed Changes to Salary Sacrifice Arrangements

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Historically salary sacrifice schemes have been an ideal way to take advantage of tax exemptions but HMRC is clamping down on their use.

### Background

Under a salary sacrifice an employee gives up a certain amount of cash salary for a benefit in kind (BiK). The arrangement is most effective where the BiK taken in exchange for a cash salary is exempt from tax and National Insurance (NI).

Where this is the case, the employee saves both tax and employee's National Insurance and the employer saves employer's NI contributions.

To enjoy the tax and NI savings that a salary sacrifice can offer, it must be 'effective' in the eyes of HMRC. To be effective, the employee's contract must be altered to reflect the revised arrangements ie. The reduced salary and the new BiK.

The reduction in salary cannot reduce the employee's cash earnings below the national living wage (or national minimum wage if the employee is under 25) and reducing salary may have implications on pension and benefit entitlements.

### HMRC Clampdown

**From April 2017** HMRC will limit the range of BiK's that attract tax and NIC advantages when provided through:

- *salary sacrifice,*
- *flexible benefit arrangements (this is where an employee exchanges cash remuneration for BiK's)*
- *BiK's where there is an option to take a cash allowance instead*

Under the new rules the BiK will be liable to income tax and Class 1A National Insurance on the higher of:

- *The amount of salary sacrificed, and*
- *The cash equivalent of the BiK*

## **Benefits Unaffected**

Not all benefits will be affected by these proposals. The following will continue to benefit from Income Tax and NIC relief:

- *Employer pension contributions*
- *Employer provided pension advice*
- *Employer supported childcare*
- *Cycle-to-work schemes*
- *Ultra-low emission vehicles (currently with emissions between 0 and 75g of CO2 per kilometre)*

## **Existing Employees**

The government has decided that those already in such contracts at 6 April 2017 will become subject to the new rules in respect of those contracts at the earlier of:

- *An end, change, modification or renewal of the contract, or*
- *6 April 2018, except for cars (with emissions above 75g of CO2 per kilometre), accommodation and school fees when the date is 6 April 2021.*

**Please do not hesitate to contact us should you have any queries**

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