

FACT SHEET

FINANCIAL ASSISTANCE – Salary Sacrifice Schemes – Employees

Description:

Salary sacrifice allows you to formally agree to a reduction in your taxable salary in return for your employer's agreement to provide you with some form of non-cash benefit, for example childcare vouchers.

Conditions:

You must agree to a variation in your terms and conditions of employment, specifically:

- A lower salary, the difference between your original salary and lower amount being received in the form of a childcare subsidy. The subsidy will not be subjected to income tax, National Insurance or pension contributions.
- You may not retain the right to return to the previous level of salary within the terms of your contract, so ideally the change should be for a specified period of time, for example one year, or until your child reaches a certain age or in the event that you face a major life change.
- The contract variation cannot be backdated.
- The salary sacrifice cannot be backdated, it has to be sacrificed before it is paid.

Implications of opting for Salary Sacrifice if you are low paid or work part-time:

- May be an impact on your Tax Credit award. A lower salary may mean an increase in Working Tax Credit but this could be offset by a reduction in the childcare element of Working Tax Credit due to lower childcare costs.
- Lower earnings may affect your pension benefit due to lower contribution levels.
- Unemployment Benefit, SSP, SMP, Council Tax or Housing Benefit may be affected
- Your hourly rate should not reduce to below the National Minimum Wage
- Student loan repayments may be affected, these are only activated above a set amount of earnings. If the earnings are lowered the repayment may be delayed.

Situations where a Salary Sacrifice Scheme would not provide any benefit

If you earn below the tax bands and primary threshold for National Insurance Contributions of £94 per week /£408 per month then you would not benefit from the exemption savings.

Possible Tax and National Insurance Contribution Savings:

The saving available depends upon a number of factors including the type of employer support on offer, the amount of salary sacrificed and the rates of tax and National Insurance Contributions on your salary.

The exemption is limited to £50 per week for childcare vouchers and direct payments to a childcare provider. The annual saving on tax and National Insurance Contributions is from £858 for a basic rate taxpayer to £1066 a year for a higher rate tax payer. Your employer can save around £300 on National Insurance Contributions. For workplace childcare the amount that can be paid as a subsidy or taken as a salary sacrifice is not limited, although certain conditions apply.

The exemptions are available under a Salary Sacrifice or Salary Plus scheme. It is possible to take part of the exemption as Salary Plus and the rest as Salary Sacrifice.

Salary plus is where your employer pays you an amount over and above your salary towards childcare in the form of a subsidised place or a childcare voucher.

How Cartwheels can help with a Salary Sacrifice Scheme

We are happy to meet with your employer to explain how a Salary Sacrifice scheme can be set up for assisting employees with the cost of childcare and the benefits for both employees and employers. We can also arrange a meeting for you with the right person at JobCentre Plus to explain the possible implications of opting for a Salary Sacrifice if you are low paid or work part-time.

Useful Contacts: www.hmrc.gov.uk

Disclaimer

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