

STRATEGIC DISCUSSION PAPER

March 2021

Salary Sacrifice Schemes

Salary sacrifice schemes exist in many organisations and can often be used by employers as a great incentive to attract and retain employees. These schemes form part of the non-cash and fringe benefit elements of a pay package which can be extremely valuable to the employee, with the benefit of tax efficiencies.

What is a salary sacrifice scheme?

Salary sacrifice is where an employee agrees to exchange part of their salary to get a non-cash benefit from their employer. The deduction in salary is taken from gross pay so once the salary is given up overall pay is lower and therefore the employee pays less tax and National Insurance. In addition, the employer does not have to pay employers' National Insurance on the part of the salary exchanged and this saving can be used to offset the cost of administering the scheme.

Any salary sacrifice arrangement must be set up by amending the employee's contract of employment to reflect the reduction in salary. There are rules relating to when deductions can be amended which are usually only permitted in very specific circumstances.

What salary sacrifice schemes has the Council supported?

Over the years the Council has offered a number of salary sacrifice schemes for employees which have included:

- computer equipment
- lease cars
- childcare vouchers
- cycle to work schemes
- and most recently, the purchase of additional annual leave.

The tax related advantages offered through salary sacrifice schemes were amended in 2017, and only a few schemes remain exempt from tax and NI. These include cycle to work, ultra-low emissions cars, pension contributions (AVCs) and childcare vouchers.

Which schemes are currently offered to staff?

Childcare Vouchers

The Council has offered the facility of childcare vouchers to employees for many years although following the launch of the Government's Tax-Free Childcare Scheme in 2017, employees are no longer able to take advantage of both sources of childcare support. Whilst existing recipients of our Kiddivoucher scheme can continue to receive them until the child reaches the maximum eligible age, the scheme has been closed to new applications since October 2018. Consequently, the scheme now has just 10 active members, which continues to offer monthly savings on their childcare costs as well as the savings on employer National Insurance contributions for the Council.

Cycle2work Scheme

Cycle to work is a government-approved salary sacrifice initiative allowing staff to hire a bike and accessories from the Council for the purpose of cycling to work. The NHDC Scheme is offered through Halfords with options to select a bike from Halfords, or a number of local independent bike shops. Electric bikes are also included in the Scheme.

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The Council has been offering a cycle to work scheme since 2013, and to date 22 employees have opted to take part. The scheme was re-launched in December 2019 with a small number of employees taking up the opportunity before the impact of lockdown and office closures halted any further interest. The scheme is currently on hold until the offices re-open and it is hoped that a good level of interest continues.

Holiday Flex – the purchase of additional annual leave

This scheme (which was initially trialled last year) offers all staff the opportunity to purchase up to 1 week's additional annual leave each year. The cost of one hour's annual leave for the employee is the same as their hourly rate of pay, and with the cost spread out over either 6 or 12 months deducted from gross salary employees benefit from savings that result from paying less tax and National Insurance.

There were 7 applications for the initial trial in August and all applied for the maximum amount of hours. The total salary savings from this trial were just under £4,000, and it is hoped that this scheme will increase in popularity over time and there will be a greater level of interest this year as travel restrictions are lifted (although it may be limited by the leave balances that are being carried forward from 2020/21). Staff will be offered the opportunity to apply additional annual leave in February (with deductions spread over 12 months) and in August (deductions spread over 6 months).

Future considerations

Whilst there are now only limited options for this type of benefit, there are two other salary schemes which the Council could consider:

Pension contributions

Introducing a pension contribution salary sacrifice scheme would involve individuals electing to make additional voluntary contributions (AVCs) to the Local Government Pension Scheme via salary sacrifice. Employees would benefit from tax relief as AVC's would be deducted from gross salary, with the key benefit being an increase in the value of their future pension.

Ultra-Low Emissions Vehicles

Prior to 2017 a salary sacrifice car scheme carried the same tax advantages as other salary sacrifice schemes however, since April 2017 the employee is now required to pay income tax on either the value of the car or the amount of salary sacrificed. However, Ultra Low Emission Vehicles (ULEVs) – cars emitting 75g/km CO₂ or less – are eligible to purchase on a salary sacrifice basis and are exempt from the new tax rules in the hope to reduce CO₂ emissions on UK roads.

Before embarking on any new salary sacrifice schemes it will be important to assess if there is a sufficient level of staff interest eg through a short survey. There are currently only a couple of staff contributing to standard AVC's for example, and in our previous salary sacrifice car scheme the take-up rate was also very low.