

# STRATEGIC DISCUSSION PAPER

## December 2019

### Salary Sacrifice Schemes

#### **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, although depending on the scheme, they may still incur a benefit in kind liability. 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 fund the administration of the salary sacrifice scheme.

The salary sacrifice arrangement is set up by amending the employee's contract of employment. It is a permanent reduction in pay and can only be amended in very specific circumstances.

#### **What non cash benefits can be offered under a salary sacrifice scheme?**

Prior to April 2017 a range of salary sacrifice benefits could be offered tax free including:

- Childcare
- Cycle to work schemes
- Lease cars
- School fees
- Accommodation
- Computer equipment
- Work-related training
- Car parking near the workplace
- Some pensions contributions
- Additional leave

In his Autumn 2016 Statement the Chancellor announced changes which meant that the PAYE advantages offered through salary sacrifice schemes ended for anyone joining a scheme from 6<sup>th</sup> April 2017. Some schemes however remained exempt from PAYE and NI post this date. They are:

- Childcare
- Cycle to work schemes
- Ultra-low emissions cars (ULEVs)
- Some pensions contributions
- Employer provided pensions advice

#### **What salary sacrifice schemes has the Council supported?**

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

##### Home Computing Initiative (HCI)

This was a government program introduced in 1999 to improve the IT literacy of the UK workforce which allowed employers to provide personal computers, software and computer peripherals to employees under a salary sacrifice leasing scheme. NHDC commenced a scheme in 2006, but shortly afterwards the HCI scheme was discontinued and the tax exemption removed, so the scheme was closed. There was a good take up of the scheme by NHDC employees. Overall however their experience was mixed, as the supplier, whose business centred on providing equipment under the HCI, went into administration when the scheme was terminated and therefore could not continue to provide the required support during the whole 3 year period of the lease agreements.

##### Childcare Vouchers

The Council has offered the facility of childcare vouchers to employees for many years and for the past 6 years, this has been as a salary sacrifice scheme from Kiddivouchers. The Scheme currently has 26 members, 13 of whom are actively ordering vouchers at present. Since its launch the scheme has saved our employees over £89,500 and has provided the Council with employer National Insurance savings of almost £37,500.

From 2017 the Government's Tax-Free Childcare Scheme had a significant impact on salary sacrifice childcare voucher provision as employees could not take advantage of both

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sources of childcare support. Whilst existing recipients of Kiddivouchers can continue to receive them until the child reaches the maximum age under the Kiddivouchers Scheme, the Council ceases to offer the Scheme or the staff member leaves the Council, from 4 October 2018 no new applications could be accepted.

Employee feedback on the NHDC Kiddivouchers scheme has always been very positive and it is seen by many as a valuable benefit. Individual circumstances such as earnings, tax banding and the cost of childcare determine whether Tax Free Childcare is more advantageous and so for some, no longer being able to join the Council's childcare voucher scheme is a significant disadvantage and one which NHDC can do nothing to mitigate.

#### Halfords 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, Cycle Republic, one of the local independent bike shops Halfords work with or on line via Halfords, Cycle Republic or Tredz. Electric bikes are included in the Scheme.

Since the Council commenced the Scheme in 2013, 16 employees have taken advantage of it. The Scheme has been re-launched from 1 December 2019 and it is hoped that with the current focus on environmental issues, the rates of uptake will be increased. With previous schemes resulting in relatively few orders, it is difficult to fully assess the value of this benefit to employees, but there still remains the view that it is a Scheme whose availability sends a positive message to staff and aligns with the Council's values and behaviours.

#### Justdrive Lease Car Scheme

This salary sacrifice scheme, introduced by NHDC in December 2014, enabled employees to exchange part of their gross salary for a new car with the monthly payments including the financing of the vehicle, motor insurance and maintenance. Despite positive marketing, staff perception was that the package was expensive and the benefit in kind liability it attracted a disincentive; interest was therefore low, with only 4 participants in the first 2 years.

From April 2017 the tax changes mentioned above led to the decision to amend the scheme to offer ULEVs only. A staff survey regarding the scheme held in Spring 2017 indicated there was little appetite for it and with no further cars being ordered under the scheme since November 2016, a contract review in November 2018 concluded the scheme should be closed to new entrants. Arrangements for existing participants in the scheme remained unchanged and the final Justdrive lease will expire in February 2020.

#### **What's the future for salary sacrifice schemes?**

Historically, salary sacrifice schemes formed a valuable addition to an organisation's flexible benefits offering and could be seen to encourage wider social and economic objectives, such as motivating more people to save extra for their retirement, helping working parents to balance their work and home lives and supporting a healthy workforce. All of which in turn led to higher productivity.

The April 2017 tax changes driven by financial restraints seriously curtailed the use of these schemes as few remained tax efficient. There were also unintended consequences on the wider objectives e.g. the retention of tax advantages for cycle to work schemes but not other health related benefits such as gym membership or dental insurance decreased the incentives to promote a healthy workforce. It is therefore hard to see that salary sacrifice schemes will become popular again, unless there is a shift in government policy.