

Salary sacrifice

Business and employees are both constantly looking for ways to optimise their financial strategies. One often overlooked strategy in doing this is salary sacrifice.

Salary sacrifice involves an agreement between an employee and their employer to reduce the employee's salary in exchange for certain non-cash benefits. While it may seem counterintuitive at first glance, salary sacrifice can be a useful tool for saving taxes for both parties involved.

Benefits for the business

For a business, implementing salary sacrifice schemes can lead to good tax savings. For instance, offering non-cash benefits such as pension contributions or cycle-to-work schemes in exchange for salary can reduce employers' National Insurance contributions. This lowers the overall tax burden for the business.

The benefits to the business are not just confined to the tax savings though. Offering attractive benefits through salary sacrifice can enhance feelings of job satisfaction for employees and improve staff retention.

Benefits for the employee

From an employee perspective, salary sacrifice offers a number of tax-saving opportunities. By opting to receive non-cash benefits instead of additional

salary, employees can reduce their taxable income and so reduce the tax they pay.

For instance, contributions to a workplace pension are deducted from the employee's gross salary before tax is applied. Therefore, if an employee sacrifices some of their salary to make additional pension contributions, the amount of tax they pay will reduce.

Are there any downsides?

While salary sacrifice can be a good tax saving strategy, it is not suitable for every situation.

Many salary sacrifice schemes are caught by tax regulations or have set requirements, so it pays to understand these and make sure a scheme will be suitable for your business. Employees too need to carefully assess their individual financial circumstances and priorities before entering into salary sacrifice agreements.

In conclusion, salary sacrifice can be a win-win for both businesses and employees. Business can use non-cash benefits to reduce their tax liabilities while enhancing employee satisfaction and retention. Meanwhile, employees can enjoy tax savings and access benefits they find valuable and that contribute to their overall well-being. With careful planning and implementation, salary sacrifice can be a powerful tool for businesses and their employees.