Salary Sacrifice Policy

October 2021

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1. Purpose

This policy clarifies the position of the University of Lincoln in respect of salary sacrifice schemes.

2. Scope

The University operates both Salary sacrifice and Salary exchange schemes which are available to all University of Lincoln and UOLS Services employees who are paid through the University payroll on a regular basis (weekly or monthly).

3. Background

A salary sacrifice is an arrangement whereby an employee agrees to give up part of their basic salary received under their contract of employment in return for some form of non-cash benefit provided by the employer.

A Salary exchange arrangement is the default method in which pension contributions are paid into the pension provider (Scheme dependent)

Setting out agreed changes in a separate document in the form of a letter or a pro-forma. If the scheme is operated via a third party, the agreed change will be between the employee and the third party.

Employees may be informed of proposals to make changes to the arrangement by the employer. The employer may specify that if an employee has not indicated their wish

Once an employee has indicated their agreement to vary their contractual basic salary then the revised agreement is legally binding on both parties. Under a salary sacrifice arrangement the terms and conditions of the specific scheme can be varied as often as the employee and employer chooses. The change can be for a stated period of time (e.g. one month or one year) or for any specific payment.

The employee will return to their original contractual basic salary at the end of the salary sacrifice term or upon the cessation of the arrangement by either the employee or employer. All other entitlements to increments and national pay agreements remain in place and will be applied to the basic salary.

5. Types of Salary Sacrifice

There are many salary sacrifice schemes that employees can take advantage of, each of which will fall in to one of the two following categories.

5.1 A reducing balance salary sacrifice is where an employee has specified a total amount for the benefit that then needs to be repaid over a given period. For example, an employee could participate in the cycle to work scheme where they specify the monetary value that they require to purchase the cycle. This is then repaid over a given period of time through weekly or monthly salary sacrifice.

An employee may not opt out of a salary sacrifice scheme that operates on a reducing balance method. The employee must repay the required amount over the agreed period and cannot pay the balance prior to this.

If an employee leaves part way through a payment term any residual balance will be deducted from the final salary payment. Where this is not available the amount will be considered a bad debt. Residual balances will be deducted from net pay in line with HMRC regulations.

5.2 A recurring deduction salary sacrifice is where an employee can alter the amount of the benefit required and sacrifices their salary in respect of this amount. For example, an employee participates in the childcare voucher scheme where the required amount of vouchers can be altered each month and is specified depending upon the relevant needs of the employee. The amount can be altered where sufficient notice is given and is paid on a weekly or monthly salary sacrifice deduction.

An employee may opt out of a salary sacrifice scheme that operates a recurring deduction method. This type of salary sacrifice does not require the employee to repay a pre-specified amount over an agreed period other than the current month or week that the benefit is to be received.

6. Interaction with HMRC

Salary sacrifice is a matter of employment law not tax law therefore the nature of an
a matter for the employer and employee. HMRC determines how the tax and national insurance legislation applies to the various

Where a salary sacrifice has the purpose of converting cash pay that is subject to tax and class 1 National Insurance deductions to a benefit that has differing tax and national insurance deductions HMRC must be satisfied that the salary sacrifice is effective.

HMRC take salary sacrifice arrangements to be effective when the contractual right to pay has been reduced. For that to happen two conditions have to be met:

- The potential future remuneration must be given up before it is treated as received for tax and national insurance purposes; and
- The true construction of the revised contractual arrangement between employer and employee must be that the employee is entitled to lower cash remuneration and a benefit.

If the employee continues to be entitled to the higher level of cash remuneration, then the salary sacrifice scheme is not effective and will not satisfy HMRC.

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Where an employee has the right to opt out of the benefit and return to the higher salary the amount reported is the amount of salary sacrificed.

12. Interaction with your Pension Provider

A salary sacrifice arrangement, i.e. when an employee gives up some of their salary in

the amount of pension contributions paid and ultimately pension provision at retirement.

Due to a reduction in contractual pay, the empl
also reduce, resulting in an increase in take home pay. It is therefore recommended that, all employees should ensure they understand the effect of a salary deduction scheme on their pension contribution and seek relevant advice before proceeding.

Individuals should seek their own guidance on implications prior to entering into any salary sacrifice arrangement. The following table provides some guidance:

	Childcare	Cycle	Pension	AVC	Holiday+	Car
LGPS			Pre / Notional	Pre / Notional salary	Post	Post
TP	Based on Post SS pay	Post	Not permitted	Not permitted	Post	Post
UCRSS	Tbc		Pre	Pre		
USS	PRe	Pre	Pre	Pre		
NHS	Post	Post	Not permitted	Not permitted	Post	Post

12.3 Universities Superannuation Scheme (USS)

There is no reduction to the pensionable pay for taking part in the salary sacrifice scheme and the actual salary is reported to the scheme.

12.4 NHS

There are some specific implications of entering into a salary sacrifice arrangement for members of the NHS Pension Schemes.

Forgoing a cash benefit for a non-cash benefit reduces the amount of take home pay. In a career average revalued earnings (CARE) pension scheme, like the 2015 Scheme, pension benefits are built up on a year by year basis. Any change to a members salary in each year (such as salary sacrifice), will have an impact on the individuals gross pensionable pay.

Entering into a salary sacrifice arrangement that reduces gross pensionable pay will mean that reduced benefits are built up for that period.

In a final salary pension scheme, such as the 1995 / 2008 Scheme, salary sacrifice will not have an impact on the value of the individual's pension benefits if the member opts out of the salary sacrifice arrangement before retirement. However, please note a large increase in pensionable pay before retirement may result in an employer charge under a final pay control. You can visit our salary sacrifice and 2015 Scheme web page for more information

12.5 UCRSS

The UCRSS scheme calculates pensionable pay which includes other pay related benefits such as overtime payments, salary increments etc and applies the relevant % as a salary exchange amount. The full notional pay will be reported to the pension scheme provider rather than the lower figure following the salary exchange deduction.

Contributions and entitlements will be unaffected by any salary sacrifice as pension contributions will be deducted from gross salary prior to the salary sacrifice deduction.

deductions are based.

12.7 Personal Pension Plans

Employees with personal pensions, or paying AVCs, should seek independent financial advice as these may be affected by salary sacrifice.

12.8 State Pensions

Entitlement to the State Pension will be preserved so long as, after any salary sacrifice, the employee continues to earn more than the basic National Insurance Contribution lower earnings limit.

13. Salary Changes / New Contract

be no change to the agreement. However, if the salary change results in the individual having a significant reduction in pay the salary sacrifice agreement may require a review and possible new terms and conditions.

If the salary increases to take the individual into the higher tax payer rate the salary sacrifice agreement will remain the same however the financial benefit will increase.

Where an employee who has previously opted out of pension salary sacrifice has a change of contract then they will automatically be entered into the salary sacrifice arrangement for the scheme they are eligible to join.

14. Timing of Payments

Payments will be deducted from an employee s pay on a weekly or monthly basis dependent upon the terms and conditions within their contract of employment.

For a reducing balance salary sacrifice the commencement of deductions will be communicated to the employee upon signing the agreement.

15. Reporting Benefits in Kind

The University must report any Benefit in Kind incurred, where there is a tax liability on the benefit. Where the salary sacrifice arrangement is classed as a benefit in kind, the additional tax due will be adjusted through the payroll in line with your pay frequency, known as payrolling benefits in kind. This method ensures the correct deduction of tax is made in real time and paid over to HM Revenue and Customs. This process removes the need to generate a form P11d at the end of the tax year where tax codes are then adjusted for the benefit in kind the following year.

16. Termination of Employment

If an employee leaves the University and they are within a reducing balance salary sacrifice agreement then they are liable to pay the remaining balance which will be deducted from their net pay.

If an employee participates in a recurring deduction salary sacrifice agreement it is their responsibility to opt out of the scheme and they are liable to pay any outstanding monies owed in relation to the scheme.