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THE AFTER PARTY

PENSION SALARY SACRIFICE THE KEY FACTS

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PENSION SALARY SACRIFICE

HOW IT WORKS?



- Instead of making a contribution into their pension scheme, an Employee gives up some of their pay and in exchange the Employer pays the same amount into their pension scheme, alongside the usual Employer contributions usually paid.
- To be an effective arrangement, the employee's contract of employment must be varied so that they give up their contractual right to future cash remuneration.
- Unlike Employee Pension contributions, Employer Contributions are exempt from National Insurance Contributions ("NIC"). Consequently, after the salary exchange, NIC savings will arise for both the employer and its employees.
- Changes the way employee pension contributions are funded, while still paying the same total pension contribution amount into the Employee's pension pot.
- Employees must not have their pay reduced to below the National Minimum Wage for their age group. As a result, some employees will be excluded from the scheme.



PENSION SALARY SACRIFICE

BEFORE

Employer and Employee both making pension contributions

Employee pension contributions only receive tax relief

No NIC relief is provided, therefore the employee and employer pay NIC on the value of the contribution

Apprenticeship Levy is also paid by the Employer on the value of the contribution

AFTER

The employee varies their terms and conditions of employment, by agreeing to a reduced salary to an amount equal to the gross employee pension contribution

The employee will receive tax and NIC relief on the salary sacrificed

The employer will receive NIC and Apprenticeship Levy relief on the salary sacrificed

Employees will see an increase in their take home pay due to paying less NIC

Employees paying tax at 40% or 45% will receive tax relief automatically through payroll rather than having to claim via self-assessment

Post implementation – the same amount of contributions goes into the employee’s pension scheme. Only the method changes.

PENSION SALARY SACRIFICE

WHAT ARE THE KEY BENEFITS?



- Both the employee and employer will benefit from NIC savings.
- There is no reduction in the amount being paid into the pension for the employee – it's just done in a more cost-efficient manner.
- No requirement for the Employer to pass on their NIC savings to the employee. Infact most Employers retain the savings given the Employee will benefit from increased net pay.
- Softens increasing employment and general living costs.
- Enhances the employee reward package.
- The pre salary sacrifice salary level is referred to as 'reference salary' and used as the basis for future salary reviews / linked to benefits (life assurance etc).
- Higher and additional rate taxpayers will receive automatic tax relief rather than via self assessment



PENSION SALARY SACRIFICE

WHY NOW?



- HMRC has confirmed that when implemented correctly, pension salary sacrifice is an acceptable and tax efficient salary sacrifice arrangement, benefitting from NIC savings.
- Employment costs have increased over the years for both employer and employee.
- One of the biggest tax changes announced in the Autumn Budget in 2024 was to Employers' NIC rates. This increased by 1.2% to 15% in April 2025. A further significant change to many businesses is the reduction in the secondary threshold for NIC. This was reduced from £9,100 to £5,000 per annum from the same date, bringing more earnings into the charge for Employers' NIC.
- By way of example, an employee earning £30,000 p/a has seen an increase in Employers' NIC from £2,884 to £3,750 from April 2025. That's an extra 30%!
- If an Employer implemented Pension Salary Sacrifice for the employee earning £30,000 above, their NIC increase reduced from £3,750 to £3,525 – reducing the cost increase above from 30% to 22%.



PENSION SALARY SACRIFICE CALCULATION OF NIC SAVINGS - EXAMPLE

Illustrative example of an employee based in England in 2025/26, earning £30,000 per annum and contributing 5% in pension contributions (Employer 3%).

Employment income pre-salary sacrifice £	
Income	
Gross Pay	30,000
Deductions	
Tax	-3,486
Employee NIC	-1,394
Employee pension contribution (5% gross, 4% Net)	-1,200
Net pay	
Take home pay	23,920

Employment income post-salary sacrifice £	
Income	
Reference Salary	30,000
Salary Sacrifice	(1,500)
Gross Pay	28,500
Deductions	
Tax	-3,186
Employee NIC	-1,274
Employee pension contribution	0.00
Net pay	
Take home pay	24,040

PENSION POT	
Employee Cont	£1,200
Tax added at source	£300
Employer Cont	£900
Total	£2,400

PENSION POT	
Employee Cont	£0
Tax added at source	£0
Employer Cont	£2,400
Total	£2,400

In this example, the employee earns a saving of £120 per annum.

PENSION SALARY SACRIFICE

CALCULATION OF NIC SAVINGS - EXAMPLE

Illustrative example of an employee based in England in 2025/26, earning £60,000 per annum and contributing 5% in pension contributions (Employer 3%)

Employment income pre-salary sacrifice £	
Income	
Gross Pay	60,000
Deductions	
Tax	-9,486
Employee NIC	-3,210
Employee pension contribution (5% gross, 4% Net)	-2,400
Net pay	
Take home pay	44,904

Employment income post-salary sacrifice £	
Income	
Reference Salary	60,000
Salary Sacrifice	(3,000)
Gross Pay	57,000
Deductions	
Tax	-8,886
Employee NIC	-3,150
Employee pension contribution	0.00
Net pay	
Take home pay	44,964

PENSION POT	
Employee Cont	£2,400
Tax added at source	£600
Employer Cont	£1,800
Total	£4,800

PENSION POT	
Employee Cont	£0
Tax added at source	£0
Employer Cont	£4,800
Total	£4,800

In this example, the employee earns a saving of £60 per annum.

PENSION SALARY SACRIFICE CALCULATION OF NIC SAVINGS - EXAMPLE

Employer savings example using employee salaries of £30,000 and £60,000 respectively.



Employer cost pre-sacrifice £	
Annual salary	30,000.00
Pension cost	0.00
Employer NIC costs	3,750.00
Total cost	33,750.00

Employer costs post-salary sacrifice £	
Annual salary	28,500.00
Pension cost	1,500.00
Employer NIC costs	3,525.00
Total cost	33,525.00

Employer NIC savings in this example are £225 per annum.



Employer cost pre-sacrifice £	
Annual salary	60,000.00
Pension cost	0.00
Employer NIC costs	8,250.00
Total cost	68,250.00

Employer costs post-salary sacrifice £	
Annual salary	57,000.00
Pension cost	3,000.00
Employer NIC costs	7,800.00
Total cost	67,800.00

Employer NIC savings in this example are £450 per annum.

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EXPECTED CHANGES TO PENSION SALARY SACRIFICE

One of the biggest tax changes to Pension Salary Sacrifice announced in the Autumn 2025 Budget was a £2,000 cap on pension contributions made under a salary sacrifice scheme from **April 2029**. Contributions above this amount will be subject to NI. For individuals, this will mean that the current savings of between 2%-8% dependent on the individual's rate of NI will no longer apply.

By way of example:

An employee earning **£35,000 p/a** and contributing 5% of their salary (**£1,750 p/a**) into their pension via salary sacrifice will be below the new £2,000 cap and will not have to pay any NI on their pension contribution

An employee earning **£60,000 p/a** and contributing 5% of their salary (**£3,000 p/a**) into their pension via salary sacrifice will be above the new £2,000 cap by £1,000 and both the employee and employer will have to pay NI on this amount.

Meaning the **employee** are expected to **lose savings of £20 p/a** and the **employer to lose savings of £150 p/a**.

The above only changes the NI treatment and all taxpayers will continue to get income tax relief on pension salary sacrifice contributions which could help lower salary so employees don't move into a higher tax band.

Making pension contributions through Salary Sacrifice even with the cap will still generate savings for both employee and employer.

Implementing salary sacrifice **before April 2029** will help you **make the most of current savings** before the cap takes effect.

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