



# Update

MOORE STEPHENS

Employee benefits

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## Changes to benefits offered through Salary Sacrifice schemes

From 6 April 2017 the tax and national insurance advantages on benefits gained through salary sacrifice schemes will be significantly limited by the government.

Employees have previously been able to sacrifice an element of their salary in exchange for a non-cash benefit in kind (BIK) which wasn't liable for tax or National Insurance, making salary sacrifice schemes a popular option.

The government feels it is unfair that the majority of employees pay tax on a cash salary but some are able to salary sacrifice and pay much lower tax on benefits in kind.

From April 2017 income tax and National Insurance will be due on the value of the sacrificed salary as if it was 'normal' cash income.

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Benefits include:

- Mobile phones
- Private healthcare
- Company cars
- Gym memberships
- Car parking spaces
- Electronic goods such as televisions and gaming consoles

N.B. Any arrangements already in place before April 2017 will be protected until 2018. In addition, arrangements for school fees, accommodation and cars will be protected until 2021.

The following benefits **will not** be affected by this change in the rules:

- Employer provided pension savings and advice
- Childcare vouchers
- Workplace nurseries
- Directly contracted childcare
- Cycle to work schemes
- Ultra-Low Emission Vehicles (ULEVs) emitting 75g CO<sub>2</sub>/km or less.

For many employers and employees, agreeing to exchange currently unfavourable benefits for ones that will continue to enjoy tax breaks would seem an advisable course of action to mitigate against the negative consequences of these tax changes.



**Flexible benefits arrangements**

Benefits in kind are increasingly being offered under flexible benefit arrangements. These normally include an amount of cash salary and an amount which the employee can use to access a range of BIKs up to a certain value. The flexible benefit arrangement can also be structured as a salary sacrifice arrangement. This is the position where the original salary includes the value of the BIKs amount and that salary is reduced by the value of the BIKs chosen. **It is in such cases where the employee can trade BIKs for a cash pay that will be affected by the change in rules.**

By contrast, an employee may be entitled to a flexible benefits package in addition to an amount of cash pay but with no cash option within that benefits package. The employee can vary the BIKs provided, but have no choice about the level of their contracted cash pay. The government does not wish to capture these sorts of arrangements as the employee has no option to reduce their cash pay in exchange for the BIKs. **Such BIKs will continue to be taxed and liable for NICs as appropriate under the current rules.**

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