UCU briefing note on childcare vouchers/provision and salary sacrifice

In recent years employers in education have been offering staff forms of salary sacrifice.

What are 'salary sacrifice' schemes?

Under a salary sacrifice scheme, the employer and the employee make a contractual arrangement under which the employee agrees to give up the right to receive part of his/her contractual pay in return for the employer's agreement to provide some form of non-cash benefit.

The purpose of such schemes is to take advantage of the tax exemption on the non-cash benefits provided (see below).

What are the tax benefits of salary sacrifice?

Since April 2005, certain non-cash benefits provided to employees are exempted from income tax and National Insurance contributions. These benefits are Childcare Vouchers; computers provided under the Home Computer Initiative; and cycles provided under the Cycle to Work Scheme.

The income tax and NI exemption applies both where the benefits are provided in addition to their existing pay and where they are provided in place of part of their existing pay under salary sacrifice arrangements.

The income tax and NI exemption applies to the first £50 in value per week of the benefits. This exemption reduces the cost to the employee significantly in comparison to the cost of buying such benefits from take-home pay after tax. Prior to April 2005, benefits provided in this way were exempt from NI contributions but were liable to income tax.

Operation of salary sacrifice arrangements

Detailed advice from the Inland Revenue is available at **www.hmrc.gov.uk/specialist/salary_sacrifice.pdf** and should also be available from any education establishment offering them.

Teachers Pensions

Prior to 1 October 2006.

In the Teachers Pension before this date, the rate of pay used to calculate contributions and pensions entitlements usually excludes pay surrendered under salary sacrifice schemes. Under these earlier rules the Teachers' Pensions Scheme (TPS), used the pay rate net of the salary sacrifice element to calculate pensions entitlements. Thus, salary sacrifice arrangements could affect teachers' pensions' entitlements if they retired, including retirement on ill-health grounds, or died in service within three years of the ending of any such arrangements.

After 1 October 2006.

The teacher unions including UCU have always sought to have this arrangement changed to remove the affect on pensions and have been successful. Initially this was introduced for school teachers but all sectors of education were included from 1 October 2006.

The position now is that the pension contributions are based on the gross earnings, which means that there are no savings on pension contributions but the full service and full time salary is used removing all pension difficulties. The employer can offer benefits in kind like childcare vouchers, bicycles and mobile phone schemes as salary sacrifice now.

Branches/local associations who had previously agreed arrangements under the old regulations need to re-negotiate them to fit the new regulations as these are better for members.

Where no previous arrangements existed, this might be an attractive option for members, and would bring savings to the sector but there would need to be negotiations on the division of the savings. UCU believes the split should be 50:50, as it needs the individual's agreement.

University Superannuation Scheme

The approach being adopted in this scheme is slightly different and from 1 April 2007, the proposal is to allow employees to enter into arrangements with their local employer, if they have entered into a supplemental deed of accession on this matter with USS on salary sacrifice. The employee can then opt into a covenant with the employer to take a non cash benefit (salary sacrifice), which is deducted prior to national insurance, income tax and pension contributions. However the employer is required to make sure that the full pension contributions are paid to USS, by paying the additional contributions under 8.4(d), as the employee's contributions are based on earning after the sacrifice. The non cash benefits can be for:

- Employer provided childcare arrangements

- Workplace parking
- Employer-provided cycles and cycle safety equipment

These arrangements do not affect the individual's pension position as the full contribution rate is paid against the full salary rate.

These arrangements will generate national insurance savings, and it will be for local negotiation to establish the sharing of these benefits. UCU would expect local associations/branches to negotiate at least a 50:50 spilt. Salary sacrifice is likely to be open by the employers to their staff and provide extra cash in the sector.

Other implications

Any UCU member considering entering into a salary sacrifice arrangement should also be aware of the possible implications for entitlement to other benefits including contributory or earnings related benefits such as:

- statutory sick pay, statutory maternity pay, maternity allowance and incapacity benefit; and
- tax credits such as Working Tax Credit and Child Tax Credit.

It is unlikely that any UCU members would be affected by these implications for other benefits, unless they were working on a part time basis for a rate of pay close to the NI Lower Earnings Limit.

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