



EMPLOYEE GUIDE · SALARY SACRIFICE

Salary sacrifice: *your questions, answered*

What salary sacrifice means for your pay, what it can save you, and what to check before you sign up.

ACCURATE AS AT 4 FEBRUARY 2025 2024/25 TAX YEAR VERSION 1.0

HOW TO USE IT

Read the answers that apply to you. Superseded edition, kept for reference. Do not use for current decisions.

THE BASICS

How it *works*

What does ‘salary sacrifice’ mean? Am I losing money?

You agree to give up part of your pay before tax. In return, your employer gives you something of the same value – extra pension, a bike, a nursery place or an electric car. Your salary on paper goes down. Because the money is taken before tax, the benefit usually costs you less than paying for it from your take-home pay.

How much does it save me?

Money you sacrifice is not taxed as pay. For pension, cycle to work and workplace nursery schemes, you save both income tax and National Insurance on it.

A worked example (illustrative). You pay basic-rate tax, earn £32,000 a year outside Scotland, and sacrifice £100 a month into a cycle to work scheme.

Pay you give up before tax	£100
Less income tax you no longer pay (20%)	– £20
Less National Insurance you no longer pay (8%)	– £8
Fall in your take-home pay	£72

So a £1,200 bike costs you about £864 over the year, before any fee to take ownership at the end of the hire, which your scheme will set out. If you pay higher-rate tax, £100 costs you about £58.

Other schemes save less. For technology, gym and similar schemes, income tax is still due, so you save National

Insurance only: £100 costs you about £92. For an electric car, £400 a month costs about £288 at basic rate, plus a smaller ‘benefit-in-kind’ tax on the car: about £13 a month on a £40,000 car in 2024/25, or £20 from 6 April 2025. Your scheme should show your exact figures. Income tax rates differ in Scotland.

GOOD TO KNOW

Before you *sign up*

For most people, none of these changes the answer. They are the details worth having first.

Will this affect my mortgage application?

Possibly. Your gross salary is lower, and many lenders use that figure; some take the benefit into account. If you are buying or remortgaging this year, ask your employer for a letter setting out the arrangement and your salary before sacrifice. Show it to your broker or lender before you sign up.

Will it affect my maternity pay?

It can, so check before you sign up if you are pregnant or planning to be. Statutory Maternity Pay (SMP) is based on your average earnings after the sacrifice, over about eight weeks ending roughly 15 weeks before your due date. The first six weeks of SMP are 90% of those earnings, so they would be lower; the remaining weeks are a flat rate for most people. If your earnings in that period fell below £123 a week, you would not qualify for SMP at all. Some employers will reduce or pause the sacrifice if you ask before that eight-week period starts – pausing it once your leave has begun won’t change your SMP. Any benefit you already have, such as a car or bike, normally continues during maternity leave.

Will it affect my pension, sick pay, redundancy pay or life cover?

It depends how your employer works each one out. Many use your salary before sacrifice, so nothing changes. Some use the reduced figure, which can mean smaller pension contributions and lower life cover. Statutory redundancy pay is worked out on your contractual (reduced) weekly pay, up to a weekly cap. Statutory Sick Pay is only paid if your average weekly earnings are at least £123, so a sacrifice that takes you below that would mean no SSP.

Will it affect my State Pension or any benefits I claim?

You build a State Pension qualifying year by earning at least £6,396 a year (2024/25). Most sacrifices come nowhere near that line, but check if you work part-time. If you claim Universal Credit or help with childcare costs, a change in pay can change your award, sometimes in your favour. Tell them, and check.

Can I stop? What if I leave?

There is no legal minimum period, but HMRC's guidance accepts arrangements that run for 12 months or more, so schemes usually fix a term of at least 12 months. Changes are usually allowed only for life events such as marriage, divorce, or a partner becoming redundant or pregnant. If you leave, some schemes simply stop; others let you keep the item, with anything outstanding taken from your final pay. Car schemes can charge for ending early. Ask for the exit and leaving terms in writing before you sign.

Is there anyone it may not suit?

It may not suit you if:

- you earn at or near the National Minimum Wage or National Living Wage. Your pay cannot legally go below it, so the scheme may not be open to you, or only for a smaller amount;
- you are applying for a mortgage soon, or are pregnant or hope to be within the year;
- you need every pound of take-home pay right now;
- your pay would drop below a figure that matters to you, such as a benefit threshold;
- you would not have bought the item anyway.

This sheet is general information, not personal financial advice. If you are unsure, speak to your HR or payroll team, or an independent adviser.

BEFORE YOU DECIDE, ASK THESE THREE QUESTIONS

- 1 'In pounds and pence, what will my take-home pay be before and after?'
- 2 'Are my pension, life cover, sick pay and redundancy pay based on my full salary, or the reduced one?'
- 3 'What happens, and what does it cost me, if I stop, go on leave, or leave the company?'

Your HR or payroll team should be able to answer all three. If anything is unclear, ask before you sign.

RATES USED (2024/25)

Income tax (outside Scotland)	20% basic rate / 40% higher rate
Employee National Insurance	8% on £12,570–£50,270; 2% above
Lower earnings limit	£123 a week (SMP and SSP test); £6,396 a year (State Pension year)
Electric car benefit-in-kind	2% of list price (3% from 6 April 2025)

Sources: GOV.UK Rates and thresholds for employers 2024 to 2025; ITEPA 2003 s.139 (as amended by Finance Act 2023 s.11); HMRC Employment Income Manual EIM42767. Scottish income tax rates differ.

FOR EMPLOYERS

Explain it *with Perky*

HR teams: book a walkthrough to see how Perky presents salary sacrifice to employees, with decision support at the point of enrolment.

perkybenefits.co.uk/book-a-demo