



Employer National Insurance Contributions and Salary Sacrifice

Published on Alvarez & Marsal | Management Consulting | Professional Services

(<https://www.alvarezandmarsal.com>)

November 14, 2024

One of the widest reaching measures announced in the Budget was the increase in the rate of employer National Insurance contributions (NIC) from 13.8% to 15% coupled with a reduction in the secondary NIC threshold above which employer NIC becomes payable (from £9,100 to £5,000).

By way of some simple examples:

- An employer with 50 employees with an average salary of £30k will see an annual increase in employer NIC of £40k;
- An employer with 300 employees on the same average salary will see an additional employer NIC cost of almost £260k;
- For an employer with 3,500 employees, the additional annual employer NIC cost is £3m.

These figures do not take into account the increase in the National Living/Minimum Wage rates which adds further costs.

These increases create a huge burden on all businesses, large and small and many employers are looking for ways to offset the impact of this additional cost.

Salary sacrifice is an opportunity to save both employee and employer NIC via salary sacrifice arrangements, for example into the company pension scheme. It is nothing new and has been widely used by many employers for a number of years, particularly around pensions where the savings can be significant.

Simply put, salary sacrifice is an agreement by the employee to accept a lower gross pay in return for the sacrificed salary being instead made as employer pension contributions. In turn, this employee salary sacrifice will reduce the gross income on which employee and employer NIC is calculated. A further point to consider is that there may also be the opportunity (if the scheme allows) for an ad hoc bonus sacrifice into the pension scheme, bearing in mind the annual pension contribution allowance, and possible tapering of the allowance.

Taking the above example for an employer with 3,500 employees on an average salary of £30k with a salary sacrifice arrangement of 5% they could save nearly £800k.

We expect there to be a resurgence in interest in salary sacrifice and we would recommend companies revisit their salary sacrifice arrangements to consider whether any further savings could be generated.

Contact the A&M employment tax team to discuss your salary sacrifice arrangements further.

Source URL: <https://www.alvarezandmarsal.com/insights/national-insurance-and-salary-sacrifice>

Authors:

Louise Jenkins

David O'Malley

Nisus Larsen