

SALARY SACRIFICE vs RELIEF AT SOURCE

WITH SALARY SACRIFICE

Example Salary	£30,000
Salary after "Salary Sacrifice"	£28,500
Employer contribution (5% employer + 5% employee)	£3,000 (i.e. £1,500 × 2)
Your contribution	N/A
Income tax saved on pension contribution	£300
NI saved on pension contribution	£180
Amount your pension contribution "costs"	£1,020
Saving made by using Salary Sacrifice compared to Relief at Source	£180
Take home pay (after tax, NI, and pension contribution)	£23,402.40

With Salary Sacrifice, you agree to reduce your contractual salary by £1,500 from £30,000 to £28,500. Your employer then makes a single pension contribution which is equal to the amount of your reduction in salary plus the normal employer pension contribution.

The reduction in your salary is £1,500 so in one sense that's what the contribution costs. But it's not a fair comparison because you would have to pay tax and NI if you took the money as salary. You would only receive £1,020 as take home pay.

By using Salary Sacrifice, because you have never received the money as salary, not only do you save income tax on your contribution you save NI too, the only way this is possible. This means that your £1,500 pension contribution only costs you £1,020, which is £180 less than it would have cost had you used Relief at Source (where it costs you £1,200).

Those who pay tax at a higher rate do not need to claim back any further relief from HM Revenue & Customs.

WITHOUT SALARY SACRIFICE ("RELIEF AT SOURCE")

Example Salary	£30,000
Employer contribution (5%)	£1,500
Your contribution (5%)	£1,500
Amount your pension contribution "costs"	£1,200
Income tax saved on pension contribution	£300
NI saved on pension contribution	£0
Take home pay (after tax, NI, and pension contribution)	£23,222.40

With Relief at Source, your contributions are deducted from your net pay i.e. after income tax and NI. Your pension contribution attracts Income tax relief (20% for basic-rate tax payers) which Hargreaves Lansdown claims on your behalf for your pension. Anyone who pays a higher rate of tax will have to claim back any further tax relief from HM Revenue & Customs separately.

So to get to the desired contribution of £1,500 you have to put in £1,200. The tax relief is usually received around 6 weeks after your contribution so there is a slight delay. You won't have saved any NI on your contribution.

IMPORTANT NOTES

We wrote this factsheet to give you useful information about how pension contributions work, but it's not personal advice. If you're not sure whether a particular investment is right for you, please ask for advice. The information in this factsheet applies to the 2023/24 tax year unless otherwise stated and was correct as of 11 July 2023. The examples used apply to rest of UK taxpayers. Scottish taxpayers pay different rates of tax so their savings may be different. Pension tax rules can change, and their benefits depend on your circumstances. Investments can fall as well as rise and we therefore believe investing should only be considered for the long term (5+ years). As with all investments, you could get back less than you put in. You can't usually get money you put in a pension back until age 55 (rising to 57 in 2028).