

Salary Exchange

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Figures used in this presentation relate to the current tax year unless otherwise stated.

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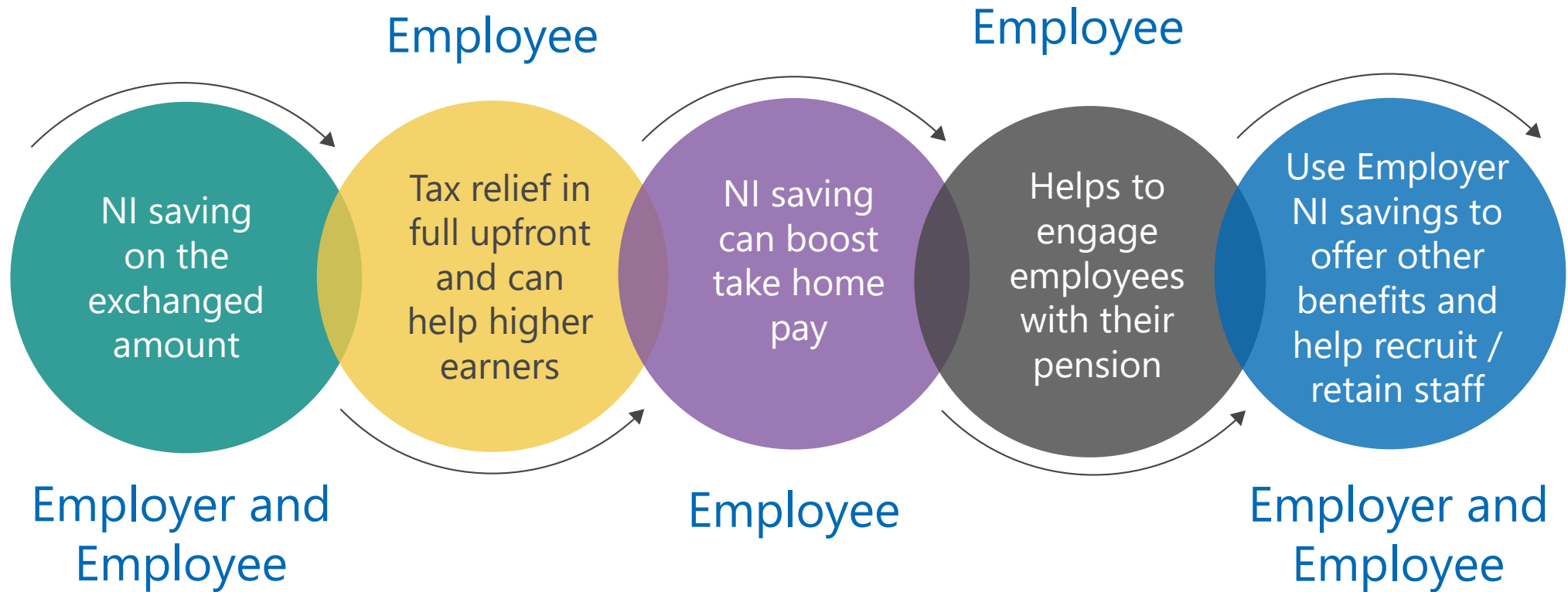
What is Salary Exchange?

- More commonly known with HMRC as **Salary Sacrifice**.
- Salary Exchange can usually be used across all types of Defined Contribution (DC) pension arrangement and some Defined Benefit (DB).
- It cannot be used under some public sector pension schemes e.g. Local Government Pension Scheme (LGPS).
- The employer and the employee saves National Insurance on the amount of the exchange.
- Bonus exchange is also an option.
- It can also be used as a way to 'buy' other benefits e.g. extra holiday and health cash plan.



An **agreement** between the employee and employer to **exchange their contractual salary** by the employee pension contribution. This is done by reducing the contractual salary by the exchanged amount.

What are the benefits of Salary Exchange?



Salary Exchange

Types of tax relief on employee pension contribution of £100 gross

Contribution method	Type of plan	How is contribution taken?	Employee pays	Contribution taken before or after tax	Contribution taken before or after NI	Paid to pension	Paid to pension*	Tax relief added by HMRC via the plan	Total contribution from the employee*	Higher rate tax to be reclaimed ?
Relief at Source (RAS)	Contract based / Master Trust	Deducted	£80	After	After	£80	Employee regular contribution	£20	£100	Yes
Net pay arrangement (NPA)	Master Trust / Own Trust	Deducted	£100	Before	After	£100	Employee regular contribution	N/A	£100	No
Salary Exchange (Sacrifice)	Contract based / Master Trust / Own Trust (not all)	Salary is reduced by the Exchanged amount	£100	Before	Before	£100	Employer regular contribution	N/A	£100	No

Contract based schemes (which are Defined Contribution) include: Group Stakeholder Plan, Group Personal Pension Plans, Group SIPP.

*Employer contribution would be paid in addition to the contributions noted.

Salary Exchange: The employer may also agree to pay some or all of their NI savings (up to 15%) on the exchanged amount to the member's pension plan. This would be included in their employer contribution.



The tax treatment depends on your individual circumstances and may be subject to change in the future.

What are the benefits of Salary Exchange?

	Net pay deduction (RAS)	Gross pay deduction (NPA)	Salary Exchange (Sacrifice)
Reference salary	£35,000	£35,000	£35,000
Salary exchanged	£0	£0	- £1,400
Contractual salary	£35,000	£35,000	£33,600
Tax	- £4,486	-£4,206	- £4,206
National Insurance	- £1,794	-£1,794	-£1,682
Employee payments	-£1,120	-£1,400	£0
Take home pay	£27,600	£27,600	£27,712
Employee contribution	£1,120	£1,400	£0
Tax relief added*	£ 280	£0	£0
Total contribution	£4,900	£4,900	£5,005**

The example below is based on someone with a gross salary of £35,000 a year with a 4% pension contribution and 10% employer contribution.

Contributions under RAS are paid over net of tax and the provider will add in 20% tax relief* from the Government – known as ‘basic-rate tax relief’.

Tax treatment depends on individual circumstances and may be subject to change.

**This example assumes the Employer adds 50% of their NI saving to their overall contribution.

This is based on current legislation and tax rates for England, Wales and Northern Ireland for 2025/26. Residents of Scotland may have different tax rates to the examples above. These calculations are for illustrative purposes only.



Common errors

Salary Exchange is a condition of Automatic Enrolment

Not allowing employees to 'opt out' of Salary Exchange

Not allowing employees who don't pay NI to take part in Salary Exchange e.g. those over State Pension Age

Interaction with Statutory payments e.g. Student loans

Allowing employee pay to go below National Minimum Wage levels after Salary Exchange

Deducting Salary Exchange contributions from Statutory payments

Paying Salary Exchange contributions as 'employee' contributions

Individuals still claiming higher rate tax relief on their pension contributions

Taking employees out of Salary Exchange on parental leave

Not confirming changes in writing in advance of the effective date (evidence the change)

Robust processes – a plan to get it right

Check eligibility – is Salary Exchange suitable for all employees?

Check how this will be offered and agreed with employees e.g. through a benefits platform or through written confirmation?

Check payroll set up - Do payroll need to set up a different method or 'scheme' to process Salary Exchange correctly?

Automatic Enrolment (AE) - the employer needs to clearly communicate Salary Exchange and options alongside AE including opting out

Check contribution payments – are these being paid to the pension plan correctly?

What's new?

Changes are coming from 6 April 2029

A new cap on the amount that can be exchanged and receive NI relief

- £2,000 or £5,000? The House of Lords wants some amendments....

What is the impact?

- Pensions only and no impact on tax relief to pensions
- Those earning under £50,270 (2026/27) may pay more NI (8%)
- Lower employer NI saving which could affect budgets and general benefit spend

How will 'excess' contributions be processed?

- All Salary Exchange contributions expected to be paid as normal but only up to cap will receive NI relief
- Details to be confirmed...

Thank you

Any questions?

