Salary Sacrifice

Contractor FAQs

As an employee of our umbrella company you can make pension contributions via our salary sacrifice scheme.

The salary sacrifice scheme requires you to set up a salary sacrifice arrangement and accept a reduction in your gross pay in return for a non-cash benefit, which in this instance would be a pension contribution.

The benefit of salary sacrifice is that you pay a lower amount of National Insurance (NI) and PAYE tax. As your gross pay is reduced by the amount of your pension contribution it also means that our employer's NI is reduced, a saving we pass onto you in the form of additional gross pay.

> "The salary sacrifice scheme requires you to set up a salary sacrifice arrangement and accept a reduction in your gross pay in return for a non-cash benefit, which in this instance would be your pension contributions."

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Can PayStream recommend a Pension Provider or provide pension advice?

Unfortunately not, as we are not pension advisors. We suggest that you speak to your own pension provider or an Independent Financial Advisor (IFA).

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Which pension providers do you work with?

To ensure you do not have to pay tax on your contributions you need to make sure that your pension provider is registered for tax relief with HRMC and that the scheme will accept gross employer contributions as well as ad-hoc payments rather than mandated payments by direct debit. Therefore we have an extensive list of pension providers that we currently work with, please see this list below:

- Aegon
- AJ Bell
- Aviva
- BestInvest
- Fidelity
- Hargreaves Lansdown
- Interactive Investor
- Legal & General
- Old Mutual Wealth
- Prudential
- Royal London
- Scottish Widows
- Transact
- Standard Life

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How do I set up a salary sacrifice arrangement?

Once you have your pension scheme in place, you can call or email us with the details and we will arrange a letter to be sent to you. This letter is confirmation of a variation to your employment contract. As soon as we have the signed letter back, we can start making the deductions.

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What happens to the employer's NI saving?

As your gross pay is reduced by the amount of your pension contribution it means that our employer's NI is also reduced, a saving we pass onto you in the form of additional gross pay. As this is additional income it is subject to tax and NI in the normal way.

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How much is the annual allowance?

The annual allowance from April 2020 is £40,000 based on adjusted income of £240,000 or below, but this tapers down to £10,000 where adjusted income is between £240,000 and £300,000, and then reduces to £4,000 above £300,000. Adjusted income is your total taxable income – so includes all salary, bonus and commissions, dividends, rental income, savings interest plus the add back of any employer pension contributions. If your payments go above the annual allowance you'll be subject to a tax charge (the "annual allowance charge") on the excess so remember to look at all of your pension contributions, not just the ones through your umbrella company, and be sure to discuss with you Pension advisor.

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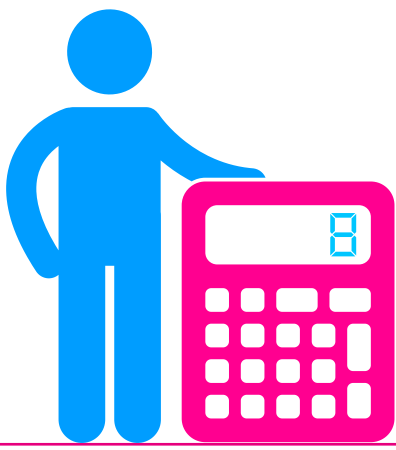

What if I hit the annual allowance?

A tax charge (the "annual allowance charge") arises after the annual allowance is exceeded. There is no limit on the amount of pension savings an individual can make each year but there is a limit in respect of the tax relief for those pension savings.

The annual allowance charge will be added to the rest of your taxable income for the tax year in question when determining your tax liability. If the charge is more than £2,000, you can ask your pension scheme to pay the charge from your benefits. However this would mean that your pension scheme benefits would be reduced.

As we are unaware of factors affecting your annual allowance, such as other income sources, other pension contributions and unused allowances from prior years, it's your responsibility to track and monitor when you may exceed the allowance. PayStream will purely act in accordance with your instruction. You may wish to speak with your pension advisor in this regard.

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Is there anything else I should consider before setting up a salary sacrifice arrangement?

Before deciding to go ahead with the salary sacrifice arrangement you are advised to consider the impact that this change may have on mortgage or loan applications and any other benefits or schemes that you are part of. For example, you might want to consider the impact on any insurance schemes you have in place – such as income protection, life assurance, mortgage protection etc.

Again we suggest that you speak with your pension advisor for more advice.

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Participating in a salary sacrifice scheme

When do you pay the pension provider?

Monthly, in arrears by 19th of the following month.

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Can I change the amount of salary that I sacrifice?

As a general rule you are **unable** to switch between cash (e.g. salary) and non-cash benefits (e.g. pension) whenever you like because the tax and NI contribution saving under a salary sacrifice arrangement will no longer apply. However if you do ever want to change the terms of the arrangement this can be considered where a change of lifestyle **significantly** alters your financial situation.

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What is classed as a significant lifestyle change?

HMRC classifies this as things like marriage, divorce, a partner or spouse becoming pregnant, or a partner or spouse being made redundant. In addition, this may include a change to a key contract.

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Why can't I sacrifice all of my pay?

We still have to pay you national minimum wage and holiday pay which means that the amount you are sacrificing is just from your commission. And as your working hours or days may fluctuate throughout your assignment, we base our calculation on one working day.

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Will claiming expenses affect the amount I can sacrifice?

If you aren't under supervision, direction or control and you did claim mileage or expenses, your gross pay will be lower than if you didn't claim expenses. This limits the amount that you can sacrifice for a pension contribution. Instead, you may want to consider claiming tax relief for your expenses via an HMRC P87 form or your Self–Assessment tax return.

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Will I still be auto enrolled into a workplace pension scheme?

Yes, because the salary sacrifice pension scheme you select may not be a qualifying workplace pension scheme. Therefore you will still be enrolled into the workplace pension scheme should you be eligible, and have the option, should you wish, to opt out.

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Do you charge for the administration of running my salary sacrifice arrangement?

We do apply a small charge to cover the administration of deducting and setting up the payments to your provider but we will pass on the full employer's NI saving to you in the form of increased gross pay.

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Do I need to do a Self-Assessment tax return?

You will not necessarily need to do a Self-Assessment tax return because of a salary sacrifice arrangement but please feel free to contact our Tax Team on 0161 929 6000 (option 3) to discuss any other issues that may result in a Self-Assessment tax return being required.

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Is there a difference between salary sacrifice and salary exchange?

No, it's different terminology for the same thing.

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Will I continue to make contributions when I'm not being paid through PayStream?

A salary sacrifice arrangement for pension purposes will only apply whilst you are an active employee of PayStream. Meaning that we will only make contributions while you are actively being paid for hours/days worked.

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Leaving a salary sacrifice scheme

Can I stop contributions?

Yes, if you no longer want to sacrifice gross pay in exchange for this pension contribution we can stop making such pension contributions and your gross pay will be increased. If this is the case please get in touch with us at pensions@paystream.co.uk. We will then issue you with a new letter by way of confirmation.

However you should note that if you do stop contributing, you will not be able to start again until the start of the next tax year which starts on the 6th April.

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