Salary sacrifice changes from April 2017

PM+M chartered accountants

What's changing?

New rules are coming in on 6 April 2017 for certain benefits in kind where they are provided by salary sacrifice**.**

If you provide benefits to your employees in exchange for salary sacrifice or have a flexible benefits package where your employee can choose a benefit or cash, or where you provide benefits but offer your employee a cash alternative then you need to know about these changes.

Benefits impacted are those which are currently taxable, like cars and white goods, and those currently tax exempt, like mobile phones and workplace parking.

You don't need to do anything if your employees are only sacrificing salary for:

- Pensions or pensions advice,
- childcare vouchers,
- workplace nurseries,
- directly employer contracted childcare,
- cycle to work or
- ultra-low emission company cars (emissions of or under 75 g CO_2 / km).

All other benefits are affected.

What do you need to do?

If you are using salary sacrifice with your employees, you need to familiarise yourself with the new rules.

In many cases, you will need to report different taxable values on the new P11D.

The taxable value of the benefit will be the higher of the current benefit value or the cash forgone. This will be the value you use for calculating income tax and class 1A national insurance contributions.

If an employee takes the cash alternative, this is already subject to income tax and national insurance so there will be no change. However, if an employee chooses to have a company car there could well be a significant increase in the tax on this benefit, particularly if the car has relatively low emissions (not ultra low) and hence a low benefit under current rules.

When do you have to do this?

The new rules start on 6 April 2017. Salary sacrifice contracts entered on or before 5 April 2017 will be protected up until the contract hits a trigger point. From 6 April 2017, the normal trigger point is when the salary sacrifice contract renews, auto-renews, starts, ends or is modified or changed. At this point you must use the new rules. This should align with your normal contractual arrangements.

However, if the existing contract is still in place on 6 April 2018, then there will automatically be a trigger point on 6 April 2018. This will be 6 April 2021 for cars with emissions over 75g CO2/km, accommodation benefit and school fees.

If an employee starts a contract on or after 6 April 2017, then you will need to immediately use the new rules for that employee. This will apply to any new recruits who adopt the arrangements.

What should you do now?

Firstly, you will need to review your existing arrangements and understand which, if any, benefits will be affected and, if so, what the impact will be.

You may then choose to amend your salary sacrifice arrangements. This will have not just tax implications, but also require amendments to employee contracts, handbooks etc and communication with your employees. HR or employment law advice may be required.

You may also wish to consider amending the renewal date of your salary sacrifice arrangements to just before 6 April so that they can stay unaffected until April 2018 or April 2021 for cars, accommodation or school fee arrangements, rather than ceasing to be tax effective earlier if you have a different annual renewal date. Employees with company cars coming up for renewal soon may well want to renew them before 6 April 2017 so that they can take maximum advantage of the transitional rules.

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