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Now that significant pension changes are on the cards with auto-enrolment and NEST, (National Employment Savings Trust), this is a good time to look at salaries, wages and other benefits you offer your staff in conjunction with "salary exchange" or "salary sacrifice".

Employee Benefits Packages

Q. We have a basic employee Group Personal Pension now, with a minimal amount of take up. What does Salary Exchange do?

The pension changes coming into force over the next few years will mean that every employer will need to check his GPP against the minimum standards and probably enrol the balance of the staff into a scheme. (See our last article). Salary exchange will reduce the pain of compulsory contributions by reducing both employee and employer's National Insurance Contributions and putting the savings against the pension.

In essence, an employee agrees a reduction in gross salary in return for an increase in pension contributions. As pension contributions are an allowable expense and the employee never gets paid the salary in the first place, Income Tax, (PAYE) and Employer's and Employee's National Insurance is reduced.

Unless an employee opts out within the required period, by the end of the phase-in period, say April 2017, they will be paying 4% of relevant salary as a personal contribution. A reduction in pay of 4% is likely to incite a riot unless properly planned and explained.

Q. Can salary exchange save me, as the employer, money too?

Yes, the savings can be split between the employer and the employee, but to encourage members in the pension scheme, I would suggest being generous when allocating savings. The automatic re-enrolment every three years could get very complex, so I would suggest trying to encourage everyone into the same scheme and enrol new joiners into the GPP.

Q. Can salary exchange work for anything else?

Salary exchange has been used for a number of years against pensions and childcare vouchers, so this is a well-trodden path. There can be employment issues that need to be explored in advance, but otherwise there are few catches.

Q. What should I do?

Talk to an IFA and ask about the changes in workplace pensions. With your number of employees and the last two digits of your PAYE reference, a good IFA will be able to tell you the pension deadlines you will need to work to. Starting early will make it easier for all concerned, so do not put it off to the last moment!

We have just launched our booklet, "Financial Planning for Business Owners", so ask us for a copy either by ringing 0116 253 5600 or send an e-mail with your contact details to leicestermercury@bankfield.net.

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