



Pension Salary Exchange

Tax savings for both employees and employers

Pension Salary Exchange (PSE) is a salary sacrifice scheme in which an employee opts to both reduce their salary by their gross pension contribution, and to cease making any further employee contributions. In return, the employer increases their contribution to include the sacrificed amount

Whilst this is a tax neutral transaction, due to the tax relief applied to employee pension contributions as standard, the benefit of making this change is to create National Insurance contribution (NIC) savings for both employer and employee.

This means that employees can save 8% Class 1 NIC (2% for higher rate individuals) on every £1 exchanged under the scheme, increasing their net pay, with companies saving 15%, creating a 'win-win' situation.

The individual will see their savings as an increase to their net take home pay, and the company savings can then be utilised in various ways, including:

- **Adding to employee's pension funds as an additional benefit.**
- **Enhanced employee reward options, such as flexible benefit schemes.**
- **Investing back into the business.**

Though the 2025 Budget did announce there would be a £2,000 cap applied on the NIC savings which will reduce the effects of the scheme, this will not be coming into effect until April 2029. So, employers and employees have a further three tax years to make maximum savings under the current rules. Therefore, now is the time to consider taking advantage of the scheme if you aren't already doing so

Therefore, for the next 3 years at least, the potential annual savings per member of staff at various salary levels are (with a current employee contribution of 5%):

Gross Salary (£)	Qualifying Earnings Scheme		Full Salary Scheme	
	Employee Annual Savings	Employer Annual Savings	Employee Annual Savings	Employer Annual Savings
30,000	95	178	120	225
35,000	115	216	140	263
40,000	135	253	160	300
45,000	155	291	180	338
50,000	175	328	200	375
60,000	44	330	60	450
70,000	44	330	70	525

(Note: A qualifying earnings pension scheme is a common option where only income earned between £6,240 and £50,270 is pensionable – which reduces costs overall but lowers the potential savings under PSE)

At Clive Owen LLP we offer a bespoke process for implementing the scheme to satisfy HMRC requirements, including:

- Tailored communication to staff with documentation and webinars/in person presentations,
- Preparation of individual calculations and contractual adjustment letters.
- Liaising with your payroll team to ensure the software changes are implemented and payslips are correct.
- Providing ongoing assistance to you and your staff, including annual reviews.

Where Clive Owen LLP also provides payroll services, we are able to work closely with our team both on implementation and ongoing maintenance of the scheme.

If you have any questions, please contact a member of our Employment Taxes team, who would be happy to have an initial discussion with you



Contact Us



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