JULY 2026

SPOTLIGHT ON:

Salary sacrifice in 2026/27

CKLG
Accountants & Chartered Tax Advisers

WWW.CKLG.CO.UK
HELP@CKLG.CO.UK
01223 810100

THE BENEFITS WORTH KNOWING AND THE LIMITS TO PLAN FOR

Salary sacrifice can be a useful way to reduce tax and National Insurance, increase pension savings and access certain employee benefits at a lower net cost.

Used well, it can reduce the tax and National Insurance paid on some benefits, preserve allowances that would otherwise be lost, and help build pension savings more efficiently. Used without care, it can reduce statutory pay, affect mortgage affordability or leave you tied into an arrangement that no longer suits your plans.

This guide explains how salary sacrifice works in the 2026/27 tax year, where the savings sit, the pension changes due from April 2029, and the practical points to check before agreeing to an arrangement.

HOW SALARY SACRIFICE WORKS

Salary sacrifice is a contractual arrangement between you and your employer. You agree to reduce your gross pay in return for a non-cash benefit.

Common examples include:

- employer pension contributions
- electric cars
- cycle-to-work schemes
- workplace nursery places
- employer-funded pensions advice
- additional annual leave, depending on how the scheme is structured.

Your contract must change, and your cash pay will be reduced. Your employer then provides the benefit.

The tax treatment depends on the benefit. Pension salary sacrifice currently saves income tax and employee National Insurance on the sacrificed amount. Some other benefits remain tax-efficient, but many are caught by the Optional Remuneration Arrangement (OpRA) rules. Where OpRA applies, the tax charge is usually based on the higher of the salary given up or the taxable value of the benefit.

For 2026/27, the main rates that affect salary sacrifice savings are:

- Basic rate income tax, 20% on income from £12,571 to £50,270
- Higher rate income tax, 40% on income from £50,271 to £125,140
- additional rate income tax, 45% on income above £125,140
- employee National Insurance, 8% between the Primary Threshold (£12,570 per year) and Upper Earnings Limit (£50,270 per year), then 2% above that
- employer National Insurance, 15% above the Secondary Threshold.

There is also an effective 60% tax rate on earnings between £100,000 and £125,140, because the personal allowance is gradually withdrawn in this band. This can make salary sacrifice particularly valuable for some higher earners.

These income tax bands apply to England, Wales and Northern Ireland. Scottish income tax bands are different, so Scottish taxpayers need to check the Scottish rates.

The combined savings depend on where your sacrificed salary falls. As a guide:

- A basic-rate taxpayer sacrificing salary that sits within the main NI band can save around 28%
- A higher-rate taxpayer sacrificing salary above the Upper Earnings Limit can save around 42%
- An additional-rate taxpayer can save around 47%, while someone sacrificing income between £100,000 and £125,140 may save more because salary sacrifice can help reduce the impact of the personal allowance taper.

Because the employer also saves on NI, as well as the employee, some employers choose to pass on part or all of that saving by putting it towards the benefit. This can make the overall value even greater.

WHAT CAN STILL BE SACRIFICED EFFICIENTLY?

Many salary sacrifice arrangements lost their income tax advantage when the OpRA rules were introduced in April 2017, although employees can still retain the National Insurance savings. For benefits caught by OpRA, the tax charge is usually based on the higher of the salary given up or the taxable benefit value, which often removes the intended tax saving.

The main benefits that can still work efficiently include:

Employer pension contributions: Pension salary sacrifice remains the most common arrangement. The sacrificed salary becomes an employer pension contribution. For now, this usually saves income tax and employee NI for the employee, and employer NI for the employer.

Cycle-to-work schemes: Bicycles and cyclist safety equipment remain protected under the excluded exemptions. Scheme rules and ownership terms still need to be followed.

Electric and ultra-low emission cars: Cars with CO2 emissions of 75g/km or less are excluded from the OpRA rules. Fully electric cars remain attractive because the benefit-in-kind percentage is still relatively low. For a zero-emission car, the appropriate percentage is 4% in 2026/27, rising to 5% in 2027/28, 7% in 2028/29 and 9% in 2029/30.

Workplace nursery places: Workplace nurseries can remain tax-efficient where the employer is properly involved in the provision and the conditions are met.

EMPLOYER-PROVIDED PENSIONS ADVICE

The exemption for employer-provided pensions advice can apply up to £500 per tax year, subject to the rules.

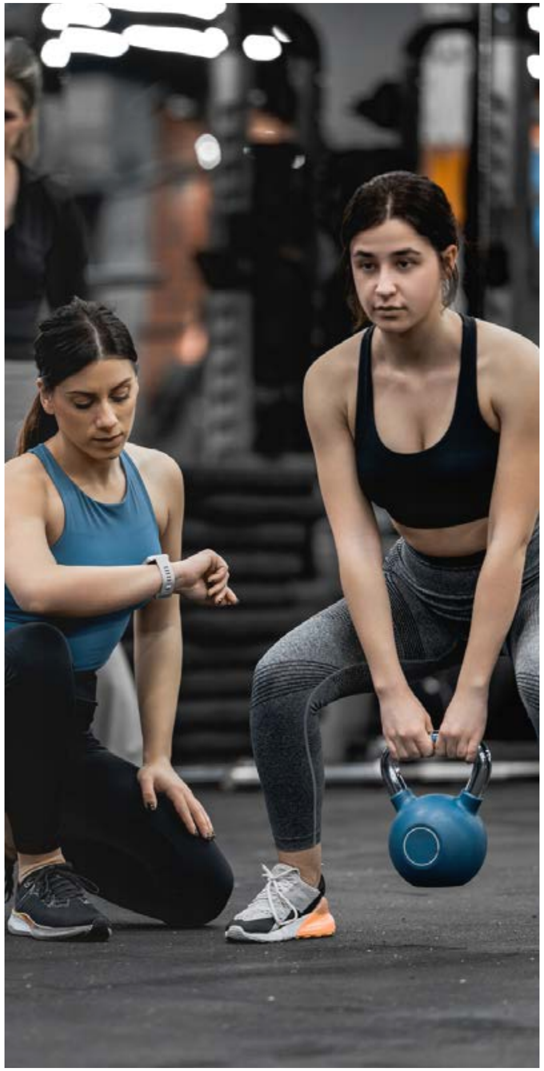
For many other benefits, such as gym memberships, white goods or gadgets, OpRA can remove most or all of the tax advantage. Additional annual leave is slightly different, because it may be treated as a reduction in working time rather than a taxable benefit, but it is not usually a tax-saving arrangement in the same way as pension salary sacrifice.

PENSION SALARY SACRIFICE

Pension contributions remain the main use case for salary sacrifice.

For example, a higher-rate taxpayer earning £60,000 who sacrifices £5,000 into their pension would usually save £2,100 in income tax and employee NI on that slice of pay, made up of 40% income tax and 2% employee NI. The full £5,000 goes into the pension, while take-home pay falls by around £2,900 before any extra employer contribution. If the employer shares some of its 15% employer NI savings, the pension contribution may be higher.

The exact saving depends on earnings, tax code, pension scheme rules and whether the sacrificed salary falls above or below the Upper Earnings Limit.



THE APRIL 2029 PENSION CHANGE

A change is due from April 2029. From 6 April 2029, only the first £2,000 of each year will be exempt from National Insurance. Salary sacrificed above that limit will be subject to employee and employer NI. Income tax relief on pension contributions will continue, subject to the usual pension limits.

A few points are worth noting:

- Salary sacrifice pension arrangements can continue after April 2029
- The first £2,000 per employee will still be free from NI
- Salary sacrificed above £2,000 will attract employee and employer NI
- All non-salary sacrifice employer pension contributions will be free from NI
- The change does not stop people from contributing more than £2,000 to a pension
- Employers will need to make payroll changes before the rules start.

HMRC estimates that 7.7 million employees currently use salary sacrifice for pension contributions. Of these, 3.3 million sacrifice more than £2,000, meaning around 44% would be affected by the measure and around 56% would be fully protected by the £2,000 threshold.

For 2026/27, 2027/28 and 2028/29, the current NI treatment remains in place. Anyone planning larger pension contributions may want to review the next three tax years carefully.

SALARY SACRIFICE AND INCOME THRESHOLDS

Salary sacrifice can also help manage adjusted net income. That can be useful where income sits near a tax threshold or benefit withdrawal point.

THE £100,000 PERSONAL ALLOWANCE TAPER

The personal allowance is reduced by £1 for every £2 of adjusted net income above £100,000. It is lost completely once adjusted net income reaches £125,140.

For someone in that band, reducing adjusted net income through pension salary sacrifice can restore some or all of the personal allowance. The effective tax saving can be high because it includes the normal higher-rate tax saving (60)% and the value of the restored allowance.

THE £60,000 TO £80,000 HIGH INCOME CHILD BENEFIT CHARGE BAND

From 2024/25 onwards, the High Income Child Benefit Charge starts where adjusted net income exceeds £60,000. The charge is 1% of Child Benefit for every £200 of income above £60,000. Once income reaches £80,000, the charge equals 100% of the Child Benefit received.

Salary sacrifice that reduces adjusted net income below £60,000 can reduce or remove the charge.

THE £50,270 HIGHER RATE THRESHOLD

For an employee just above the higher-rate threshold, pension salary sacrifice can reduce the amount of income taxed at 40%. If the sacrificed salary is above the Upper Earnings Limit, the saving is usually 40% income tax plus 2% employee NI.

THE £125,140 ADDITIONAL RATE THRESHOLD

Salary sacrifice can also help someone stay below the additional-rate threshold. It may also restore some personal allowance where income falls back into the £100,000 to £125,140 taper band.

THE LIMITS AND TRADE-OFFS

Salary sacrifice is not always the right answer. Before increasing or entering into an arrangement, check the wider effects.

STATUTORY PAY

Statutory maternity pay, statutory paternity pay, statutory adoption pay and statutory sick pay are usually based on earnings after salary sacrifice. Heavy sacrifice in the relevant calculation period can reduce statutory entitlements.

Some employers offer enhanced parental or sick pay, and their own policies may be more generous than the statutory minimum. The statutory calculation itself is based on the relevant earnings rules, so check the scheme before entering or adjusting a sacrifice arrangement ahead of planned leave.

MORTGAGE APPLICATIONS

Salary sacrifice may affect mortgage affordability checks. Some lenders look at post-sacrifice pay, while others may consider the arrangement if it is clearly shown on payslips or can be changed. Anyone planning to buy, move or remortgage should check before entering or adjusting a sacrifice arrangement.

MINIMUM WAGE RULES

Salary sacrifice must not reduce cash pay below the National Minimum Wage or National Living Wage. Employers must check this before processing the reduction.

STATE PENSION ENTITLEMENT

To build a qualifying year for the State Pension through earnings, post-sacrifice pay still needs to be at or above the National Insurance Lower Earnings Limit. For 2026/27, this is £129 per week, or £6,708 per year.

Most full-time employees will remain above this level, but heavy sacrifice on a part-time salary needs care.

CHANGING THE ARRANGEMENT

Salary sacrifice changes your employment contract. Schemes usually restrict when you can opt in, opt out or change the amount. HMRC guidance also warns that if employees can swap between cash and benefits at will, the expected tax and NI advantages may not apply. Pick a level you can afford to maintain.

PENSION ANNUAL ALLOWANCE

The standard pension annual allowance for 2026/27 is £ 60,000. It can taper down for people with a threshold income above £200,000 and adjusted income above £260,000, with a minimum tapered annual allowance of £10,000.

Salary sacrifice pension contributions count towards the annual allowance. Exceeding the annual allowance can result in an annual allowance charge.

ELECTRIC CAR SALARY SACRIFICE

Electric car salary sacrifice remains attractive for many employees who want a new car.

The arrangement can reduce costs compared with funding a car personally because the lease cost is taken from gross pay, the car is excluded from OpRA if its emissions are within the 75g/km limit, and the benefit-in-kind rate for zero-emission cars remains low.

The saving depends on the car, lease terms, insurance, maintenance package, salary level, tax rate and how much of the employer's NI saving is passed on. It is worth comparing the net salary sacrifice cost with a personal lease before signing.

The zero-emission car benefit-in-kind percentage is 4% in 2026/27. It rises to 5% in 2027/28, 7% in 2028/29 and 9% in 2029/30. The tax advantage will reduce as rates rise, but EV salary sacrifice should remain worth checking for employees who are already considering an electric car.

PRACTICAL STEPS

These questions can help you decide whether salary sacrifice is worth using.

- **What tax band are you in?** The savings depend on where the sacrificed salary sits. Basic-rate, higher-rate and additional-rate taxpayers can see different results.
- **Are you near a key threshold?** Salary sacrifice can be especially useful around £60,000, £100,000 and £125,140, because those thresholds affect the High Income Child Benefit Charge, the personal allowance taper and the additional rate of income tax.
- **Are you claiming Child Benefit?** If your adjusted net income is between £60,000 and £80,000, pension salary sacrifice may reduce the High Income Child Benefit Charge.
- **What does your employer offer?** Schemes differ. Check what benefits are available, whether the employer shares its NI savings, how often you can change the arrangement and what happens if you leave employment.
- **Are you planning parental leave, a mortgage application or a career break?** Are you on sick leave? These are reasons to take extra care before entering or adjusting a sacrifice arrangement.
- **Are you already sacrificing more than £2,000 into a pension?** The April 2029 change means higher contributors should plan ahead. The current rules remain in place for 2026/27, 2027/28 and 2028/29, but the NI saving above £2,000 will reduce from April 2029.

WRAPPING UP

Salary sacrifice remains a useful planning option in 2026/27, especially for pension contributions, electric cars and employees close to the £60,000 or £100,000 income thresholds.

The April 2029 pension change will reduce the National Insurance benefit for higher pension sacrifice contributions, but it does not remove salary sacrifice altogether. The next three tax years still offer a planning window under the current rules.

If you would like to review whether salary sacrifice would work for your circumstances, please get in touch.

CKLG
ACCOUNTANTS &
CHARTERED TAX ADVISERS

9 Quy Court, Colliers Lane, Stow-cum-Quy, Cambridge, Cambridgeshire, CB25 9AU