

Still a Sacrifice Worth Making?

Last May, HMRC [research](#) looking at employers' views towards using salary sacrifice for pension contributions had floated ideas for possible reform of the current system. The Aries Team wondered at the time whether this was a precursor to changes being announced in the Autumn Budget of 2025. It turned out this was spot on, with an announcement being made to charge employer and employee National Insurance contributions (NICs) on salary or bonuses sacrificed above £2,000pa in a tax year from 6 April 2029.

This Aries Insight assesses the change in more detail, including what it may mean in practical terms.

What is salary sacrifice for pensions?

HMRC's [guidance](#) describes salary sacrifice as "an agreement to reduce an employee's entitlement to cash pay usually in return for a non-cash benefit." For pensions, this benefit would take the form of an employer pension contribution.

As an example, let's say an employee wants to put £100 into their pension plan and there is income tax relief on this contribution. If we assume a net pay arrangement (rather than 'relief at source'), this works by deducting the contribution from their gross salary before calculating the income tax due. Without a salary sacrifice arrangement, the employer and

employee still pay National Insurance (NI) on the gross salary before deduction of the £100. So, the NI collector looks at the employee's gross salary before the £100 deduction and the income tax collector looks at the salary after the deduction.

The employer can instead offer to knock £100 off the gross salary, and pay £100 into the pension plan as an employer contribution. There is neither income tax nor NI due on this £100 reduction – both the NI collector and the income tax collector look at the gross salary after £100 has been deducted. Both employer and employee NI savings are generated from the reduction in gross salary.

Typically, an employer offering salary sacrifice for regular contributions will have promotional material for employees explaining how it works and the benefits (and [other impacts](#)) it can bring. Different outcomes can be achieved 'after sacrifice' and calculations are typically run using a spreadsheet, online calculator or payroll software. In all cases an employee's gross salary after sacrifice will be lower than the gross salary before sacrifice. Calculations will normally display before and after sacrifice figures to help illustrate the benefit a sacrifice will bring. Some outcomes that can be offered using the NI savings that a sacrifice generates include:

- Adding employer and employee NI savings to increase take-home pay after sacrifice. In this

case, the pension contribution before and after sacrifice will remain at the same level.

- Adding employer and employee NI savings to increase the pension contribution after sacrifice. In this case, an employee's take-home pay will be the same before and after sacrifice.
- Using employer NI savings to increase the pension contribution after sacrifice and using employee NI savings to increase take-home pay after sacrifice.

Note - as part of the calculations, an employer typically has the option to pass on some (for example, 50%), all (100%) or none (0%) of their NI savings. These savings are generated from the employee's gross salary reducing as a result of the sacrifice.

For a bonus, a distinction can be drawn between a contractual and a discretionary bonus. A contractual bonus is one that an employee will normally receive when certain targets or outcomes are met, whereas a discretionary bonus is one an employee would not be expecting to receive.

Sacrificing gross salary or a contractual bonus needs to be [formally documented](#). In contrast, payment of an employer contribution in lieu of a discretionary bonus does not need to be formally documented.

What has the Government proposed?

From 6 April 2029, salary or bonuses given up (sacrificed) above a £2,000pa limit will be treated as earnings under section 3 of the *Social Security Contributions and Benefits Act 1992*, and will therefore be subject to employer and employee NICs.

Draft primary legislation in the form of the [National Insurance Contributions \(Employer Pension Contributions\) Bill 2024/26](#) has already been issued along with a set of [Explanatory Notes](#).

This primary legislation will create a power for the Treasury to implement the changes.

Secondary legislation is expected to follow, setting out further detail on the design and operation of the initial £2,000pa limit, including reporting requirements for employers and transitional rules.

By imposing the limit, the Government aims to ensure that those on higher incomes do not receive a disproportionate benefit from using salary sacrifice, whilst protecting lower income employees and their employers who make typical contributions.

Assessing when the limit is breached

Government [guidance](#) issued at Budget time stated that “*employers will need to report the total amount sacrificed through their existing payroll software*”. It is expected that HMRC will engage with stakeholders on this before publishing further guidance.

So, the onus seems to be on those offering payroll software to cater for the recording of a salary or bonus sacrifice from 6 April 2029 and for those operating payroll for an employer to correctly input what has been sacrificed. When the £2,000pa limit is exceeded in a tax year, this will need to prompt the calculation and payment of employer and employee NICs on the excess.

As an aside, it is worth noting that currently, once a salary or bonus sacrifice has been made, a pension scheme or provider receiving the resultant employer contribution(s) may not know that a sacrifice has been agreed. If there is not a specific flag (or note) on a member's plan, one possible clue could be that only employer contributions are being made. Even then, it may not be easy for a scheme or provider to determine the gross salary sacrificed to generate the employer contribution after sacrifice.

Impact on employers and employees

In [2025/26](#), employers pay NICs at 15% on earnings over £5,000pa. Employees pay NICs at 8% on earnings between £12,570 and £50,270pa, and at 2% on earnings above £50,270. There are different rates and thresholds that apply in [specific circumstances](#) (for example, apprentices), but these are not covered in this Insight.

From 6 April 2029, salary or bonuses sacrificed in excess of the £2,000pa limit will become ‘earnings’. For employer NICs, those extra ‘earnings’ will be charged at 15%, meaning the extra NICs cost to an employer will increase in line with an employee's salary. It is less straightforward for employee NICs given the cliff edge between the 8% and 2% rates. In effect, lower paid employees facing an extra 8% NICs cost will be disproportionately affected compared to better paid employees facing an extra 2% cost.

There is also the question of when the £2,000pa limit could bite. A recent [briefing note](#) from the Pensions Policy Institute (PPI) suggests it will be at a lower salary level than you might think.

Some unknowns

Most employees using salary sacrifice will have one employment and be an active member of one pension scheme. For those, the £2,000pa limit should be straightforward to monitor. However, how will the limit be tracked if a person is a member of more than one scheme using salary sacrifice? And what happens if these schemes stem from different employments? Will there be one £2,000pa limit per person rather than per employment or scheme? In either case, the mechanisms put in place will need to be capable of monitoring what is being sacrificed.

For a sacrifice of regular contributions, would the limit need to be assessed when the sacrifice is initially effected and yearly thereafter? Equally, will there be different treatment for a contractual bonus and a discretionary bonus such that, a contractual bonus will count towards the amount being sacrificed but a discretionary bonus will not?

Various permutations could arise if someone is sacrificing salary and bonus in a tax year. For example, a salary sacrifice for regular contributions could amount to under the £2,000pa limit in a tax year but the sacrifice of all or part of a bonus will mean the limit is exceeded. Payroll systems will need to be flexible enough to cope with any eventuality and identify exactly when the limit is exceeded so that NICs can be applied to the

excess. Equally, payroll systems will need to cope with any [opt-outs](#) or changes to a salary sacrifice arrangement, such as where a 'lifestyle change' occurs.

Are there any other implications to consider?

Employers offering salary sacrifice for pension contributions will want to assess and review the implications of this change. As well as identifying and communicating with affected employees, employers may want to estimate the likely additional costs incurred. Some employers may change how they offer salary sacrifice to lessen the costs on themselves and their employees or alter the structure of the benefits package offered. Automatic enrolment obligations may need to be considered too. Separately, schemes and providers offering salary sacrifice may look to reappraise the documentation they use and update any spreadsheet or calculator they provide.

For the Government, there is a risk that some employees will see a reduction in the pension contributions being made on their behalf if action is taken to avoid breaching the £2,000pa limit. Will this be viewed as acceptable given that the [Pensions Commission](#) is separately investigating the long-term questions of adequacy and retirement outcomes in the UK?

At the time of writing, the Aries Team has received some technical questions relating to reducing contributions and the possible impact this could have on both a salary sacrifice agreement and the operation of the tapered annual allowance. Our response has been crafted into a recent LinkedIn [article](#).

What are the expected outcomes?

In the Government's [Budget document](#), it was claimed that the benefit of salary sacrifice arrangements had grown significantly in recent years with that trend expected to continue. Figures in that and a subsequent [policy paper](#) gave the 'cost' of foregone NICs in 2016/17 as £2.8bn, rising to £5.8bn in 2023/24. Without reform, this was expected to rise to £8bn by 2030/31.

The same policy paper estimated that 7.7m employees currently use salary sacrifice for pension contributions. Of these, 3.3m are estimated to be sacrificing salary or bonuses in excess of £2,000pa, meaning just over 40% of those using salary sacrifice could be impacted by the change.

In terms of Exchequer impact, there is forecast to be a positive gain of £4.8bn in 2029/30 and a lesser gain of £2.5bn in 2030/31 due to anticipated behavioural changes. There will clearly be costs incurred by employers, payroll providers, pension providers and HMRC in

preparing to implement the change too. Recent [information](#) released by the Office for Budget Responsibility (OBR) touches on some expected behavioural responses that employers and employees may adopt.

Aries Comment

It is too early to understand exactly how this change will operate, but it is clear even now there is more to think about than on first impressions when the Budget announcement was made. Those in the pensions industry will need to closely monitor developments in the run up to 6 April 2029 and ensure that any required changes can be made to administration processes and systems and to sales and marketing material.

For next month's Aries Insight, we will consider the amount of additional NICs that will be payable by employees at six different salary levels.

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