



Salary Sacrifice Scheme

Salary Sacrifice Background

Northumbria University Nursery is provided for children from birth to 4 years old to assist staff working at the University with their childcare arrangements. The nursery is open from 7.45 am to 6.15 pm from Monday to Friday for 51 weeks of the year, and has been registered by OFSTED.

The nursery charges fees for children attending the day nursery. However, we have altered the basis upon which the nursery is made available to staff, in a tax efficient manner.

Under the Salary Sacrifice Scheme, these nursery fees are reduced to **NIL**;

If the employee wishes nursery not to charge for the place at the day nursery, he/she has to agree that his or her gross salary will be reduced accordingly. For example, a basic rate taxpayer incurring full time nursery childcare costs of say £10,236 per annum may choose to instead reduce their gross salary by £853 per month. The annual costs will of course be pro-rated accordingly for an employee, accepted within these arrangements, whose childcare requirement is less than 10 sessions per week;

Irrespective of how many childcare sessions are required per week, it is assumed that the employee will utilise the nursery for the full year of 51 working weeks, i.e. it will not be possible under this arrangement to estimate current costs based on a lower number of weeks (e.g. just to cover school term or holiday dates).

This arrangement is only be available to employees who have parental responsibility for any child(ren) placed in the nursery. This is one of the conditions required to ensure that a free nursery place is a non-taxable benefit.

Why might this save me money?

If you would like to take advantage of a place at the day nursery and agree to the proposal, the employee's net income will, as a result, be higher than currently. This is because the provision of the day nursery place is tax-free.

How much will I save?

The exact savings will depend on individual circumstances. To further illustrate how the savings would work we have also provided a more specific example of tax and national insurance

deductions both before and after the "salary sacrifice" which takes into account tax free and NIC free thresholds:

Salary Sacrifice Illustration

Example A:

Before Sacrifice	gross salary	national insurance	pension	tax	net pay	nursery fees	monthly disposable income
	2315.67	175.88	150.52	297.80	1691.47	600.00	£1,091.47

After Salary Sacrifice	gross salary minus nursery fees £600	national insurance	pension	tax	Net pay	monthly disposable income
	1715.67	112.28	150.52	177.80	1275.07	£1,275.07

Monthly savings £183.60

Example B:

gross salary	national insurance	pension	tax	net pay	nursery fees	monthly disposable income
4523.58	328.17	361.89	821.17	3012.35	955.29	2057.06

gross salary minus nursery fees £955.29	national insurance	pension	tax	Net pay	monthly disposable income
3568.29	309.07	361.89	506.00	2391.33	2391.33

Monthly savings £334.27

How long does the arrangement last?

Employees will be able to revert back to the higher salary (with no free nursery place) on an annual basis. It is not envisaged the arrangements may be changed during this 12 months agreement period, other than in exceptional circumstances, and this will be at the discretion of the University.

What is the general effect of reducing taxable salary?

Employees accepting this proposal should pay a reduced amount of tax and National Insurance, in net income terms, is better off each month. However, a number of state benefits are dependent on making a minimum level of National Insurance Contribution, for instance Statutory Sick Pay and Job Seekers Allowance.

Employees should be aware that a reduction in taxable salary may affect other company and state benefits such as Statutory Maternity Pay, sick pay, and their level of entitlement in the event of redundancy or other employment termination. A reduction in taxable salary might also affect more general financial matters such as mortgage applications.

Any overtime payments due would also be calculated based on the reduced salary rate. However annual salary increments will be adjusted so far as possible, in order that the employee will receive the increase which would have been due had they retained the higher salary (less any corresponding increases in the deemed cost of the nursery).

For the avoidance of doubt, an employee will not be permitted to reduce their taxable salary to a rate below the prescribed National Minimum Wage rate (i.e. so that their new rate of taxable pay would equate to less than the minimum rate). If, after applying to join the Salary Sacrifice scheme, calculations show that you will fall below the National Minimum Wage, we can look at individual circumstances and use our discretion to either; reduce the number of days allocated in nursery, or, split the fees between Salary Sacrifice and deduction from payroll.

What about my pension arrangements?

Pension contributions continue to be calculated on the pre sacrificed salary, therefore future pension benefits are not affected by the sacrificed amount. It is recommended that anyone with a personal pensions plan seek independent financial advice in case the reduction in pay affects the expected benefits on retirement.

What if I am claiming Tax Credits?

Employees in receipt of state benefits such as Childrens Tax Credit (WFTC) or Disabled Persons Tax Credit (DPTC) may qualify for a higher Credit the higher the eligible childcare costs they pay. Accepting this proposal would reduce the amount of childcare costs paid by the employee, and therefore would result in a reduction in the benefits payable. **You will need to decide which will be the most cost effective for you, as you are unable to join the Salary Sacrifice scheme and claim any element of Child Tax credit for nursery fees paid.**

How do I proceed?

To register an application for your child to join nursery and to receive a personal illustration of savings, please complete contact Judith Curry, Nursery Manager j.curry@northumbria.ac.uk or telephone 2274358