

Salary sacrifice and staff discounts on school fees

Most, if not all, fee-paying schools have schemes that offer some reduction in the full fees for the children of staff members. The arrangements and level of any discount vary widely but in many instances there are opportunities for further savings through more tax efficient policies, notably through salary sacrifice schemes.

Salary sacrifice occurs where a formal agreement is made to change the terms of employment so that a lesser sum is payable in salary but replaced by a benefit of some kind. It is most commonly seen in relation to childcare schemes, bike to work schemes or additional pension contributions but, as illustrated in table 1, the principle can also apply to discounted school fees.

If, for example, a teacher is paying tax at the basic rate and enjoying a discount of 50% on annual school fees of £10,000, he or she will be paying fees of £5,000 out of taxed income. At 2011-12 rates this would require a gross salary, before tax and NIC, of £7,042.

If the school and teacher agree to a reduction of £7,042 in gross salary but a 100% discount on the school fees the teacher would be better off by £1,742 and the school saves £483 in employer contributions.

The potential savings that can be made will depend on the particular arrangements already in place for any discounted fees.

The figures in the table reflect a benefit in kind of 15% of the normal fees which is typically acceptable to HMRC as the valuation of the benefit, based on the marginal cost of one extra pupil.

While the potential tax savings can be very attractive there are other considerations to take in to account. It is also vitally important to ensure that any agreement is properly documented and implemented.

	Pre salary sacrifice £	Post salary sacrifice £
Gross salary	7,042	7,042
Less: Salary sacrifice	—	(5,000)
	7,042	2,042
Taxable benefit(15% x 10,000)		1,500
Less: tax and employee NIC	(2,042)	(300)
Net salary	5,000	1,742
School fees paid	(5,000)	—
Balance remaining/saving for employee	<u>NIL</u>	<u>1,742</u>
Employer NIC on salary/benefit	972	489
Cost to School		
Gross salary	7,042	2,042
Employer NIC	972	489
Less: fees received	(5,000)	—
	<u>3,014</u>	<u>2,531</u>

Table 1

There are employment law matters to consider. The agreement is a variation of the terms of employment and any post sacrifice salary must still satisfy minimum wage legislation.

Other factors to consider are the potential effect on:-

- claims for Working Tax Credit or Child Tax Credit;
- entitlement to State Pension or other benefits such as Statutory Sick Pay, Statutory Maternity/Paternity Pay;
- pension scheme contributions and future entitlements.

It is not possible to have an effective salary sacrifice scheme if the employee has the freedom to opt in and out at will. The arrangement should be for a set period of time, subject to periodic renegotiation or reviewable in the event of major lifestyle changes for the employee.

Conclusion

While properly implemented salary sacrifice schemes are accepted as effective by HMRC they are taking greater interest in checking their effectiveness and there is legislation being brought in to restrict the benefit of salary sacrifice schemes in certain specific areas. This would not currently

affect schemes relating to school fees but could perhaps be extended in future.

Summary

So, in summary, there are potentially worthwhile savings to be made in many instances from salary sacrifice arrangements but they need to be implemented with care and proper consideration of much more than just the immediate tax effects, both from the employer and the employee's perspective. If you are interested in finding out more on how such a scheme could be of benefit in your circumstances we would be glad to discuss this further.

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