

# CIPD

*Championing better  
work and working lives*

## **Salary sacrifice for the provision of benefits in kind**

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CIPD submission to HM Revenue & Customs

**Chartered Institute of Personnel and Development (CIPD)**

**October 2016**



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## **Background**

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

## **General Comments**

In these financially strained times, the CIPD understands the reasons why HM Revenue and Customs (HMRC) is looking to remove tax and national insurance advantages from benefits in kind (BiKs) supplied to workers through salary sacrifice.

However, in addition to raising money for social and economic reasons such as building hospitals, roads and schools, we also believe that tax system should also be used to encourage social and economic objectives, such as motivating more people to save extra for their retirement or helping working parents to balance their work and home lives.

We are concerned, therefore, that restricting salary sacrifice on certain benefits in kind could result in unintended consequences for some of these social and economic objectives. For instance, while the CIPD welcomes the tax support given to the cycle to work scheme, we are unsure why the same tax treatment can't be also given to other benefits that support a healthy workforce – such as gym membership or dental insurance – especially as such benefits would boost UK productivity at the same time as reducing the burden on the NHS.

Similarly, removing salary sacrifice on employee car ownership plans may result in employees buying fewer environmentally-friendly cars and so have an impact on Government's environmental and health objectives. Employees who are paying for their personal development through salary sacrifice could also lose out, which would have a detrimental impact on various government agendas, such as keeping older employees in the workplace for longer or boosting productivity.

We believe that before removing tax and national insurance advantages from BiKs, the Government needs to examine the possible unintended consequences that could arise and that may adversely impact on the Government's other policy agendas.

Our more detailed comments on specific questions in the consultation document are below.

## Our response

***Question 1: Alongside annual leave, are there any other salary sacrifice arrangements that the Government should be made aware of that do not strictly involve receipt of a benefits?***

One such arrangement is where employees donate a day's pay to charity. Instead of the day's pay going into the employees' bank account, it goes directly to the charity.

***Question 2: What are the likely impact on employers and employees of limiting the scope of BiKs that can obtain tax advantages when offered through salary sacrifice arrangements?***

That some benefits, such as arrangements when an employee has the option of taking a company car or taking a cash allowance in lieu of a company car, that aren't considered as coming under salary sacrifice arrangements are caught by the change.

***Question 3: Are these impacts different, or are there different considerations, for large/small businesses or particular business sectors?***

It could have an impact on those public sector employers that have adopted salary sacrifice so as to be able to compete against the private sector for talent. For instance,

NHS trusts offering cars through salary sacrifice to attract and retain staff, such as nurses or accountants.

**Question 4: Are the impacts different for particular BiKs?**

We are concerned that restrictions on health and medical benefits could go against the Government's wellbeing agenda. Similarly, the restrictions on the purchase of cars through salary sacrifice could go against the Government's climate agenda. Whilst such employee car owner schemes will still allow workers to spread the cost of purchasing a new car, the end of salary sacrifice arrangements won't make it as attractive as it once was and employees may not purchase a new car or if they do, not opt for an environmentally friendly version.

**Question 5: Do you think that the Government needs to take any steps to mitigate any negative consequences of this change for employees and employers, such as those who may be locked into salary sacrifice arrangements?**

The CIPD believes there should be a 'grandfather' or acquired-rights clause for those locked into such arrangements until it expires.

**Question 6: Do you consider that the approach proposed for legislation would work as intended?**

It would be helpful if HMRC produced a list of benefits that were exempt from the changes rather than creating a list of those that were not.

**Question 7: Are there any consequences the government has not considered in proposing to legislate in this way?**

We don't believe that arrangements where employees can opt for a company car or a cash allowance in lieu of a company car is salary sacrifice. We think that restrictions on wellbeing benefits and employee car ownership plans may work against the government health and green agendas.

***Question 8: Would this timeline present employers with difficulty, for example with updating payroll software?***

In addition to revising software, some of the other activities include: changing manual systems; communicating the changes to employees; negotiating with employees regarding changes to contractual agreements (such as the car allowance); and potential TUPE issues.

***Question 10: Are there any other compliance considerations which HMRC should be aware of?***

Employers having to change employment contracts as well as reward strategies.

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