

TEACHERS' PENSION SCHEMES
Circular 2018/11

WHO SHOULD READ:	Chief Executives, HR and Payroll Managers, Teachers' Unions and representatives
ACTION:	To read and circulate to interested parties and members of the Teachers' Pension Schemes
SUBJECT:	Salary Sacrifice

The purpose of this circular is to provide clarification:

- **On UK Government changes to Tax Free Childcare and clarification on approved and unapproved salary**

The UK Government will introduce new Tax-Free Childcare arrangements from October 2018. This means that the existing childcare voucher schemes will close to new members from this date.

Tax-Free Childcare

With Tax-Free Childcare a member can receive up to £500 every 3 months (£2,000 a year) for each of their children to help towards the costs of childcare. If a member receives Tax-Free Childcare, the government will pay £2 for every £8 paid to the childcare provider via an online account.

To access this a member is required to register online and set up a personal Tax-Free Childcare account. More information about Tax-Free Childcare and how to register can be found at [gov.uk website](http://gov.uk).

Existing Childcare Vouchers

If a member currently participates in the childcare voucher salary sacrifice arrangements and wishes to continue with childcare vouchers after October 2018 they do not need to take any action for as long as they meet the qualification and eligibility criteria.

A member can also elect to move to Tax-Free Childcare if they feel this is a better option for them. They cannot, however, claim childcare vouchers and Tax-Free Childcare for the same child.

If a member stops their childcare voucher arrangements they will not be able to re-join as the scheme is now closed.



Further Information

Both the existing childcare voucher scheme and the new Tax-Free Childcare arrangements offer benefits but whether they are best for a member will depend on their own personal circumstances. Members must ensure that they are fully informed before making any decisions.

Approved Salary Sacrifice

Following the issue of Scottish Teachers' Superannuation Scheme Circular [2015/12](#), the following information provides clarification on salary sacrifice.

Salary sacrifice happens when an employee gives up the right to receive part of the salary due under their contract of employment and in exchange receives a non-cash benefit. It does not apply where an employee receives full pay and then buys a service from the employer.

A member can choose to give up part of their gross salary, which enables certain benefits to remain pensionable in the Scottish Teachers' Pension Schemes. Scottish Teachers' Pension Schemes incorporates membership of the Scottish Teachers' Superannuation Scheme (STSS) and Scottish Teachers' Pension Scheme 2015 (STPS 2015).

There is limited provision for pension contributions to be deducted on Scottish Teachers' Pension Schemes **approved** pre-salary sacrifice. Those that apply to the scheme are:

- Childcare vouchers (as long as Tax-Free Childcare not claimed)
- Cycles
- Cyclist safety equipment

Please note that the Home Computer Initiative is no longer included.

Where a Scottish Teachers' Pension Scheme **approved** salary sacrifice scheme is in place, contributions should continue to be on the full gross pensionable salary **before** the salary sacrifice is applied. Where salary sacrifice is in place but does not include the approved salary sacrifice as detailed above, this is known as **unapproved** salary sacrifice. For **unapproved** salary sacrifice schemes the pensionable salary is **after** the application of salary sacrifice and it is the reduced salary that must be used when determining contributions or reporting service and salary information. Examples of **unapproved** salary sacrifice are school fees, gym membership, car parking fees etc.

Note: Where unapproved salary sacrifice is in place, it is the reduced salary that will be used in future pension awards. Please ensure all members are made aware of this fact.

Reporting

Salary sacrifice should be reported accurately using the appropriate SPPA data return form in all cases. To illustrate how approved salary sacrifice should be reported please see the example of an approved salary sacrifice scheme below. For comparison, there is also an example of an unapproved salary sacrifice scheme. For further guidance on how to report data returns please see the [Employer Services pages](#) on the SPPA website that contain user guides that are available to view and download.

Approved Salary Sacrifice Scheme

Mr John Smith purchases child care vouchers through salary sacrifice totalling £243.00 each month. This amount is taken from Mr Smith's gross salary of £2,950.00 reducing the pay to £2,707.00. Childcare vouchers are an **approved** salary sacrifice scheme so Mr Smith's pension contributions should be deducted from the gross salary of £2,950.00. Mr Smith pays pension contributions at a rate of 9.70% so his monthly pension contribution is £286.15.

Mr Smith's childcare vouchers are set at £243.00 per month so over the reporting year (April to March) his total deduction through salary sacrifice is £2,916.00. As this is an **approved** salary sacrifice scheme Mr Smith's pensionable pay is **not** reduced.

Unapproved Salary Sacrifice Scheme

Mrs Jenny Jones purchases car parking vouchers through salary sacrifice. The amount of vouchers purchased in one month was £31.00. This was deducted from Mrs Jones' gross salary of £2,950.00 reducing the pay to £2,919.00. Car parking allowance is an **unapproved** salary sacrifice scheme so Mrs Jones' pension contributions are deducted from the reduced salary of £2,919.00. Mrs Jones pays pension contributions at a rate of 9.70% so her monthly pension contribution is £283.14.

Mrs Jones' car parking voucher payments vary throughout the reporting year (April to March) so the total deducted from her gross salary through salary sacrifice is £400.00. As this is an **unapproved** salary sacrifice scheme Mrs Jones' pensionable pay is reduced by £400.00 from £35,400.00 to £35,000.00.

Please visit the [Employer Services Page](#) of the SPPA website for an [illustration](#) of how the above scenarios should be reported on an annual return (STPS03).

Brenda Callow
Policy Manager
May 2018

Contact information

Please contact brenda.callow@gov.scot if you have any enquiries about actual salary sacrifice. However, if your enquiry is on the reporting of salary sacrifice please contact finn.mackenzie@gov.scot

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