

To:

The Secretary General, Convention of Scottish Local Authorities

The Directors of Education, Directors of Finance & Human Resource Managers, Scottish Local Authorities

Principals of Further and Higher Education Institutions

Independent Schools

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Dear Sir or Madam

SCOTTISH TEACHERS' SUPERANNUATION SCHEME (STSS)  
SALARY SACRIFICE

The purpose of this circular is to clarify the position in the STSS in relation to salary sacrifice and its effect on contributable salary.

Salary sacrifice happens when an employee gives up the right to receive part of the salary due under his or her 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.

Salary sacrifice is pensionable under the STSS provided that the salary sacrifice scheme meets the criteria laid down by the HM Revenue and Customs and a contractual arrangement varying the employee's terms and conditions relating to pay is entered into. Superannuation contributions should therefore be deducted from the full salary before the deduction of the salary sacrifice.

National insurance contributions will be payable on the reduced salary. The sacrificed element is not liable to NICs. The employee makes a saving although there may be implications for state benefits which are dependant on NICs.

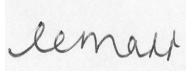
Two examples of non-cash benefits that are currently provided to teachers by some employers under Salary Sacrifice Schemes are childcare vouchers and home computers.

- **Childcare Vouchers** – from April 2005, if an employer provides its employees with childcare vouchers, the first £50 per week per employee will be exempt from income tax and national insurance contributions.
- **Home Computer Initiative** – the tax free allowance per employee is £500 per annum. This means that an employee can be loaned a computer equivalent to that value and incur no tax charges on the benefit in kind.

Guidance on Salary Sacrifice Schemes is available from the HM Revenue and Customs website at:  
[www.hmrc.gov.uk/manuals/eimanual/EIM42750.htm](http://www.hmrc.gov.uk/manuals/eimanual/EIM42750.htm).

This approach is consistent with all Scottish public service pension schemes.

Yours faithfully

A handwritten signature in cursive script, appearing to read 'cmarr', is displayed within a light grey rectangular box.

**Christine Marr**  
Policy Manager, STSS