

National Insurance Changes from April 2025: Why Salary Sacrifice Helps, But Doesn't Solve the Problem

From April 2025, employers will face a sharp rise in payroll costs, thanks to significant changes in National Insurance rules:

- **Employer NI rate** rises from **13.8% to 15%**
- **Employer NI threshold** drops from **£9,100 to £5,000**
- **Employment Allowance** increases from **£5,000 to £10,500**

While the increased Employment Allowance may help smaller employers, most businesses will still face higher costs due to the higher NI rate and lower threshold. Many are now looking at **salary sacrifice** as a way to offset these increases.

What Is Salary Sacrifice?

Salary sacrifice allows employees to exchange part of their gross salary for a non-cash benefit (typically pension contributions). As NI is calculated on salary, this can reduce NI bills for both employer and employee.

Worked Example: Comparing Three Scenarios

Below is an example for an employee earning £35,000 and contributing 5% (£1,750) to their pension:

Scenario	NI Threshold	NI Rate	Gross Salary	Salary Sacrifice?	Employer NI	Change
1. Now (2024/25)	£9,100	13.8%	£35,000	No	£3,574.20	N/A
2. April 2025	£5,000	15%	£35,000	No	£4,500.00	+ £925.80
3. April 2025 + Salary Sacrifice	£5,000	15%	£33,250	Yes (£1,750)	£4,237.50	+ £663.30

Without Salary Sacrifice, the higher Employer National Insurance rates cost this firm an extra £925.80 per employee in this example. Although the increased Employment Allowance will partially offset this. By introducing a Salary Sacrifice arrangement, the firm could save £262.50, and for a firm with a large number of employees, this could soon add up to a considerable saving.

The Bottom Line

Salary sacrifice is a useful tool for reducing the impact of NI increases. However, it doesn't eliminate the rise in employer costs. Businesses still face a higher NI bill overall.

Scott Gallacher, Chartered Financial Planner at Rowley Turton, says:

“Employers are right to explore salary sacrifice as a way of easing the increased National Insurance burden, and in many cases it can be a win-win for the business and its staff. But we shouldn't pretend it's a magic bullet. Even with salary sacrifice in place, most employers will still be paying more than they are today. It softens the blow, yes — but it doesn't solve the problem.”

If your business hasn't reviewed its payroll arrangements yet before April 2025, now is the time. Consider whether salary sacrifice makes sense for your team and your budget — but also be realistic about what it can (and can't) achieve.


Contact Us

We're here to help.

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