Sackers

Bill to cap pensions salary sacrifice tax concessions receives Royal Assent

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Introduction

The National Insurance Contributions (Employer Pensions Contributions) Act 2026 has today received Royal Assent. As announced at the Autumn Budget 2025, it lays the groundwork for a new cap on the tax concessions available on pensions salary sacrifice contributions from 6 April 2029.

Key points

- From 6 April 2029, only the first £2,000 of pension contributions made through salary sacrifice each tax year will be exempt from NICs.
- Contributions can still be made above that threshold through salary sacrifice arrangements. However, employee contributions above the cap will be treated like other employee workplace pension contributions and made subject to employee and employer NICs.
- Employer pension contributions will continue to be free of NICs, and all pension contributions will remain exempt from income tax (subject to the usual limits).
- Despite attempts by the House of Lords to increase the cap to £5,000 and to exempt certain smaller businesses, charities and social enterprises, the £2,000 restriction will apply to all individuals.
- Employers will be responsible for reporting the total amount sacrificed through existing payroll systems, with further HMRC guidance expected ahead of implementation.
- Much of the detailed operation of the changes will be set out in regulations and further guidance.

Background

Under a pensions salary sacrifice arrangement, an employee agrees to give up (sacrifice) part of their entitlement to salary or bonus in return for an employer contribution to their pension scheme. This is achieved by varying the individual's contractual terms and conditions. As the employee's salary is lower, this results in an NIC saving for both the employee and employer.

With the use of such arrangements having grown significantly in recent years, from 6 April 2029, NICs relief on pension contributions made through salary sacrifice arrangements will be limited to the first £2,000 in each tax year. This change is intended to "increase fairness, while protecting ordinary workers", as the cost of NICs relief on pensions salary sacrifice is seen as disproportionately benefiting higher earners. The Government estimates that 74% of basic rate taxpayers using salary sacrifice to make pension contributions will be unaffected by the change.

Initial guidance from HMT confirmed that this policy will not change the income tax treatment of pensions. Employees can still contribute as much as they want to their pensions, including via salary sacrifice, and these contributions will remain exempt from income tax and other charges subject, of course, to the applicable annual allowance.

New limit on NICs relief

The Act introduces a framework for the new policy. Regulations will set a "contributions limit" (cap) for each tax year, starting at £2,000 for the 2029-30 tax year. Salary sacrificed up to this limit will continue to be exempt from NICs, while employee contributions exceeding it will be made subject to employee and employer NICs, in the same way as other employee workplace pension contributions.

But the Act is fairly light touch, with much of the detail being left to regulations and further guidance. The initial guidance suggests that employers will be responsible for reporting the total amount sacrificed through their existing payroll software so that NICs can be applied where relevant. Remaining areas of uncertainty include how the cap will work where an employee has multiple jobs.

Next steps

As yet, there is no indication as to the timing for the regulations required to bring the cap into force. Further guidance will be published ahead of April 2029. Bearing this in mind, employers operating pensions salary sacrifice arrangements should consider when to start planning so as to ensure payroll systems can cater for the changes ahead.

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