Office for Budget Responsibility

5 February 2026

Supplementary forecast information release

Costing of charging NICs on salary-sacrificed pension contributions

1.1 The OBR is releasing this information following a request for further detail in respect of the costing of the policy announced at Budget 2025 to limit the value of salary-sacrificed pension contributions that can receive employee and employer NICs relief. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.

1.2 This release briefly describes the measure, sets out the data sources and modelling used to estimate the costing, and discusses the main sources of uncertainty around this central estimate, following the OBR's policy costings process.[1] As set out in the *Charter for Budget Responsibility*, the Government is responsible for producing all policy costings. In the case of tax policies the costings are typically produced by HMRC. The OBR's role is to provide independent scrutiny and certification of whether the Government's policy costings are reasonable and central. This means that the full datasets underpinning tax policy costings are generally held by HMRC. Therefore, requests for access to any datasets not available at the sources referenced in this note should be directed to HMRC.

Policy description

1.3 From April 2029 salary-sacrificed pension contributions above an annual £2,000 threshold will no longer be exempt from National Insurance contributions (NICs).[2] This means that salary-sacrificed pension contributions above £2,000 will be treated as ordinary employee pension contributions in the tax system and therefore be subject to both employer and employee NICs. Ordinary employer pension contributions will remain exempt from NICs.

Data

1.4 The main data source for this costing is the 2024 ONS Annual Survey of Hours and Earnings (ASHE), from which estimates of the number of employees using salary-sacrifice and the value of pension contributions are made. HMRC does not hold administrative data on the use of salary-sacrifice schemes for pension contributions. ASHE is the most comprehensive survey of earnings information provided by the ONS and HMRC has an established methodology for using this data source.

1.5 This measure will also affect bonus-sacrifice arrangements, where an individual chooses to receive an employer contribution to their pension in place of a bonus payment. This may

[1] See our *Briefing paper No.6: Policy costings and our forecast*, March 2014.
[2] For more detail on the policy see HM Treasury, *Policy Costings Document,* November 2025.

take place even where the employee's pension contributions are not otherwise made via salary-sacrifice. ASHE does not cover bonus-sacrifice arrangements. The additional tax base due to bonus-sacrifice is estimated using information submitted in historic APSS107 returns (where reporting is no longer required) on employer contributions to relief at source (RAS) schemes net of data reported in ASHE, which are then scaled up to also include bonus-sacrifice pension contributions to net pay arrangements.

Modelling

Static costing

1.6 The tax base consists of salary-sacrificed and bonus-sacrificed pension contributions above the £2,000 annual threshold.

1.7 There is evidence of an increasing trend usage of salary-sacrifice in recent years due to the relative NICs advantage, increased marketing of these arrangements, and employers using Operational Remuneration Arrangements (OpRAs) to fulfil their automatic enrolment obligations. HMRC anticipates that there would be modest overall growth in the use of salary-sacrifice. The salary-sacrifice population is estimated to grow 0.9 per cent faster each year than total employee numbers.

1.8 The tax base for salary-sacrificed pension contributions is grown by this 0.9 per cent assumption, in addition to the OBR's forecast for employment and wage growth. The tax base for bonus-sacrificed pension contributions is projected in line with the OBR's forecast for employment and wage growth.

1.9 The static yield is the amount of salary-sacrificed and bonus-sacrificed pension contributions in the tax base above the £2,000 threshold, where these exceed the primary or secondary NICs threshold, multiplied by the relevant employee and employer NICs rates. It is assumed that all individuals making pension contributions using bonus sacrifice earn more than the upper earnings limit (UEL), so a 2 per cent employee NICs rate is used for this element of the costing. Table 1.1 shows the tax base and static costing.

Table 1.1: Tax base and static costing

	Forecast			
	2027-28	2028-29	2029-30	2030-31
Salary-sacrificed pension contributions (£b)	12.9	13.6	14.3	15.1
Increase in average employee NICs rate (per cent)	0.0	0.0	2.7	2.7
Increase in average employer NICs rate (per cent)	0.0	0.0	15.0	15.0
Static yield from salary-sacrificed pension contributions (£m)	0.0	0.0	2.5	2.7
Bonus-sacrificed pension contributions (£b)	13.0	13.4	13.8	14.2
Increase in average employee NICs rate (per cent)	0.0	0.0	2.0	2.0
Increase in average employer NICs rate (per cent)	0.0	0.0	15.0	15.0
Static yield from bonus-sacrificed pension contributions (£b)	0.0	0.0	2.3	2.4
Total static yield (£b)	**0.0**	**0.0**	**4.9**	**5.1**

Note: This table uses the convention that a positive figure means an increase in receipts.
Source: HMRC, OBR

Behavioural response

1.10 The behavioural response to the measure is highly uncertain, given the various channels through which employers and employees can respond. The following behavioural responses were considered within the costing:

1.11 **Employers switching to ordinary contributions:** Employers could look to formalise salary-sacrifice arrangements to replicate the tax benefits of salary-sacrifice by increasing contributions in place of wage growth or lowering contractual salary in exchange for higher employer contributions. These are two distinct ways that employers can achieve an overall increase in employer contributions and are modelled sequentially.

1.12 The costing assumes that a share of the future pay growth the current salary-sacrifice population would receive in each year is instead put towards employer pension contributions, which remain NICs-exempt. Employees reduce their pension contributions in line with this so that the total contribution is the same as in the baseline, resulting in a smaller tax base and therefore lower NICs receipts. As firms are forward looking, this behavioural effect is assumed to start in 2026-27, but at a lower rate (2.5 per cent), and growing to 5 per cent by 2029-30. This behavioural assumption is based on the increase in pay specifically for individuals with salary-sacrificed contributions exceeding the £2,000 annual threshold. It reflects an estimated average across this population, in practice, some employees may see no pay growth whereas other employees may see more than 5 per cent of their pay growth go into employer contributions.

1.13 The ability of employers to reduce employees' contracted salary in exchange for higher employer pension contributions is limited by the Operational Remuneration Arrangements (OpRa) rules, meaning the employer must take an 'across the workforce' approach to increased generosity of employer contributions and a proportionate reduction in pay. Companies may have difficulties implementing this behaviour as permanent changes to contracts in this way would disproportionately benefit employers due to employer NICs rates being higher than employee NICs rates. Therefore, the assumption is that this behaviour only results in a 5 per cent reduction in the tax base in 2027-28 rising to 10 per cent by 2030-31.

1.14 We estimate this behaviour reduces the yield by £0.7 billion in 2030-31, as a result of reducing the share of the tax base that will pay NICs under this policy.

1.15 **Employees switching to relief at source (RAS) schemes:** The costing assumes many employees will switch to making ordinary pension contributions, some of which will be to RAS schemes. When an employee contributes to a RAS scheme, they will initially pay higher- and additional-rate income tax on their pension contributions and then reclaim this the next year.[3] This creates a temporary timing effect that boosts receipts as employees switch from salary-sacrifice to RAS and pay increased tax in 2029-30 and then reclaim it in 2030-31. This creates a temporary boost to tax receipts of £1.6 billion in 2029-30, and then temporarily reduces 2030-31 receipts by £0.6 billion as payments on account are made on

[3] This tax can be reclaimed through a self-assessment return or by contacting HMRC directly.

the reduced 2029-30 self-assessment liabilities. The costing assumes that 10 per cent of higher-rate and additional-rate relief from RAS schemes is unclaimed, which is lower than is assumed in the overall population due to this population basing decisions on the most tax-efficient option. This leads to a permanent increase in receipts, of an estimated £0.2 billion in 2030-31.

1.16 Following implementation of this policy, salary-sacrifice will still be available to be used, and these schemes will remain tax-favourable below the £2,000 threshold. It is estimated that 40 per cent of salary-sacrifice contributions above the cap and 20 per cent of bonus-sacrifice contributions above the cap remain in salary-sacrifice schemes, and the remaining 60 and 80 per cent move to net pay arrangements or RAS schemes. Of those contributions, 40 per cent of salary-sacrifice contributions and 55 per cent of bonus-sacrifice contributions are assumed to switch to RAS schemes, so will claim higher-rate and additional-rate relief in future years. For bonus-sacrifice, many employees will already have contributions in excess of the £2,000 cap so many employers are unlikely to offer bonus-sacrifice options following implementation as this is likely to be an administrative burden with minimal benefits.

1.17 **Pass-through:** The impact to the wider economy of remaining salary-sacrificed pension contributions above £2,000 being subject to both employer and employee NICs is then estimated. These impacts are only material for lower nominal wage and lower profit effects, and are estimated using the October 2024 *Economic and fiscal outlook* method.[4] For employer NICs, the elasticities in Table 1.2 are applied; for employee NICs, the elasticities in Table 1.3. The employer NICs estimate includes the assumption that employers will seek to pass 50 per cent of this additional cost to employees through lower ordinary employer contributions, which are not taxed, and 50 per cent through to lower salaries and bonuses, which are taxed. Following these pass-through adjustments, the relevant effective marginal tax rate (Table 1.4) is applied.

Table 1.2: Pass-through of a £1 increase in employer taxes (e.g. employer NICs)

Determinant	Pass-though impact of a £1 increase in employer taxes
Nominal wages	-0.61
Profits	-0.24

Source: OBR

Table 1.3: Pass-through of a £1 increase in employee taxes (e.g. employee NICs)

Determinant	Pass-though impact of a £1 increase in employee taxes
Nominal wages	0.19
Profits	-0.24

Source: OBR

[4] See paragraph 3.11 of the October 2024 *Economic and fiscal outlook*. Of the 76 per cent pass through into lower real wages, 80 per cent takes the form of lower nominal wages, and 20 per cent takes the form of lower prices. The price effects were not modelled as part of this costing, as they would not be material.

Table 1.4: Salary sacrifice model effective marginal tax rates

	Per cent				
	2026-27	2027-28	2028-29	2029-30	2030-31
ETR on earnings (IT)	43.6	43.7	43.7	43.8	43.8
ETR on earnings (EE NICs)	2.3	2.3	2.3	2.3	2.4
ETR on earnings (ER NICs)	15.0	15.0	15.0	15.0	15.0
ETR on pension contributions	0.0	0.0	0.0	0.0	0.0
Corporation tax ETR	20.0	20.0	20.0	20.0	20.0

Source: HMRC, OBR

1.18 The costing applies these pass-through assumptions to the post-behavioural estimate of increased employee and employer NICs once all other behavioural impacts have been estimated. This ordering ensures there is no double-counting in assessing the potential loss to individuals as it is this post-behavioural employee and employer NICs yield that is passed on into lower wages, lower employer contributions, and lower profits. This pass-through into lower wages and profits is estimated to reduce the yield of the measure by £0.7 billion in 2030-31.

1.19 **Other behaviours** include a reduction in contributions by individuals in defined contribution (DC) schemes, forestalling, increased contributions to meet auto-enrolment (AE) minimums, intertemporal smoothing, and a small attrition adjustment.

1.20 Employees in DC schemes may respond to the policy by adjusting their contribution levels to receive an increase in take home pay. The assumption is that 80 per cent of individuals in scope in DC schemes respond to the policy in this way, with higher earners reducing their individual contributions by 1.8 per cent and lower-earning employees reducing their contributions by 2.75 per cent.[5] This increases the exchequer yield of the measure by an estimated £0.1 billion each year, as this increased take-home pay is charged income tax as well as NICs.

1.21 As this measure increases the tax cost of saving into a pension, DC employees may respond to the announcement of the policy by increasing (forestalling) their contributions in the period before policy commencement. This is not expected to be a widespread response as individuals are likely to be already contributing as much as they can afford or can do tax-efficiently under their annual allowance. Forestalling in 2026-27 to 2028-29 is estimated as a rising proportion of the 2029-30 reduction in contributions, reaching 80 per cent and 40 per cent by 2028-29 for higher and lower earners respectively. There is less scope for forestalling of bonuses, so this is assumed to be 50 per cent of the 2029-30 reduction in contributions by 2028-29. These forestalling behaviours are estimated to cost the exchequer £0.1 billion in 2028-29.

1.22 Automatic enrolment contributions are based on gross earnings so for individuals moving out of salary-sacrifice, the AE minimum contributions required will increase. This is based on ASHE data and is expected to only have a modest increase in contributions and resulting

[5] This estimate uses elasticities from a study of Swedish self-employed taxpayers (Selin, 2011).

exchequer cost through increased pensions tax relief. This is estimated to have a minimal exchequer impact.

1.23 Employees may smooth their salary and bonus sacrifice contributions between years to make efficient use of the NICs exemption on contributions under £2,000. The costing assumes an overall 5 per cent reduction in both the bonus and non-bonus salary-sacrifice tax base from this behaviour, reducing the yield of the measure by £0.3 billion in 2030-31.

1.24 Users of salary-sacrifice are often employees of large employers who are expected to be more engaged with HMRC and tax compliant. Therefore, a low attrition assumption has been applied, reducing yield by 5 per cent in each year, reducing the yield from the measure by £0.4 billion in 2030-31.

Table 1.5: OBR determinants used in costing

	Forecast				
	2026-27	2027-28	2028-29	2029-30	2030-31
UK wages and salaries (£ billion)	1,298	1,334	1,370	1,410	1,450
UK employment (millions)	34.4	34.7	34.9	35.2	35.5

Source: OBR

Final costing

1.25 The central estimate for the costing is an increase in revenue of £4.7 billion in 2029-30, declining to £2.6 billion in 2030-31as a result of temporary timing effects, with the behavioural impact reducing the static yield by around 48 per cent in 2030-31. The long-term profile is expected to grow in line with the yield in the final years abstracting from these temporary timing effects, which is £3.2 billion in each of the final two years.

Table 1.6: Costing of charging NICs on salary-sacrificed pension contributions

	£ billion				
	Forecast				
	2026-27	2027-28	2028-29	2029-30	2030-31
Static costing	0.0	0.0	0.0	-4.9	-5.1
Behavioural effect	0.0	0.1	0.1	0.1	2.4
of which:					
Employers switching to ordinary contributions	0.0	0.0	0.0	0.5	0.7
Employees switching to RAS schemes	0.0	0.0	0.0	-1.6	0.6
Pass-through	0.0	0.0	0.0	0.7	0.7
Other behaviour	0.0	0.1	0.1	0.5	0.3
Post-behavioural costing	**0.0**	**0.1**	**0.1**	**-4.7**	**-2.6**

Note: This table uses the convention that a negative figure means a reduction in PSNB.
Source: HMRC, OBR

1.26 This policy costing was assigned a 'medium-high' uncertainty rating.[6] There is a high level of uncertainty over the size of the behavioural response due to the various mechanisms for employers and employees to change their behaviour in response to this measure. There is a

[6] See the 'Policy costings uncertainty ratings database – November 2025' spreadsheet at OBR, *Policy costings*, November 2025.

moderate level of uncertainty around the use of ASHE sample data to estimate the salary sacrifice base, and a higher level of uncertainty around the use of APSS107 forms in conjunction with ASHE sample data to estimate the bonus sacrifice base.

Further enquiries

1.27 We have received some enquiries relating to the distributional impacts of this policy, and to the tax-rates of affected employees. The OBR does not hold this information, and queries in relation to this should be directed to HMRC and HM Treasury.