Bonus sacrifice

This factsheet explains what bonus sacrifice is. We've put it together to help you decide if bonus sacrifice is the right thing for you.

What is Bonus Sacrifice?

Bonuses can be exchanged in return for a non-cash benefit (e.g. a pension contribution). This means you don't pay income tax or National Insurance Contributions (NIC) on the sacrificed bonus amount.

You can sacrifice a specific amount, a percentage of your bonus, your entire bonus or set a limit above which all of the bonus will be sacrificed. Your employer will then reduce the value of your bonus payment before it is paid. Some employers may decide to pass on all or some of their NIC saving. There are limits on how much you can pay into your pension plan, this is called the Annual Allowance.

For more information about Annual Allowance visit: **gov.uk/tax-on-your-private-pension/annual-allowance**

If you have no prior entitlement to a bonus (for example it's not specified in your contract), then it can only be sacrificed before you actually become entitled to, or receive it. You'd need to inform your employer's payroll department as early as possible.

The table below illustrates the difference in value between taking the bonus as cash or investing it in your pension by bonus sacrifice, based on an employee earning £25,000.

£25,000 basic pay — 20% tax payer	Bonus taken as cash	Bonus invested in pension
Bonus gross value	£1,000	£1,000
Income tax	–£200	–
Employee NIC	–£80	–
Take-home cash versus pension investment	**£720**	**£1,000**

Higher rate taxpayers

Due to the savings in income tax and NIC, it can work out quite beneficial to higher-earning employees.

The table below illustrates the difference in value between taking the bonus as cash or investing it in your pension, this time based on an employee earning £60,000.

£60,000 basic pay — 40% tax payer	Bonus taken as cash	Bonus invested in pension
Bonus gross value	£1,000	£1,000
Income tax	–£400	–
Employee NIC	–£20	–
Take-home cash versus pension investment	**£580**	**£1,000**

Important
Figures based on the 2025/26 tax year. You should be aware that the law and tax rates may change in the future. If you invest in a pension, you can't take your pension benefits until you reach age 55 (this will increase to age 57 from April 28). You may wish to consult a financial adviser on any investment options, although they usually charge for this service. You can find an adviser in your local area by visiting **unbiased.co.uk**. Legal & General can help you to access guidance and advice. Please call our helpline on **0345 070 8686** to see what services are available to you. Call charges will vary. We may record and monitor calls.

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