Salary sacrifice grocery schemes: summary for tax advisers

Employment Tax **Personal tax**

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HMRC’s December employer bulletin contains an important warning about these schemes.

Earlier this year, LITRG published a blog (tinyurl.com/yz26rmth) setting out a number of concerns about the growing prevalence of so-called grocery salary sacrifice schemes in the UK employment benefits market. These arrangements typically involve an employee agreeing to give up a portion of their gross salary in exchange for the employer loading an equivalent amount onto a card that can be used to purchase groceries. Providers promote these schemes as a way for employees – often lower-paid – to save on regular supermarket spending through National Insurance contribution (NIC) savings.

However, in LITRG’s view, where employers provide grocery cards, vouchers or similar tokens that employees use for personal purchases, these are likely to be

treated as non-cash vouchers or credit tokens. As a result, they would be liable to Class 1 NIC on both employer and employee contributions, contrary to some providers' claims that only Class 1A NIC would apply.

Following publication of the blog, the CIOT's Employment Taxes committee wrote to HMRC seeking clarification on the tax and NIC treatment of these arrangements. This was prompted by concerns that non-compliance could lead to underpaid NIC and PAYE failures, potentially exposing employers – and in some cases, employees – to additional liabilities, interest and penalties.

In December 2025, HMRC published a statement (tinyurl.com/mumjsvj7) in its Employer Bulletin to address these concerns. HMRC warned that they are aware of third-party salary sacrifice schemes, including grocery voucher arrangements, being marketed with claims of employee NIC savings and implied HMRC endorsement – something HMRC do not provide. The update emphasised that no formal approval or endorsement is given by HMRC for such schemes as being compliant with tax and NIC legislation.

HMRC also reminded employers that the Optional Remuneration Arrangement rules, introduced in April 2017, significantly curtailed the tax and NIC advantages of many salary sacrifice arrangements. Crucially, HMRC confirmed that Class 1 NIC liability will apply in relation to grocery schemes, for the following reasons:

1. The supply of non-cash vouchers does not fall within the listed exemptions from NIC in Schedule 3 of the Social Security Contributions Regulations 2001.
2. In particular, paragraph 8 of Part 5 of Schedule 3 (see guidance at NIM02438: tinyurl.com/u3t246t2) provides that non-cash vouchers can be disregarded only where the provision has **not** been arranged or facilitated by the employer.
3. Where a card is used, it operates on the same principle as a voucher, in that it can be exchanged for goods or services. These cards also cannot be regarded as company credit cards, as they are not used for allowable business expenses or for purchases made on behalf of the employer.

HMRC's bulletin further clarified that the ultimate responsibility for compliance rests with the employer, not the third-party scheme provider. Employers must therefore satisfy themselves that any salary sacrifice arrangement complies with tax and NIC legislation and should not rely on promotional material or assurances from providers.

Implications for advisers and employer clients

- Reassess any existing grocery salary sacrifice schemes operated; do not assume NIC savings apply without robust technical analysis.
- Review payroll and PAYE processes to ensure that benefits falling within the Optional Remuneration Arrangement – particularly vouchers and cards – are correctly taxed and subject to NIC.
- Warn clients of potential exposure to retrospective NIC, interest and penalties if HMRC challenges the treatment.
- Consider broader employee benefits provision: genuine salary sacrifice advantages remain for recognised exemptions (for example, pensions and cycle-to-work schemes), but creative applications to everyday expenditure require careful scrutiny. (For example, we are also aware of salary sacrifice electronics schemes, although it is not always clear whether these constitute true salary sacrifice arrangements or something else, in which case the tax and NIC analysis may differ.)

In summary, HMRC's update sets out the Class 1 NIC treatment of grocery salary sacrifice schemes, and makes clear that HMRC do not endorse such arrangements, as some providers have suggested. We remain concerned that these schemes carry significant risks and may not be compliant. We will seek to discuss this what this might mean for employers and employees with HMRC and will share any updates. In the meantime, employers should proceed with caution and seek professional advice.

Meredith McCammond *mmccammond@litrg.org.uk*
Matthew Brown *mbrown@ciot.org.uk*