Switch to Electric

Salary sacrifice for electric vehicles

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INTRODUCTION

Help the environment and motivate employees with a salary sacrifice for electric vehicles scheme.

Being sustainable is a key concern for many businesses. Electric vehicles can help with your green agenda, enabling you to offset and reduce your business' carbon emissions and pollution whilst offering your employees significant tax savings.

Here we guide you through the salary sacrifice for electric vehicles scheme, what you and your employees need to know and how you can get started.

Benefits to employees

- Get an electric car
- Cost effective
- Save tax
- Good for the environment

Benefits to employers

- Attract and keep the best talent
- Free to set up
- Pay less National Insurance
- Hit your sustainability goals

Why electric vehicles?

Electric vehicles are better for the environment as they emit less greenhouse gasses (even when taking in to account the electricity required to charge them).

The government is also providing beneficial tax rates to encourage people to go electric. For example:

- Zero-emission vehicles are exempt from road tax
- Grants for chargers:
    - The Electric Vehicle Homecharge Scheme supports up to 75% of the cost of a wall-box, which charges electric vehicles faster than a three-pin plug
    - The Workplace Charging Scheme supports up to 75% of the purchase and installation of electric vehicle charge-points, for eligible businesses, charities and public sector organisations (maximum of 40 charge points). **Read more here**.
- Tax incentives. **You can claim capital allowances on electric company cars**.

In addition to the financial benefits, employees are now, more than ever, considering a company's social responsibility and environmental commitment when looking to start and further their careers.

A **report from intranet company Unily** revealed that 83% of workers thought their employer was not doing enough to tackle climate change and 65% said they would be more likely to work for a company with robust environmental policies.

It is no longer enough for businesses to simply say they are committed to the environment, but to be actively showing their commitment.

How does the scheme work?

Employees may be familiar with other benefits, such as childcare vouchers, cycle to work or pension contributions. These all work in a similar way.

Your employees sacrifice part of their salary in exchange for a benefit. In this case, a new electric car.

The car is paid for through an employee's gross monthly pay, reducing their salary and therefore the amount of income tax and national insurance they pay. Employers' National Insurance payments are reduced too.

Although, it is worth noting that under salary exchange schemes employees cannot sacrifice their salary to a level below the National Minimum Wage.

What is salary sacrifice?

A salary sacrifice arrangement is an agreement to reduce an employee's entitlement to cash pay in return for a non-cash benefit.

The car is paid for through an employee's gross monthly pay, reducing their salary and therefore the amount of income tax and national insurance they pay.

How much do employees pay?

How much an employee pays is determined by the cost of the car and the income tax bracket they fall into.

For example, if an employee sacrificed a Mini Electric with a list price of £38,000 and the amount monthly that was sacrificed was £350, or £4,200 per annum, the net cost for a higher rate taxpayer would be £203 per month.

Higher rate tax payer

Monthly salary exchanged	**£350**
Tax @40%	(£140)
National Insurance @2%	(£7)
BIK at 2% (taxed at 40%)	£25
Total net deduction	(£122)
Net pay exchanged	**£228**

Benefit-in-Kind tax is payable on a salary sacrifice car in exactly the same way as on any other company-provided car and is based on the vehicle's CO2 emissions. For pure electric vehicles the rate will be 2% until at least 2023/24.

The monthly salary exchange is fixed at the beginning of the agreement and is held for the full term of the agreement. This means that even if interest rates rise substantially or expensive maintenance is required on the car (excluding any repairs not covered by insurance or needed due to misuse or negligence), the monthly charge is not affected.

Further, the provision of a charging point at the workplace and the company car user's home does not give rise to a taxable benefit.

It is worth noting that a reduction in taxable salary may have financial implications for employees. This might be on benefits or more general financial matters, such as on mortgage and loan applications. Therefore, employees must consider the implications thoroughly.

Entering into the scheme will mean a contractual change to the employee's terms and conditions of employment for a period of time (e.g. three years).

Important note

These benefits relate to employees only; if you are a director receiving a personal allowance salary there would not be any tax benefits available to you from a salary sacrifice scheme.

Early termination of the scheme

There are several situations where employees' participation in the electric vehicle scheme may stop before the end of the lease agreement.

Here we outline those situations, what happens and who will cover the cost of early termination. (We advise you also seek advice from your leasing company).

Life events

There are situations, 'life events', which mean the agreement can be terminated early. These life events include anything that affects an employee's financial situation, such as: divorce, pregnancy, marriage, death of a loved one or partner redundancy. Ordinarily, it is the employee's responsibility to cover the cost of early termination of the lease agreement. However, in these situations they may be protected by early termination cover.

Resignation and retirement

If an employee resigns or retires within the first six months of joining the scheme, they will be liable for any early termination charge. After six months, employees should be protected by an early termination protection insurance.

Redundancy

If employees are made redundant by the company, the company will need to pay the early termination charge.

Dismissal

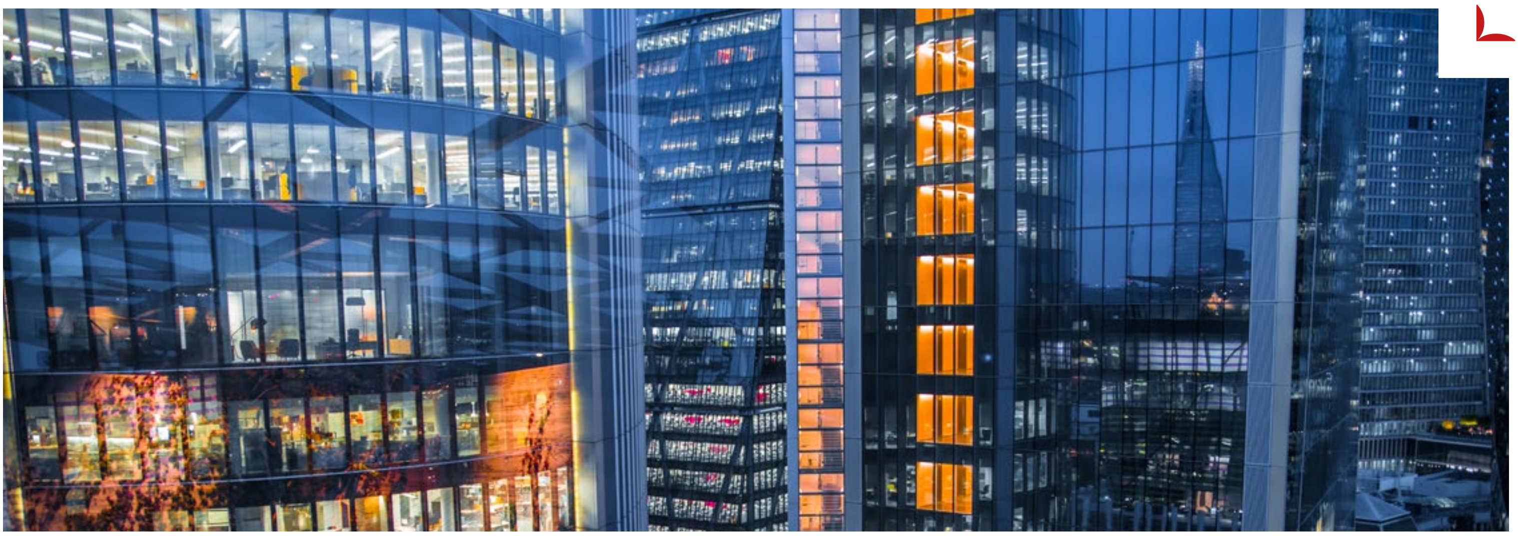
If employees are dismissed by the company for disciplinary, any early termination fee must be covered by the employee.

Death in service

If employees die during the term of their electric vehicle lease, the company will cover the cost of the early termination charge.

Loss of driving licence

If employees are banned from driving and are required or wish to terminate the lease, they must cover the early termination charge.



How to get started?

Should you wish to implement a salary sacrifice scheme, you can appoint a third party to run the arrangement. You will then be required to sign a master lease agreement for the cars chosen.

The financial liabilities that arise under this agreement are passed on to the employee via the salary sacrifice agreement. Leases are typically 24/36 months and the packages include insurance cover for employees who leave employment, or go on to unpaid leave, so the employer is not financially exposed.

Employees can often make their initial decision to select a car via an on-line platform and will then be transferred to the third party provider website to confirm their selection.

Employers can have input into the range of cars offered, pricing and can shape the parameters of the packages made available. Following appointment of a lease provider, implementation takes approximately 12-16 weeks.

How can we help?

We can help your organisation understand how an electric vehicle salary sacrifice arrangement can fit within your business. We can assist with drafting bespoke documentation, liaise with providers and HMRC where appropriate, ensure compliance with the legislation and model the financial benefits.

For further information, contact Amal Shah.

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