

Salary Sacrifice & Electric Cars



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Agenda

- What is Salary sacrifice?
- How salary sacrifice can save money on the purchase of a new electric car?
- Pitfalls to an effective salary sacrifice scheme
- Other salary sacrifice ideas

Salary Sacrifice

- Optional remuneration arrangements (OpRA) made salary ineffective on lots of benefits from 6 April 2017 (transitional arrangements applied until April 2021)
- However there are still tax benefits for:
 - Pension contributions
 - Employer-supported childcare
 - Cycle-to-work schemes
 - Ultra-low emissions cars

The move to electric...

- 2030 ban on new petrol and diesel cars
- Most major manufacturers bringing out electric models
- 42,000 charge points now in the UK (with 7,000 added in 2020)

The move to electric...



David

- David earns £40k per year working for Wernham-Hogg paper merchants
- David is looking at buying a new Peugeot 208 on a personal lease and has been quoted £324 per month
- But could David get the same car for less through the company salary sacrifice scheme



David

- David could get a Peugeot e-208 for £201 per month through salary sacrifice
- That's a saving of £123 per month in David's pocket
- Savings are greater for higher or additional rate taxpayers. This is before we talk about putting the insurance and maintenance through salary sacrifice or the fact that electric will be around £900 a year cheaper than petrol (based on 10,000 miles)



Tax Savings

- We are looking for tax savings in the following areas
 - Income Tax
 - Employee's NIC
 - Employer's NIC
 - VAT
- Corporation tax generally neutral if car is leased. HP adds capital allowances to the mix
- Savings are around 43% for basic rate taxpayers, 50% for higher rate, 54% for additional rate (and 60% for between £100k and £125k)

Savings calculation

2021/22									
Employer		Annual	Monthly		Employee		Annual	Monthly	
		£	£				£	£	
Without Car									
	Salary	40,000	3,333		Salary		40,000	3,333	
	Employer's NIC	4,300	358		PAYE		(5,486)	(457)	
	Cost of employee	44,300	3,692		NIC		(3,652)	(304)	
					Net Cash in hand		30,862	2,572	
With Car									
	Salary	36,547	3,046		Salary		36,547	3,046	
	Emp Class 1 NIC	3,824	319		PAYE		(4,795)	(400)	
	Car lease	3,885	324		NIC		(3,237)	(270)	
	Class 1A NIC	46	4		BIK		(66)	(5)	
	Cost of employee	44,300	3,692		Net Cash in hand		28,448	2,371	
					Net Cost of car		2,414	201	

Notes - Car is £353pcm (inc VAT), list price is £32,975

Or £324 for a petrol
208 personally

Savings Split

- How to split saving between employee and employer
 - Commercial decision?
 - Why are you undertaking the salary sacrifice?
 - Some firms look at it as a staff incentive
 - Some firms look to keep the employer's NI saving



National Minimum Wage

- A salary sacrifice arrangement must not reduce an employee's cash earnings below the National Minimum Wage (NMW) rates.
- Many employer's therefore set a minimum limit on annual salary for salary sacrifice to ensure they do not accidentally breach any NMW rates.



What costs can you include?

- Costs need to be agreed upfront as the salary that is sacrificed cannot vary
- Therefore items can include
 - Lease costs
 - Fixed Maintenance and service package
 - Insurance
 - Others such as valeting could be added if it is a fixed amount and company pays the bill

Other issues

- What if they leave?
- Valid salary sacrifice agreement
 - Legal aspects

Other positives and negatives

- Positives
 - Re-gain personal allowance
 - Ensure you are under £100k for tax free childcare
 - Tax credits
 - Student loan payments

- Negative
 - Mortgage
 - Contribution based benefits
 - Maternity pay

Leasing vs HP

- Leasing

- Pros – whole amount deductible, lower initial payments, 50% of VAT reclaimable

- HP

- Pros – 100% FYA for CAs (although watch out for balancing charge for those with a small pool)



Owners/directors

- Tax savings on electric cars vs all other forms of remuneration
- Many look at HP as there is no requirement to match payment profile and many owners like upfront CAs savings
- Can have more than one company car (therefore one for the spouse if not on the payroll)

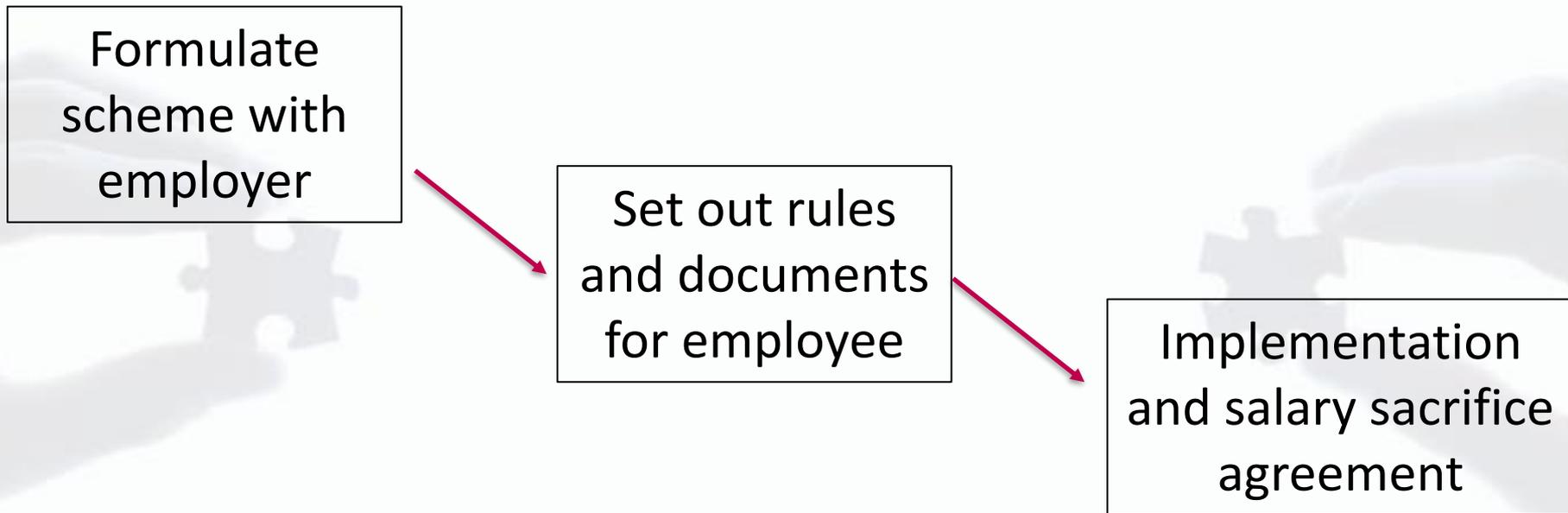
Other salary sacrifice ideas

- Pension contributions
- Employer-supported childcare
- Cycle-to-work schemes
- Hybrids

Increase in national insurance from April 2022

- Employee's, Employer's and class 4 national insurance due to rise by 1.25% from 6 April 2022.
- Increase in national insurance makes salary sacrifice even more effective
- Increase national insurance saving in 2022/23 offsets most of the rise in BIK rates going from 1% to 2%

How we can help?



- Bespoke for any circumstances
- We can act as a one-stop shop with legals or work with your current advisors

And finally.....

- Electric cars will create a £30bn blackhole in government spending?



Questions?

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