Powered by:

Fleet.
Wise.

SALARY SACRIFICE GUIDE

An in-depth guide to tax-efficient company car financing

360 Media Group
Information Services

www.360mediagroupltd.com

TRUSTED BRAND
Fleet. Wise.
2025

Buying Guide

Salary Sacrifice

100 Trusted Brands explores one of the most financially-attractive ways for drivers to fund lease vehicles, with insight from Jon Burdekin

Salary sacrifice is an established method of providing tax-efficient benefits to employees, and it can be used effectively in the provision of a car-related benefit.

Salary Sacrifice is best used as an employee benefit for non-car-eligible employees, and those employees in receipt of a cash allowance in lieu of a company car. It also provides an option to support a business's commitment to achieving net-zero carbon emissions. In this way, the carbon footprint of these employees' commute to work can be factored into your company's wider carbon footprint calculations.

The scheme can also be used as a replacement for existing company car users, although financial savings by doing this are marginal. In effect, you are moving a driver from a benefit-in-kind (BIK) driven benefit to another BIK driven benefit with no material difference in their financial position.

> "Salary Sacrifice is best used as an employee benefit for non-car-eligible employees, and those employees in receipt of a cash allowance in lieu of a company car"

What is Salary Sacrifice?

When viewed in its most basic form, the use of salary sacrifice to provide cars to employees is a simple marriage of three established tax principles – PAYE, NIC and BIK.

An employee agrees to have their salary reduced, and will therefore pay less PAYE and NI on the reduced salary.

In return for the salary reduction, they receive a traditional company car, on which they pay BIK tax like any company car.

The trick to making salary sacrifice work, therefore, is to ensure the saving in PAYE and associated NI is greater than the BIK tax incurred by the employee.

Of course, where an employee pays NIC, their employer pays Class 1A NIC, so if the employee saves money, then so does the employer (in saved employer's NIC).

"The trick to making salary sacrifice work, therefore, is to ensure the saving in PAYE and associated NI is greater than the BIK tax incurred"

How it works

In practice, a funder leases a company car to the employer in the same way they would normally do with their corporate clients.

This is a business lease, with the employer as the contracting party, and VAT is charged on the monthly rental. The funder owns the vehicle, and the employer makes it available to their employee. The employee returns the vehicle at the end of the agreement.

In a traditional company car scheme, the employer doesn't charge their employee anything for this (except for trade-ups or private mileage contributions), but the employee pays BIK.

However, where an employer enters a salary sacrifice arrangement with the employee, it agrees a change to their employment terms, to reduce gross salary and provide a company car in return. This is a contractual benefit of employment. The amount deducted from the employee's gross salary is typically equal to the amount the employer pays to the scheme provider for the monthly rental for the car, including maintenance and motor insurance, plus the 50% of VAT that cannot be recovered on the finance element of the rental. This is known as the 'effective rental'. The employee pays the same BIK as with any company car.

Tusker

We're Tusker, the UK's leader in salary-sacrifice cars. Part of Lloyds Banking Group, we have around 2000 active customer schemes, and we partner with all the top employee benefit providers.

We're committed to protecting our environment, which is why we're a member of the EV100, a group of organisations championing the move to zero emissions. Not only do we reduce and offset our own carbon emissions, but we also offset the emissions from every car we put on the road.

With more than 15 years' experience, we offer an affordable way for employees to drive a new, fully-insured and maintained car to over 1.8m UK employees. Our scheme offers a range of options, from pure electric cars to hybrids, and even traditional petrol and diesel vehicles.

We understand that every organisation is unique, so we tailor each scheme to the client's specific needs. Just let us know your preferences, and we'll take care of the rest.

BENEFITS

● Offering fully-insured and maintained cars via salary sacrifice in an all-employee benefits package ● Tailored schemes, customisable to employer requirements ● Integrated with all leading benefit providers and public sector frameworks ● Helps with ESG agenda, as we offset all tailpipe or charging emissions of our cars on the road ● Cost neutral – free to set up and class 1a NIC savings available on electric cars ● Lifestyle protections mitigate risks for a number of employee life changes, such as resignation and redundancy

When it works best

As Benefit-in-Kind rates are linked to CO_2 emissions from a vehicle, lower CO_2 means lower BIK, and the greater the saving against the salary sacrificed.

Battery Electric Vehicles (BEVs) with emissions of 0g/km CO_2 will attract a BIK rate of 2% (fixed until tax year 2025), so these vehicles will deliver the greatest tax efficiencies under any salary sacrifice arrangement.

Implications of OpRA (Optional Remuneration Arrangements)

On 6 April, 2017, HMRC introduced legislation titled *Optional Remuneration Arrangements* (OpRA), which covered a number of tax treatments surrounding salary sacrifice of various benefits (Pension, Childcare, etc). Salary Sacrifice for cars was included and the rules changed.

Under the ruling, Ultra-Low Emission Vehicles (with emissions of 75g/km or less) are exempt from any tax changes under OpRA and it is these vehicles (BEV or PHEV) that generate significant tax savings under a salary sacrifice scheme.

Insurance under salary sacrifice

Bearing in mind a contractual arrangement will be between the funder and the employer, it is worth considering what insurances you may need to offer, and how these can be applied in the simplest possible form.

> "Under the ruling, Ultra-Low Emission Vehicles (with emissions of 75g/km or less) are exempt from any tax changes under OpRA and it is these vehicles (BEV or PHEV) that generate significant tax savings under a salary sacrifice scheme"

> "Under salary sacrifice, an employer can provide its own fleet insurance cover for drivers, and include it within the amount of salary sacrificed by the employee"

Motor Vehicle Insurance

Under salary sacrifice, an employer can provide its own fleet cover for drivers, and include it within the amount of salary sacrificed by the employee. However, the amount paid for insurance must be specified and separated within the salary sacrifice arrangement for each driver.

Consideration may need to be given to high-risk drivers who cause an increase in the employer's premiums. However, this is no different to any other fleet insurance provision. It could also be argued that this is the most cost-effective method of providing insurance for a group of drivers.

More typically, salary sacrifice providers offer insurance-inclusive solutions, where the insurance premium forms part of the overall salary sacrifice, and no demand is placed on the employer to source or provide this.

Insurance premiums, under this inclusive offer, tend to appear expensive, as they are fixed for the period of the lease, and are designed to be broad in their application, to cover a varied employee base of male/female, old/young and geographically diverse. That said, it should be remembered that this price is passed onto the employee through their gross salary deduction.

Additional employer costs linked to salary sacrifice

Early termination
As with any business contract hire arrangement, ending the contract early is likely to incur an early termination charge to the employer from the funder. How it's handled depends on the circumstances surrounding the ET (resignation/redundancy/long-term sick/death in service, etc)

The best way to avoid early-termination charges is to not return the car at all, but to reallocate it to another employee, if at all feasible.

All providers offer protection to minimise financial risk. This can be expensive, but as it is included within the monthly payment, it is effectively passed on to the employee as part of their gross salary deduction – leaving no exposure to the employer.

The option to 'self-insure' should be considered.

How would this work in practice?
The employer could apportion an element of the employer's NIC savings they will generate from the salary-sacrifice arrangement as provision for any ETs they may need to fund in any given period. The provider can establish how many they think will occur, and what the average cost may be and help the employer to make this provision. Alternatively, the employer could pass this cost on to the employees by simply making a small addition to each employee's monthly salary sacrifice to build up this provision. For example, 50 vehicles under salary sacrifice at £300/month, with a notional sum of £30.00 pvpm, added to the salary deduction would generate a provision of £18,000 pa. The impact to the employee would be a small reduction in the significant tax savings they would enjoy.

> "It is worth noting that the best way to avoid early-termination charges is to not return the car at all, but to reallocate it to another employee, if at all feasible"

End of Contract Damage
Commercially, the employer may recharge drivers any costs incurred – via salary deduction, with the Ts&Cs included in any salary-sacrifice agreement. If their policy is to absorb these costs and not recharge, this can also remain in place, although a self-insurance provision could mitigate the risk.

Excess Mileage
This can be passed on to drivers (if it's included in the agreement) – especially as any excess business-mileage would have resulted in additional employee income through mileage claims.

It's important to ensure there's an opportunity for employees to 'reset' their agreement if they are driving over or under their stated mileage. This should offer them the opportunity to pay any increased amount through the tax efficiency of the salary sacrifice arrangement while it is still in place, rather than out of net salary when the arrangement ends. Conversely, if the driver is travelling fewer miles than stated, they are unlikely to receive any benefit for this at the end of the contract, whereas a reschedule would reduce their monthly deductions.

It can be seen from the above, that the same cost areas and risks will be incurred by employees under salary sacrifice as they would incur if they were offered company cars – and these costs/risks can be passed on to employees if required, through a fully-insured solution, a self-insurance provision and/or robust policy that recharges drivers for costs they have incurred. Alternatively, the employer could build a provision for these from employer's NIC savings.

Other considerations under salary sacrifice

How will it affect an employee's pension?

A salary sacrifice arrangement reduces gross salary, as an employee has agreed to exchange some of their salary for a benefit instead. It is therefore natural to think this lower salary figure will be used to calculate salary-dependent benefits like pension.

Whether salary sacrifice impacts an employee's pension will depend on the pension scheme operated by the employer. Therefore, any potential impact on pension should be referred to the employer's pension provider.

Employers can create a 'notional' or 'reference' salary which is used for such calculations.

This notional salary is the rate before any salary sacrifice arrangements. If the salary was £40,000 before salary sacrifice, this is the figure the employer may refer to when calculating other benefits, like pension contributions and pay rises.

HMRC confirms this: "Often, employers will use a notional level of pay to calculate employer and employee pension contributions, so that employees who participate in salary sacrifice arrangements are not put at a disadvantage".

However, other pension schemes, particularly defined-benefit pensions – like career-average schemes – will be impacted, because employers look at an individual's average salary over their career, and calculate the pension on that. Sacrificing some salary reduces average earnings across a career and therefore the pension.

If an employee is in a final-salary pension scheme, salary sacrifice will only impact the pension if an employee sacrifices some salary in the years before retirement or leaving the organisation. This may impact the final salary on which a pension is based.

Considerations

1) Does the benefit an employee gets from a salary sacrifice arrangement outweigh any loss in pension?
2) If an employee is approaching retirement or thinking of leaving, should they stop any salary sacrifice arrangement prior to this to ensure final salary is at its highest? Note: All employees must have a detailed understanding of their pension before entering into such an arrangement, and the employer should be aware of any potential implications and how to manage these.

Can salary sacrifice affect mortgage applications?

A 'notional' salary, as described above, may be used to calculate compensation or benefits. An employer can use it to provide confirmation of an employee's earnings if they are applying for a mortgage.

Mortgage providers check outgoings to ensure affordability. Any car payments will be considered.

It is worth noting that, as a result of a tax efficient salary-sacrifice scheme, an employee's outgoings would reduce, leading to greater affordability.

As with the impact on pensions, the employer should take appropriate counsel from a mortgage advisor, or their own finance team to obtain the required level of comfort on this.

Parental Leave

Employees taking parental leave (maternity/paternity/adoption) can also cause complications. Such employees are contractually entitled to retain their benefits of employment throughout a period of parental leave – and they have adjusted their Ts&Cs of employment to sacrifice some of their salary in return for a company car.

Where an employer provides more than the statutory minimum leave, payments can often carry on as before, but if this is not the case, the employer will be unable to make salary deductions, yet is obliged to continue offering the same level of benefit during the period of leave.

HMRC says: "When an employee enters into a salary-sacrifice arrangement, they are renegotiating the contract of employment, and the car becomes a contractual benefit".

Insurance can also be an option here, but this is not always taken out because it can prove unpopular among staff who are unlikely to be affected. As with the self-insurance options detailed earlier, the employer could retain an amount, say, £15pvpm, from employer NIC savings to cover such eventualities, or could increase salary sacrifice amounts for all employees to pass on the cost.

Some salary sacrifice providers include a form of protection in their pricing to mitigate employer risk on this, but care should be taken in comparing one provider with another, to ensure their approach to financial protection and the apportioning of employer's NIC are consistent.

Long-term sick leave

This will depend on the employer's sickness policy. If an employee's salary drops to the level where payments can no longer be deducted from the scheme, any shortfall may need to be covered by the employer. Insurance or self-insurance can be incorporated, as with other eventualities mentioned in this article, to cover exposure to this. A provision for early settlements could be used, to protect employers from having to cover a scenario of paying up to 36 monthly payments without being able to deduct the cost from the employee's salary. Unlike parental leave, however, the employer could withdraw the benefit from the employee and return the car early, or reallocate it to another employee.

Again, some salary sacrifice providers include a form of protection in their pricing to mitigate employer risk on this, but it can appear expensive.

Will salary sacrifice work for all employees?

No. One cast-iron restriction with salary sacrifice is that an employee cannot sacrifice their salary below the National Minimum Wage. If a business has any employees potentially affected by this, those individuals cannot participate in the scheme.

Many lower-priced EVs are available in the UK, so there should be good options for the majority of employees, regardless of their salary. However, greater restrictions might have to be applied to the lower-paid workforce.

This article clearly identifies that salary sacrifice is extremely tax efficient for ULEVs, but OpRA limits its effectiveness for vehicles which pollute above 75g/km of CO_2.

Consideration should therefore be made for circumstances where ULEVs are not appropriate. These could include where…

> **"Many lower-priced EVs are available in the UK, so there should be good options for the majority of employees, regardless of their salary, but greater restrictions would apply to the lower-paid workforce"**

- an employee's daily and monthly mileage patterns are not conducive to driving an EV due to range restrictions (or where there's a need to tow a heavy caravan or trailer).
- a driver is unable to charge an EV at home. This doesn't preclude them from the scheme, but consideration should be given as to whether they should adopt an EV when they can only charge at public charging hubs.
- the choice of EVs may be too limited for an employee who needs, for example, a family estate, people carrier or convertible.
- an employee does not like EVs.
- an employee may already have a car and not currently need a new vehicle.

Clearly there will be instances where ULEVs don't work for every employee. Research shows that employee engagement on these schemes tends to be between 5% and 10% (for non-car-eligible employees)

A salary sacrifice scheme will provide an additional 'strand' to the employer's commitment to net zero carbon emissions – impacting the wider employer population and specifically their commute to work (included within 'scope 3' emissions).

Salary sacrifice summary

- Salary sacrifice delivers significant tax efficiencies for EV and PHEV users, and the potential variable costs (ET, Damage, excess mileage etc) can be covered either by insurance, self-insurance or passing the cost on to employees.
- Consideration should be given to how external factors such as pensions and mortgages are affected, but these should not preclude the employer from considering introducing a salary sacrifice scheme.
- EVs may not suit the needs of all drivers.
- Employees cannot sacrifice their salary to such an extent that it takes them below the National Minimum Wage.
- If the employer experiences high levels of staff turnover, then greater consideration should be given to protection (insurance) against leavers. This will impact the levels of Early Termination protection they may wish to build into the scheme.
- Salary sacrifice schemes generate administration

(as you are creating a fleet), so any potential provider should seek to minimise this burden and do most of the 'heavy lifting' for the employer.

Further details

For additional buying guides and product information please scan the QR code, or visit **https://fleetwise.info/**

VLS Salary Sacrifice

VLS salary sacrifice makes electric vehicles accessible to businesses of all sizes through an employee benefit that saves money, reduces hassle and delivers on sustainability goals.

For a fixed cost, employees receive...

- A brand-new electric vehicle
- Fully-comprehensive vehicle insurance
- Breakdown cover
- Servicing, maintenance and repair
- Incident management support
- Dedicated in-life support

From consultation to in-life services, the scheme is tailored to your business, and you receive expertise from our experienced account managers at every step of the journey.

At VLS, one of our main ambitions is to provide the best customer experience through delivering high-quality, trusted solutions. We have the knowledge, the team and the technology to provide the best experience for your employees.

Benefit-in-Kind Tax Chart to 2030

Following the Government's Autumn 2024 Budget, these are company car drivers' BiK tax rates for the next five years

Benefit-in-kind or BiK is an employee tax on the benefits an employee receives in addition to their salary. One such benefit is running a company car that is used for private mileage. If you have this benefit, you will pay company car tax in the form of BiK.

All cars are in a BiK percentage band, based on the vehicle's CO2 emissions. This percentage and the P11D value of the vehicle (the list price, plus extras and VAT, but without the year-one vehicle tax and registration fee) are required to calculate the amount of BiK tax.

Calculating BiK tax

To calculate your BiK tax, multiply the P11D value of your vehicle by the BIK percentage banding (see the chart).
Next, multiply that figure by your tax band, typically 20% or 40%.
This calculation gives you your annual tax for that vehicle. Divide this number by 12 to see your monthly tax costs.

Company Car Tax Charge-the scale charge percentage (SC%)

CO2 emissions (g/km)	Zero emission mileage	2019/2020	2020/2021	2021/2022	2022/23-2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
0		16%	0%	1%	2%	3%	4%	5%	7%	9%
1-50	>130	16%	0%	1%	2%	3%	4%	5%		
1-50	70-129	16%	3%	4%	5%	6%	7%	8%		
1-50	40-69	16%	6%	7%	8%	9%	10%	11%	18%	19%
1-50	30-39	16%	10%	11%	12%	13%	14%	15%		
1-50	<30	16%	12%	13%	14%	15%	16%	17%		
51-54		19%	13%	14%	15%	16%	17%	18%	19%	20%
55-59		19%	14%	15%	16%	17%	18%	19%	20%	21%
60-64		19%	15%	16%	17%	18%	19%	20%	21%	22%
65-69		19%	16%	17%	18%	19%	20%	21%	22%	23%
70-74		19%	17%	18%	19%	20%	21%	21%	22%	23%
75		19%	18%	19%	20%	21%	21%	21%	22%	23%
100		24%	23%	24%	25%	26%	26%	26%	27%	28%
150		34%	33%	34%	35%	36%	36%	36%	37%	38%

*The maximum SC% will increase to 38% in 2028/29 and 39% in 2029/30

Salary Sacrifice Shortlist

Trust these 22 suppliers to deliver additional benefits to drivers and companies through excellent salary-sacrifice schemes*

TRUSTED BRAND
Fleet. Wise.
2025

Most-Trusted Shortlist

ALD Automotive LeasePlan
- www.aldautomotive.co.uk

ALPHABET
- www.alphabet.com
Highly Recommended

Arnold Clark
- www.acvm.com
Highly Recommended

ARVAL BNP PARIBAS GROUP
- www.arval.co.uk
Highly Recommended

ATHLON
- www.athlon.com

GROSVENOR LEASING THE GROSVENOR GROUP
- www.thegrosvenorgroup.co.uk

JCT600 VLS
- www.jct600vls.co.uk

KINTO
- www.kinto-uk.com

LEASYS
- www.leasys.com

LEX AUTOLEASE
- www.lexautolease.co.uk
Highly Recommended

Lookers Leasing Car & Commercial Vehicle Leasing
- www.lookersleasing.co.uk

Marshall Contract Hire
- marshallfleetsolutions.co.uk

MOBILIZE FINANCIAL SERVICES
- www.mobilize-fs.co.uk

Novuna Vehicle Solutions
- novunavehiclesolutions.co.uk

octopus electric vehicles
- www.octopusev.com

ogilvie FLEET
- www.ogilvie-fleet.co.uk

PENDRAGON Vehicle Management
- www.pendragonvehiclemanagement.co.uk

sgfleet
- www.sgfleet.com

Tusker.
- www.tuskercars.co.uk

venson
- www.venson.com

VOLKSWAGEN FINANCIAL SERVICES FLEET
- www.vwfsfleet.co.uk
Highly Recommended

Zenith Intelligent Vehicle Solutions
- www.zenith.co.uk

*These trusted companies all also appear in the Leasing Companies *Trusted Brands* shortlist.

Powered by:
Fleet. Trends.

360 Media Group Information Services
360 Media Group Ltd, The Grey House, 3 Broad Street, Stamford, Lincolnshire PE9 1PG United Kingdom
www.360mediagroupltd.com