PRODUCT GUIDE TO ELECTRIC VEHICLE SALARY SACRIFICE

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Tusker.

Editor's welcome

The option of offering a car salary sacrifice scheme as an employee benefit has been available for several years, but increasingly, more employers are looking at adopting them.

The British Vehicle Rental and Leasing Association's (BVRLA) Leasing Outlook, January 2024, reveals that the number of vehicles leased through a salary sacrifice arrangement has seen a year-on-year increase of 68% from Q3 2022 to Q3 2023. Rapid growth in this area is expected to continue, with the BVRLA attributing this trend to cash allowance drivers switching to these schemes once their current car financing arrangements end.

Employees are choosing electric

However, further reasons for this growth can be seen in the fuel type of the vehicles that employees are choosing under the salary sacrifice arrangement. The BVRLA's figures highlight employees are selecting:

- Petrol – 9%
- Diesel – 1%
- BEV (battery electric vehicle) – 77%
- PHEV (plug-in hybrid electric vehicle) – 12%
- HEV (hybrid electric vehicle) – 1%

As this product guide demonstrates, the reasons for offering an electric vehicle (EV) salary sacrifice scheme are numerous. From the environmental and carbon reducing advantages, through to the stability of set Benefit in Kind tax levels until 2027/28 and the cost savings that both employees and employers can make as a result of the salary sacrifice, this benefit could play a pivotal role in your total reward package.

REBA's product guide aims to provide facts, tips and insights into implementing an EV salary sacrifice scheme and to help you select the right solution for your organisation. Including information about salary sacrifice arrangements and the tax considerations, this product guide will help you to ask suppliers the right questions when procuring this sought-after benefit.

Dawn Lewis
Editor, REBA

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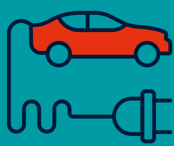


This report was devised by REBA in association with Tusker.

The guide was edited by Maggie Williams, written by Dawn Lewis and designed by SallyannDesign.

Sponsor's comment

Affordable salary sacrifice car schemes in a costly world

At a time when we've seen the cost of living increase, we're finding that more and more employers are looking at innovative ways to help their employees with more than just their salary. Benefits have long been a way of attracting and retaining staff, but in a cost of living crisis, providing car benefit schemes can be a great way to make salaries go further, particularly when fuel is leading price rises.

Electric vehicle (EV) salary sacrifice schemes are not a new solution but one which is being seen as a great way to offer employees an affordable way to drive electric. Tusker first started offering salary sacrifice schemes in 2008, with our first EV on the scheme in 2011, but there has been a fast transition in the past four years.

More affordable option

The Tusker car scheme offers employees a more affordable option to manage their outgoings, providing a fixed-cost, inclusive solution. The bonus now is that with two-thirds of people able to charge at home[1] and take advantage of cheaper electricity rates for charging, drivers are reporting savings of £1,000 a year in fuel alone.[2]

The fuel savings are in addition to the savings that employees can make under the salary sacrifice scheme. On average, drivers on the Tusker scheme saved more than £320 a month in 2023 – savings that are not available via traditional leasing options, and savings which make cars on the Tusker scheme affordable for a lot of employees.

Removing cost uncertainty

As Benefit in Kind will be a cost until 2028, Tusker's salary sacrifice scheme removes employee uncertainty about price rises for their cars. As their costs are fixed, and the EV comes complete with insurance, servicing, maintenance, replacement tyres and breakdown cover, it allows individuals to budget more effectively.

The adoption of EVs also provides cost savings for employers, who are often able to redirect their savings into other projects or back into the organisation. We see this a lot in both the public and private sectors, where employers are either able to make the scheme even more affordable by transferring part of their savings back to the employee, or they are able to fund other projects – like in a London school recently, where they're putting £100,000 back into education for children over the course of three years.

It can be a win-win for employers, as the scheme also demonstrates the company's commitment to reducing its carbon footprint, not only by helping employees to switch to an EV but also by offsetting the emissions created when driving the car, and supporting the transition to cleaner transport solutions.

Alison Argall
Business Development Director, Tusker

Tusker.

1 British Gas
2 Tusker data

Chapter 1: Why offer an electric-only car salary sacrifice scheme?

Using salary sacrifice to provide employees with cost-effective access to a new car has long been a popular employee benefit.

It's tax efficient, reassures employees that they have a reliable vehicle that is insured, serviced and includes replacement tyres and breakdown cover, and gives them the consistency of a fixed monthly amount.

Although this benefit can be applied to vehicles of all fuel types, employers are increasingly choosing to offer electric-only schemes. There are several reasons why electric vehicle (EV) schemes are becoming popular:

- Aligns employee benefits with environmental, social and governance (ESG) goals, by reducing emissions
- Supports employee demand for more green benefits, driving employee attraction and retention
- Reduces the cost of living by providing access to a new car, which is cheaper to fuel than an internal combustion engine (ICE) car.

What is an electric vehicle salary sacrifice scheme?

A salary sacrifice arrangement is an agreement to reduce an employee's entitlement to cash pay, in return for a non-cash benefit. In this case, that benefit is an electric car. You can find out more about salary sacrifice arrangements on page 9.

EV schemes and ESG goals

REBA's Benefits Design Research 2023 found that 77% of employers intend to introduce new benefits to support sustainability/ESG goals in the next two years. Nearly two-thirds (65%) of organisations expect business sustainability to have a high impact on their benefits strategy in 2023, up from 52% in 2022.

With many organisations working to become net-zero consumers of carbon and other harmful emissions, ensuring company car fleets and company car benefits are aligned to this goal is imperative.

By offering an EV salary sacrifice scheme, employers can reduce the carbon footprint of their employees' commute. Some providers also offer the opportunity to offset any emissions caused by charging EVs, making the scheme carbon neutral.

Employees are also driving demand for greener benefits. REBA's Benefits Design Research 2022 revealed that 72% of employers are influenced by societal changes, which include environmental shifts.

Employers are responding to this by indicating that they plan to increase spending on benefits that support the environmental agenda.

61%

of employers say electric vehicles are in their future thinking

REBA's Benefits Design Research 2022

Employees want greener benefits

Green benefits are still in their infancy, but as REBA's Benefits Design 2023 research showed, this area is set for massive growth. Electric-only car schemes have a clear role to play. Other benefits that support a green agenda include:

- Making sure that pension scheme default funds are ESG-focused
- Providing discount schemes that offer products from more ethical businesses, such as B Corps
- Introducing recognition schemes that offer charity donations or tree planting as rewards
- Payroll giving schemes
- Cycle-to-work schemes
- Offsetting employee emissions when travelling
- Loans for solar panels or heating systems

Helping employees in a cost-of-living crisis

Tusker's EV Driver Survey Report 2023 found that employees' highest priority when looking for a new car is value for money – with 59% stating this as their main concern, followed by running costs (14%). It also found that 79% of EV drivers chose an electric vehicle to save money.

With the cost of living still having an impact on people's finances, an EV salary sacrifice scheme will appeal to many, with a fixed monthly cost for their vehicle and favourable BiK tax when compared with a standard ICE car. See page 11 for more information on BiK.

EVs are the direction of travel

The government agenda is clear: EVs are the future.

The government's zero emission vehicle (ZEV) mandate sets out the regulatory framework for the switch to EVs. It requires 80% of new cars and 70% of new vans sold in the UK to be zero-emission by 2030, increasing to 100% by 2035.

It believes this framework will support manufacturers and families in making the switch to electric, providing flexibility while also helping grow the economy.

More Clean Air Zones are being introduced across the UK – as well as the Ultra Low Emission Zone (ULEZ) rules in London. These areas mandate that cars must meet set emissions standards to be able to enter the zones. If they do not, drivers have to pay a charge.

This affects employees living and working in city centres who own older vehicles that do not meet these requirements. Being able to access an EV via a salary sacrifice scheme, without the need for a deposit, could be a lifeline to anyone who needs to drive through Clean Air Zones.

Chapter 2: What you need to know about EV salary sacrifice

One of the first steps when introducing any salary sacrifice scheme is to be clear on the rules and eligibility criteria. Employers will need to be sure that these meet compliance requirements, such as not letting employees' pay fall below the National Minimum Wage or National Living Wage, and also that the scheme aligns with wider organisational principles and values.

Setting scheme rules

The agreement to provide an employee with a car is between the employer and the provider of the salary sacrifice car benefit scheme. There is no direct financial agreement between employee and provider (and therefore no personal financial credit checking).

As such, usually there is no need for a deposit or credit check when selecting a car through a salary sacrifice scheme. This is another benefit to employees who, in most instances, would have to provide a lump sum if they were to lease a car privately.

Setting out what is and isn't included within the scheme is important for all parties involved. Most car salary sacrifice schemes will include general running costs, such as servicing, insurance and road tax within the overall monthly amount.

Protection for life events

Cars are usually leased for periods of three or four years. Over that time, life events can occur which will affect an employee's circumstances, or they might leave the organisation before the end of the agreed vehicle term.

To mitigate this risk, many car salary sacrifice providers offer comprehensive lifestyle protection cover, should an employee need to terminate their salary sacrifice agreement early. This also protects the employer against an early termination charge in most circumstances, as long as the termination doesn't take place within an initial exclusion period.

Although lifestyle protection may differ by provider, it will largely protect the employee and employer in circumstances such as: resignation, redundancy, retirement, TUPE, long-term ill-health and parental leave.

EVs and family friendly values

Salary sacrifice EVs can give businesses the opportunity to show their commitment to being a family friendly organisation.

An employer can choose to continue to pay for an EV if an employee's parental pay drops below a certain level during a period of parental leave, enabling them to keep their vehicle.

Developing an EV charging policy

The cost of charging the car is an employee's responsibility. In most cases, employees will, where possible, want to have a home charger installed to enable them to do this. There are several things that employers need to consider:

- Does the provider include the installation of a home charger as part of the salary sacrifice arrangement? This varies from provider to provider.
- If not, employers must decide what, if any, support they want to give to employees to help them with the cost of having an electric car charger installed.
- For those who don't have off-street parking or the ability to install an at-home charger – for instance they live in a flat – what other charging facilities are available in their local area?

The good news is that not having access to an at-home charger is no longer a barrier to EV ownership.

Tusker's EV Driver Survey 2023 showed that 76% of EV drivers get more than 150 miles per charge, which is enough to cover their weekly mileage. And with 82% driving less than 200 miles per week (well within the range of most new EVs), employees should not have to charge their vehicles very often, so relying on public chargers is more feasible.

Availability of public chargers is expanding at pace. According to Zapmap, there has been a 270% increase in public charging availability in the UK since 2019. See more on how the UK's charging infrastructure is continuing to expand.

Finally, employers may also want to consider installing chargers at work to further support the adoption of EVs.

Carbon offsetting

One of the key reasons for choosing an EV-only scheme is to improve an organisation's ESG credentials. But although EVs don't produce emissions, the electricity used to charge them inevitably does. To make a scheme truly 'carbon neutral' employers can choose to offset the emissions caused by charging vehicles.

To achieve this, some providers offer carbon offsetting through schemes such as the Verified Carbon Standard, which drives finance towards programmes that reduce and remove emissions.

Create effective communications

Many providers will offer bespoke marketing support to help employers during the pre-launch, launch and post-launch phases of the benefit's operation. Often they will use the employer's existing communication tools and channels and bring their expertise to ensure information about the scheme is communicated effectively.

There can also be confusion and uncertainty such as availability of public chargers and the driving range of EVs. Addressing these issues as part of a communication strategy can help to improve take-up.

Here are four tips to engage employees with EV salary sacrifice:

1. **Launch your scheme with a bang.** Consider an in-person launch event, featuring a selection of available vehicles and product experts, to help drive engagement with the benefit.
2. **Develop an ongoing benefits campaign** featuring blogs, videos, webinars, etc, to dispel misconceptions about driving an EV. Build a picture around EV ownership, and answer employees' queries around range anxiety and other common concerns.
3. **Clearly illustrate the cost benefits** compared with an ICE car. In Tusker's EV Driver Survey Report 2023, value for money was found to be motorists' top priority when looking for a new car.
4. **Share real-life case studies**. Once a scheme is up and running, pull together employee case studies to share real-life experiences of owning and using an EV.

Make the benefit easy to access

Most providers will offer a seamless online ordering journey to enable employees to compare costs between cars and select the vehicle they want to drive. These also provide information about the operation of the scheme, as well as content on the practicalities of driving an EV on a daily basis.

In some cases, the portal can be integrated with an employer's current benefits platform. This gives employees the advantage of being able to access more of their benefits in one place, often with a single sign-on.

EVs in numbers

Tusker's EV Driver Survey Report 2023 found:

91%
of EV drivers won't go back to a petrol or diesel car

91%
are satisfied or very satisfied with their EV

79%
chose an EV to save money

76%
get more than 150 miles per charge (enough to cover their weekly mileage)

Chapter 3: Setting up salary sacrifice for car benefits

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

This is set up by changing the terms of the employee's employment contract, to which the employee must agree. The benefit to the employee is paying less income tax and National Insurance contributions (NIC) on their reduced salary. Employers also benefit through lower employer NICs.

The car is considered a taxable benefit, and is subject to BiK tax. Despite this tax charge, the government is keen to encourage the adoption of EVs and so rates have been kept to a minimum, especially when compared with those for traditional ICE vehicles. This enables employees to retain most of the tax savings they are making through the salary sacrifice arrangement.

Salary sacrifice eligibility

Employers need to be aware of some technical considerations to make sure that EV salary sacrifice works well for employees:

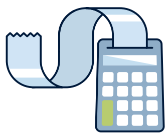
- An employee cannot sacrifice their salary below the National Minimum Wage or National Living Wage, so employers will need to put eligibility criteria in place to ensure this doesn't occur.
- Employees may already be using salary sacrifice for other benefits, such as pension contributions. Employers will need to make sure that an employee's total salary sacrifice doesn't breach the National Minimum Wage or National Living Wage thresholds.

These areas are usually discussed in detail by providers when setting a scheme up for an employer. However, HMRC's guidance on salary sacrifice is also useful to understand other potential areas of consideration.

3 steps to car salary sacrifice

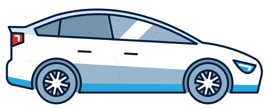
An employee enters into an agreement with their employer to have their salary reduced in exchange for a company car.

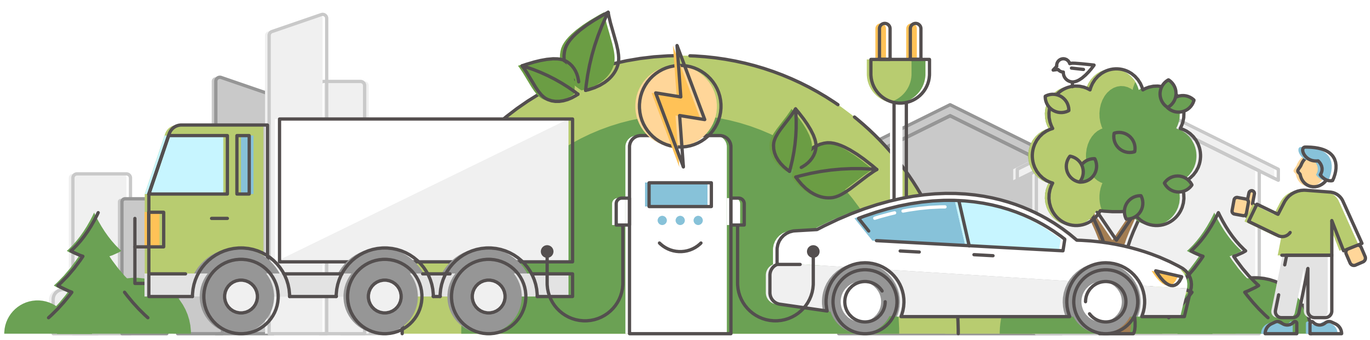
As a result, the employee pays less income tax (PAYE) and National Insurance (NI) on their reduced salary.



£45,000 › £40,000

In return for this salary reduction, the employee receives a company car, on which they pay Benefit in Kind (BiK) tax – and if the BiK tax payable on the car is less than the saved income tax and NIC, the employee makes a tax saving.





Be thorough with due diligence

Employers need to be thorough with their due diligence to ensure that their policies mitigate risks to both employees and the business (see page 6 for more).

As a result, there are several departments that will need to be involved when setting up a scheme:

- **Legal –** to ensure employee contract changes are correct and the set up of the benefit itself is suitable
- **Finance –** although the employee is paying for the car, the employer is ultimately responsible
- **Fleet –** (if your organisation has a wider fleet team) to understand how the salary sacrifice scheme fits with your traditional company car approach
- **Tax –** to ensure compliance with BiK rules
- **Payroll –** to ensure they understand the scheme and how it will impact employees' pay.

Find out more

HMRC's guidance on salary sacrifice and the effects on PAYE

Salary sacrifice: helping more people into electric vehicles than ever before

Tusker's employer guide to salary sacrifice car schemes

Tusker's EV Driver Survey Report 2023

REBA case study: E.ON rolls out its EV-only car salary sacrifice scheme

REBA case study: Harvey Francis of Skanska UK on its new electric vehicle company car policy

BiK and EV company car schemes

HMRC recognises a car benefit scheme as a company car scheme, which means employees need to pay Benefit in Kind (BiK) tax.

BiK is worked out by applying a percentage, based on the CO_2 emissions of the vehicle, to the purchase price of the vehicle – and multiplying it by the marginal rate of income tax the employee pays.

BiK rates for EVs are significantly lower than for traditional internal combustion engine (ICE) vehicles that run on petrol or diesel.

In broad terms, a 40% taxpayer who drives a BMW 3 series ICE vehicle, for example, may be paying around £350/month in company car tax. By switching to a comparable EV, such as a Tesla Model 3, the same driver would only need to pay £16-£30/month for their EV; a saving of more than £300.

The government has fixed BiK rates at 2% until 2024/2025, followed by small incremental rises until 2028. That gives drivers confidence they can make substantial savings in tax and NIC via a salary sacrifice scheme. For comparison, petrol or diesel cars have BiK rates upwards of 20%.

Costs for a 20% and 40% taxpayer

20% taxpayer, car cost £36,440	monthly	annually
Gross salary	2,916.67	35,000.00
Amount sacrificed	407.62	4,891.44
Income tax saved	81.52	978.24
National Insurance saved	32.61	391.32
BiK cost	12.15	145.80
Total net amount for salary sacrifice car	305.64	3,667.68
For employers		
Employer net National Insurance saved	47.48	569.76

40% taxpayer, car cost £50,000	monthly	annually
Gross salary	5,416.67	65,000.00
Amount sacrificed	908.12	10,897.44
Income tax saved	363.25	4,359.00
National Insurance saved	18.16	217.92
BiK cost	33.33	399.96
Total monthly payment for salary sacrifice car	560.04	6,720.48
For employers		
National Insurance saved on sacrificed salary	113.82	1,365.84

Figures are accurate as of 6 April 2024 to take account of the 8% National Insurance rate.

BiK rate 2% until 2024/25

3%
2025/26

4%
2026/27

5%
2027/28

5 key questions to ask suppliers

Salary sacrifice arrangements and tax implications for EV schemes are broadly similar, regardless of supplier. However, there can be differences in the way the benefit is delivered, and the service that accompanies it. Here are some key questions to put to potential suppliers:

What is included with the salary sacrifice car?

For instance, does it include servicing, insurance, road tax, replacement tyres, installation of at-home chargers, MOTs, breakdown cover and lifestyle protections if the salary sacrifice arrangement needs to be terminated early.

What happens if an employee resigns – or their circumstances change?

Most providers will offer lifestyle protection in the event that employees leave before the end of the agreement term. These also apply where there is a change of circumstances such as parental leave or long-term sickness. Check carefully to find out what is and isn't included within lifestyle protection.

How will the provider's system be integrated with our present benefits portal?

Having one platform with a single sign-on makes it easier for employees to keep track of all their benefits in one place. It's often an employer's preference too, simplifying communications and helping employees see the full breadth of their benefits. Ask whether the EV provider's portal can be integrated with existing benefits platforms, or whether it can only be used as a standalone product.

Is there any support available to communicate about the scheme?

Find out whether the provider is able to support with marketing materials and experts to join webinars or in-person events, both at launch and during benefits roadshows.

What are the waiting times for new cars?

Understanding what relationships the provider has with manufacturers and suppliers can be helpful in gauging how long employees may have to wait for their car, as well as indicating their negotiating strength. Also, consider whether providers can offer stock cars to ensure a speedier delivery.

Key suppliers in the EV salary sacrifice market

- Tusker
- Corparison
- ElectriX
- Fleet Alliance
- Fleet Evolution
- Hippo Leasing
- Jurni
- LeasePlan
- Love Electric
- Motor Source Group
- Novuna Vehicle Solutions
- Octopus Electric Vehicles
- Pink Salary Exchange
- SalSac
- The Electric Car Scheme
- WeVee
- Zenith

Who we are

Tusker

Working with all leading benefit providers to deliver excellent customer service as part of a complete benefits package, Tusker is the market leader in salary sacrifice car schemes. The first to launch the product to customers in the UK back in 2008, Tusker has been delivering bespoke car benefit schemes for more than 16 years.

Tusker works with more than 1,800 customers, delivering the car scheme to more than 1.7 million eligible employees, and has more than 40,000 salary sacrifice cars on UK roads. Its experience extends across the public sector, working with hundreds of NHS Trusts, police forces, local authorities and schools, as well as across the private sector, from large multinational corporations to SMEs.

Provided with an affordable way to access a brand new, electric, hybrid or petrol car, employees are supported by dedicated teams throughout the term of their agreement, from servicing and tyre replacement, to insurance and breakdown cover. The Tusker inclusive car scheme provides everything the driver could need for their car (minus fuel) for one affordable monthly amount.

As well as the savings an organisation can make from the scheme in terms of NI and public sector pension contributions, Tusker protections ensure that should an employee leave the company, go on maternity leave, or be sick long-term, there are comprehensive protections in place so that the employer is not liable for the car.

At a time when prices are rising across the board, providing a cost-neutral benefit which saves the organisation and the employee money could be the ideal addition to a benefits package.

Contact Tusker:

For more information, contact Tusker on hello@tuskerdirect.com, visit www.tuskercars.com or call us on 0333 400 1010.

Tusker.

Reward & Employee Benefits Association

REBA is the only dedicated professional networking community for reward and benefits practitioners. We help members to pursue best practice, increase professionalism in the industry and prepare for upcoming changes. Through supplier sourcing, knowledge sharing and networking, we support members in their challenges and triumphs in the reward and benefits sector.

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- Hosts regular conferences and networking events, both face-to-face and virtually
- Produces benchmarking research, insight and data reports on key reward and benefits themes
- Creates and distributes online content, including industry insights into best practice, case studies and thought leadership
- Curates an industry-wide research library of reports, government consultations and best practice guides
- Supports professional members with supplier shortlisting and research
- Offers focused digital networking for professional members through our rebaLINK peer-to-peer forum, where members can also get supplier reviews from their peers.

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