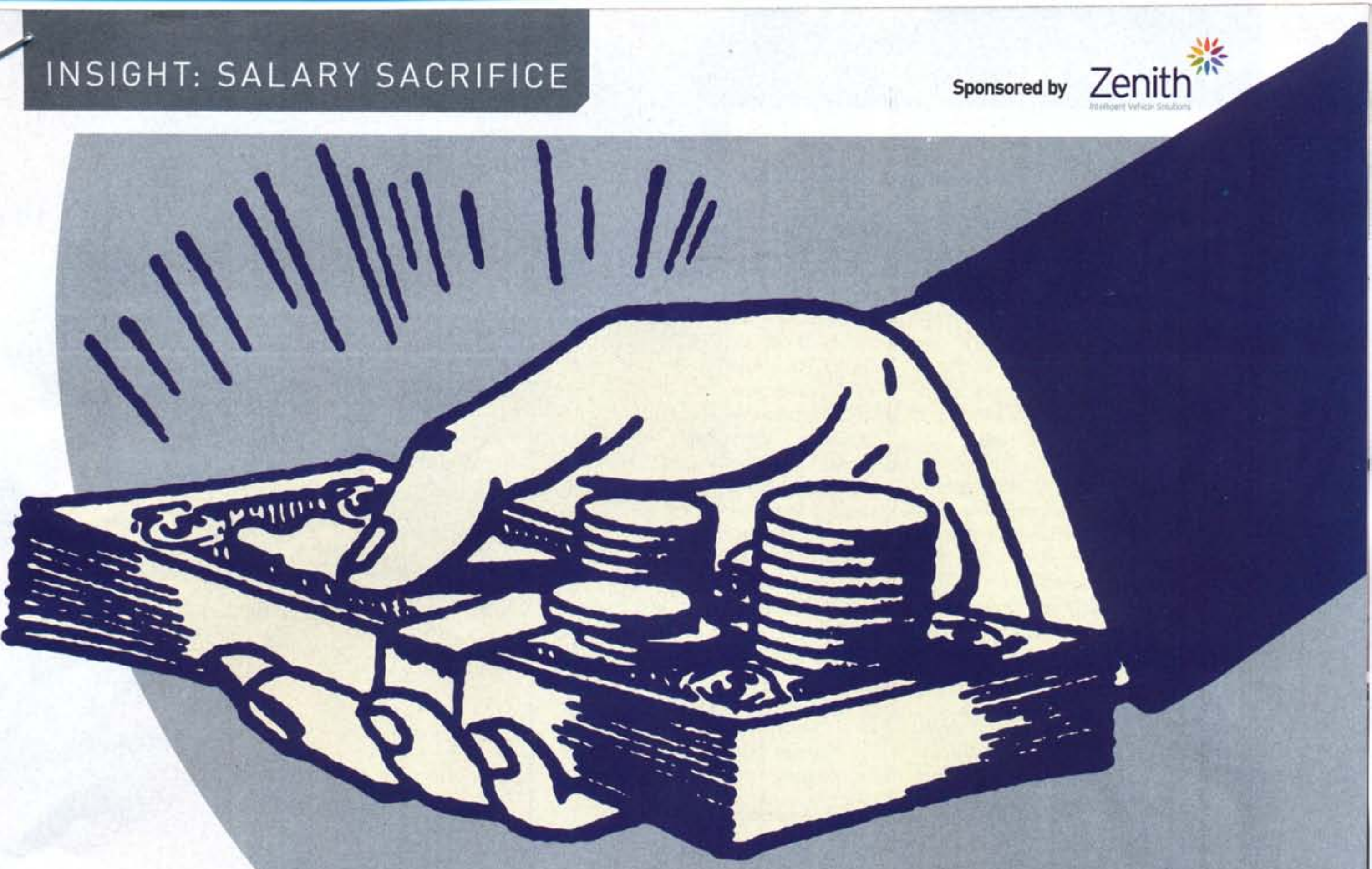


FACT OR FICTION?

Changes to salary sacrifice schemes announced in the Chancellor's Autumn Statement unleashed a torrent of myths about employee car benefits. *Andrew Don* seeks to separate the fact from the fiction

Salary sacrifice car schemes are alive and kicking, despite what anyone might try to tell you.

The schemes, where employees exchange some of their salary for a non-cash benefit-in-kind (BIK), such as a car or a mobile phone, have proved popular with thousands of companies and their staff.

For car schemes, both employer and employee make a tax saving, increasing their attractiveness, because the benefit is taxed less than the salary.

However, Chancellor of the Exchequer Philip Hammond announced in his Autumn Statement on November 23 that most salary sacrifice schemes would be subject to the same tax treatment as cash income from April this year.

The announcement affects various salary sacrifice schemes differently. Pensions, childcare, Cycle to Work and ultra-low emission cars (up to 75g/km) will be exempt under the new rules.

All arrangements in place by April 5, 2017, will be protected for up to a year, but cars get a bigger window and will be protected until April 2021.

Claire Evans, head of fleet consultancy at Zenith, insists salary sacrifice car schemes still demonstrate "excellent value" compared with other market options, although a number of fleets have privately expressed reservations about the perceived complexity created by the changes.

Tusker, a leading salary sacrifice provider, says there has been a great deal of confusion about the facts, and this has led to the perpetuation of myths around what the Government changes mean. Not even the experts all agree.

The commonly-held beliefs about the salary sacrifice changes are listed on the following pages with detailed explanations aimed at cutting through the myths.

There is a small caveat, however, as Alastair Kendrick, owner of AK Employment Tax Services, points out: "Employers need to bear in mind we are still waiting the final proposals following consultation which are to be announced in the Budget [on March 8]."

THE CHANGES SPELL AN END TO THE REDUCTION IN EMPLOYERS' CLASS 1 NI

As employees give up part of their pay in return for a non-cash perk, one benefit of salary sacrifice is that it reduces their overall taxable pay, which, in turn, lowers the amount they pay in tax and National Insurance (NI).

For employers, this means they do not pay Class 1 NI contributions on the amount the employee sacrifices. This continues to be the case even after the new rules are introduced, for both ULEVs and non-ULEVs.

Zenith gives an example based on monthly gross earnings of £2,000. Where there is no salary sacrifice, the employers' Class 1 NI cost charged at 13.8% is £276.

Where there is a £300 a month salary sacrifice in place, the salary subject to Class 1 NI drops to £1,700 and therefore the employers' Class 1 NI cost subsequently drops to £234.60 (13.8% of £1,700). The employers' Class 1 NI cost is therefore reduced. The Autumn Statement does not change this.

However, from April, employers' Class 1A NI costs for non-ULEVs will be based on the higher of the annual salary sacrifice or the benefit charge (ULEVs will still be based on the benefit charge).

This will increase the Class 1A charge if the annual salary sacrificed is greater than the benefit charge, which would offset the reduction in Class 1 costs.

Zenith says car salary sacrifice still delivers savings for employees and can be implemented on a cost neutral basis for employers, where the salary sacrifice matches the cost of the vehicle to the company.

Verdict **FICTION**

PRICES GO UP FOR ALL EMPLOYEES

Drivers are taxed on the BIK of their chosen car under the old rules. The new rules will see them taxed on the higher of the BIK or the sacrificed salary – unless they choose an ultra-low emission vehicle in which case the rules are unchanged.

"The new rules only apply when a new car contract is entered into after April 5, 2017. There is no change in cost for cars on existing contracts until 2021," says Nick Davies, director, employer consulting at BHP Chartered Accountants.

Many drivers choose to take a car where the BIK is already higher than the sacrificed salary. In such cases, says Davies, there is no cost increase.

"A comparison of before and after April 2017 shows approximately 50% of drivers currently in salary sacrifice cars would see only a minimal tax increase. In many cases it can be as little as £1 a month."

He illustrates the effect with the following figures: if a driver has a monthly salary sacrifice of £400 and a car benefit of £370, there would be a tax saving on £30 per month under the old rules because they would only be paying tax on the benefit. For a basic rate taxpayer this equates to a tax saving of £6 a month.

Under the new rules they will now be taxed on the higher amount, so the car would cost an extra £6 a month. However, if the figures were reversed and the BIK was £400 with a salary sacrifice of £370, they were already paying tax on the higher amount, so there would be no cost increase.

Davies adds: "It should be remembered that a tax saving was never a huge part of the benefit. The tax saved was on the difference between the sacrificed salary and the BIK, so in many cases there was either no tax saving, because the BIK was already higher, or a very small tax saving.

"The bigger financial benefits came from other areas, such as the employee NI saving and the employer's ability to pass on VAT savings, and both of these still exist under the new rules."

Verdict **FICTION**

ONLY ULTRA-LOW EMISSION VEHICLES WILL BE AVAILABLE UNDER SALARY SACRIFICE SCHEMES

Employees will still be able to choose any type of car under a salary sacrifice scheme and providers are still offering a wide selection.

Chris Salmon, commercial director at SG Fleet, which offers customers the Novalease Car Salary Exchange, says the Government has singled out ULEVs under 75g/km to promote greener motoring.

However, the Government has also provided clarity on the tax treatment of cars with emissions of more than 75g/km, which will continue to benefit from preferential arrangements until April 2017.

"Post April 2017, employees opting for cars over 75g/km under a traditional car salary exchange scheme will still benefit from NI savings on the amount of salary exchanged, as well as having access to all the features and benefits that come with a car salary exchange arrangement," says Salmon.

Matthew Walters, head of consultancy services at LeasePlan UK, adds: "ULEVs will undoubtedly become more attractive. In addition, in 2020/21 new BIK tax rates will provide significant incentives for ULEVs with the cleanest cars attracting only 2% BIK."

Verdict **FICTION**

EMPLOYEES HAVE TO RECEIVE CARS BY APRIL 5 TO BENEFIT FROM TAX SAVINGS

Shakespeare Martineau's Jon Heuvel says that for tax savings to be taken advantage of until 2021 on a company car which is not a ULEV, the vehicle would have to be secured and provided to the employee under a salary sacrifice scheme by April 5 this year.

"As tax benefits for company cars are calculated by the CO_2 emissions, it is vital that the vehicle is ordered and the salary sacrifice scheme put in place before this date to ensure it meets the Government's deadline," he adds.

However, if the vehicle is a ULEV, even if the arrangements are not put in place until after April 5, it will still be possible for both parties to benefit from the tax savings, says Heuvel.

Verdict IT DEPENDS

SALARY SACRIFICE WILL BE ABOLISHED IN 2021

The Treasury has simply stated that all current car salary sacrifice agreements, as well as those signed before April 6, 2017, will be ring-fenced at their current rates until April 2021, says Duncan Howell, corporate sales manager salary sacrifice at TCH Leasing.

"Those agreements signed after that date will fall under the new rules."

The Government has, in effect, clarified the rules for the foreseeable future and has definitely not announced any end to this type of scheme, he says.

Verdict FICTION

SPONSOR'S COMMENT

By Claire Evans, head of fleet consultancy, Zenith

At Zenith, we have welcomed the Chancellor of the Exchequer Philip Hammond's decision to give the green light to salary sacrifice car schemes. It finally removes the uncertainty and allows us to continue to offer affordable cars to customers' employees that are fully HM Revenue & Customs (HMRC) approved.

All existing arrangements are protected until April 2021, subject to contract variation rules.

Cars ordered from April 6, 2017 will be subject to income tax contributions and employers' Class 1A National Insurance (NI) contributions on the higher of either the annual gross salary sacrificed or the benefit value of the car.

HMRC is happy with salary sacrifice concept

One of the biggest misconceptions is that employees can no longer save on NI, but HMRC has been clear that these savings remain for all employees. HMRC is happy with the concept of salary sacrifice.

The change was put in place to eliminate the tax and NI advantages gained through salary sacrifice where the benefits themselves are not subject to any or enough employee tax or employers' Class 1A NI. Following detailed analysis of our salary sacrifice fleet, we found that only one in three of our current orders and deliveries in 2016 would have seen any impact as a result of the change. Those that are affected still deliver a considerable saving against the external retail market.

Salary sacrifice car schemes will continue to work in the same way they do now. The employee will continue to benefit from a brand new car with no deposit or credit check and an all-inclusive, hassle-free package. They remain a powerful benefit for attracting and retaining talent.

Put our salary sacrifice car scheme to the test
Call 0344 848 9317
Visit zenith.co.uk
Email challengeus@zenith.co.uk

COMPANIES ARE NO LONGER SIGNING UP FOR SALARY SACRIFICE SCHEMES

TCH Leasing notes a continued interest in its own salary sacrifice scheme, TCH Sala, since the turn of the year.

Duncan Howell says the business is currently in talks with six employers whose combined employee base totals about 30,000 as well as an even bigger number of small- and medium-size enterprises that are ready to sign up.

Tusker also reports increased interest in its car benefit schemes since the tax changes were announced, with many new schemes launching in December and even more in January and February.

LeasePlan UK's Matthew Walters says it is certainly true that many companies "held their breath" between the consultation the Government launched in August and the Autumn Statement.

"However, with the Government making its position clear, we have seen a return to normal from a client and prospect perspective with a high level of activity and new scheme launches," he adds.

Salary sacrifice continues to provide employees with an all-inclusive car package, normally including insurance, with no requirement for deposits or credit checks, adds Walters.

"Added to this, the provision through the employer gives an added degree of certainty and security," he says.

"However, perhaps most important of all is that the numbers still compare favourably with personal contract hire options and for all these reasons we believe that salary sacrifice for cars will continue to be an attractive option for employees and employers alike."

Verdict

FICTION

SALARY SACRIFICE CONTINUES TO BE AN ALTERNATIVE TO TRADITIONAL CAR SCHEMES

This provokes a strong mix of responses. Zenith's Claire Evans believes salary sacrifice cars are still attractive on a like-for-like basis compared with alternatives.

However, she says it is not possible to really say which cars will now be the most cost-effective based solely on CO_2 emissions because insurance cost, fuel type, amount of discount achieved and the driver's tax rate have to be taken into account.

Zenith carried out an analysis of its salary sacrifice fleet and found that of the orders and deliveries made in 2016, only one in three would have been affected by the changes. Even those would still deliver a considerable saving against the external retail market.

TCH's Duncan Howell points out there has been talk of a resurrection of affinity and employee car ownership (ECO) schemes. However, these types of scheme do not offer the same benefits as a true salary sacrifice one, he says.

"They do not offer the employee income tax savings, NI savings, VAT savings – dependent on the employer's VAT position – and a fully inclusive package where all you have to do is add the fuel.

"They also involved credit checks on the employees and there may be a large deposit to pay before delivery."

Howell adds they have also been criticised in the past for being complicated to run for employers.

SG Fleet disagrees that salary sacrifice continues to be an alternative to traditional car schemes in that they are not designed to replace traditional company car schemes.

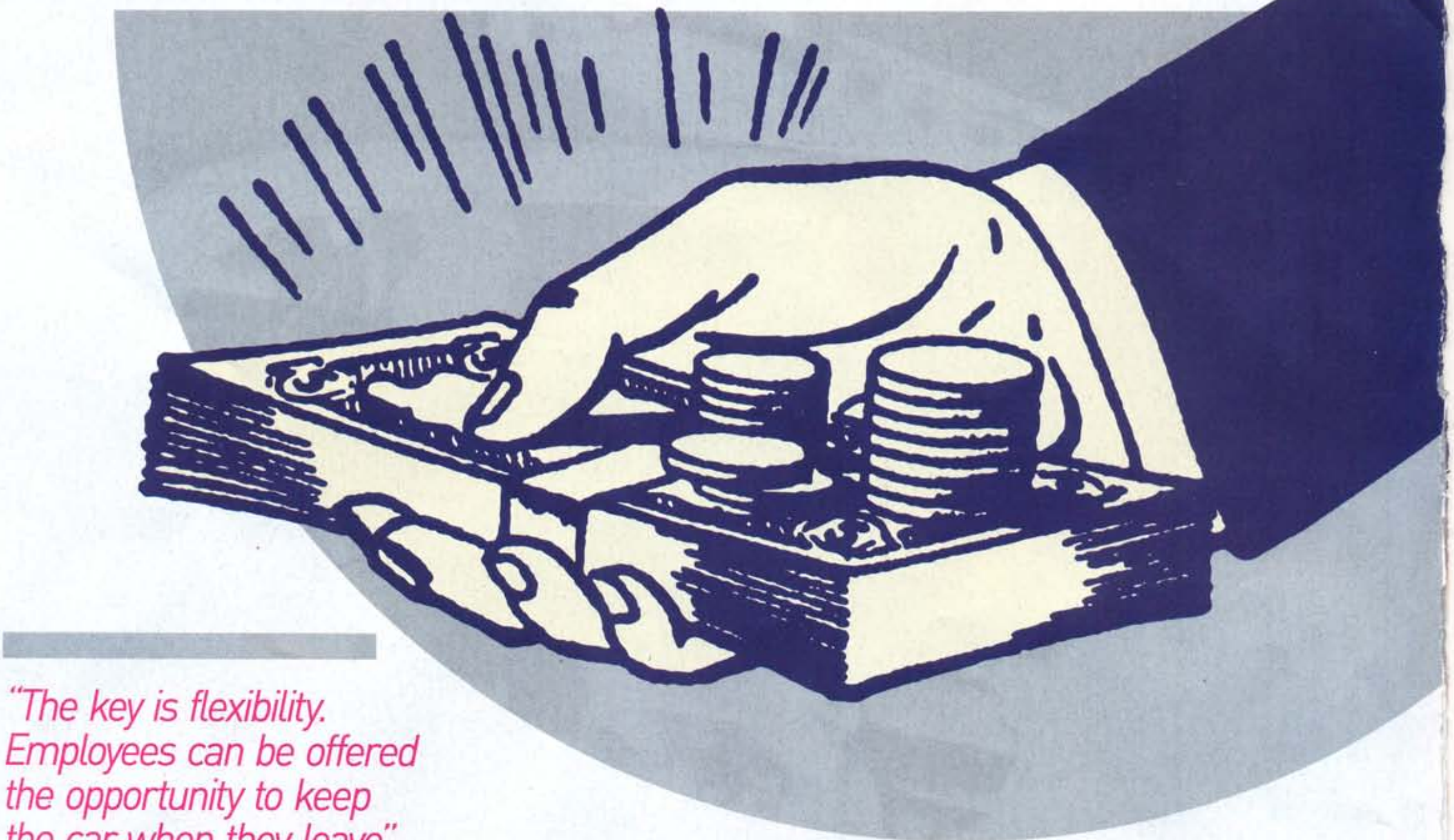
"In reality, we find that business mileage is generally low among our employee car benefit population," says Chris Salmon.

"Employee car benefit schemes traditionally are used as a reward and retention tool and quite often offered to those employees that may not qualify for a company car."

Salmon believes that following the Autumn Statement and the introduction of BIK tax to cash allowances, there will be "a positive shift towards employee car benefit schemes that can provide the lease direct to the employee".

BHP Chartered Accountants' Nick Davies sees salary sacrifice as "an enhancement rather than an alternative" to traditional car schemes. "We will just see greater care taken in vehicle choice with employees increasingly opting for cars with lower CO_2 emissions," he says.

Verdict UNDECIDED



"The key is flexibility. Employees can be offered the opportunity to keep the car when they leave"

Nick Davies, BHP Chartered Accountants

SALARY SACRIFICE SCHEMES CAN BE TERMINATED IF AN EMPLOYEE LEAVES

The salary sacrifice scheme for a vehicle will be terminated if an employee leaves a business, but there will usually be an option to buy the car outright, says Lex Autolease head of consultancy Lauren Pamma.

"The option can depend on how the scheme has been set up which can vary by customer."

SG Fleet's Car Salary Exchange, for example, includes risk mitigation for the employer, including voluntary leaver, terminal illness and redundancy cover, so the lease simply ceases on the last day and the car is collected.

There is no early termination fee for the employer and the Car Salary Exchange premium covers most leave reasons.

BHP Chartered Accountants' Nick Davies points out that all of the schemes he has seen offer some form of protection. This can be against early termination costs, either in the form of an insurance policy, an upper limit on early termination charges, or the operation of a contingency fund within the scheme, funded by a slight increase in rentals to cover such eventualities.

"The key is flexibility. Employees can be offered the opportunity to keep the car when they leave, either by settling the termination costs or by refinancing the vehicle privately," he says.

"A new employee agreeing to take over the car is becoming increasingly common – indeed, this happened last month with one of our own employees."

Verdict FACT

SALARY SACRIFICE AT A GLANCE

- **Salary sacrifice car schemes are fully HM Revenue & Customs (HMRC) approved.**
- **The legislative changes come into effect from April 6, 2017, for vehicles ordered from this date. Existing agreements are protected until April 2021.**
- **Ultra-low emission vehicles (ULEVs – CO_2 emissions up to 75g/km) are exempt from the changes.**
- **Schemes still deliver employers' Class 1 NI savings, which employers can still realise dependent on the agreed setup of the scheme.**
- **Salary sacrifice is still effective for a wide range of cars – not just ULEVs.**
- **Salary sacrifice car schemes remain a powerful benefit for attracting and retaining talent.**
- **Salary sacrifice cars are still attractive on a like-for-like basis compared with retail alternatives.**
- **You cannot really say which cars will now be the most cost-effective based solely on CO_2 emissions because there are other significant impacts such as insurance cost, fuel type, amount of discount achieved and the driver's tax rate.**

Source: Zenith

IN CONCLUSION

Car salary sacrifice schemes remain an extremely valuable benefit to employees, says benefits advisor John Messore, director at Innovation Professional Services.

"Also, contrary to some published options, there are many cars where cost savings can still be substantial.

"While the largest savings can sometimes be with ULEVs below 75g/km, there are also significant financial savings with higher CO_2 cars that have low whole-life costs."