LFB TOP TAX TIPS – MAY 2024

Electric vehicles can boost income with salary sacrifice

It may seem counter-intuitive, but taking a pay cut and opting for a salary sacrifice scheme with an electric car can boost take-home pay thanks to tax and national insurance contribution (NIC) savings.

Salary sacrifice

Despite the recent introduction of the Government's zero emission vehicle mandate, the number of electric car sales seems to have stalled recently.

Electric cars work well as part of a salary sacrifice scheme because the taxable benefit for employees is low. It is calculated as just 2% of the car's list price. This percentage is to increase by 1% for each of the next three tax years but will still be a fairly reasonable 5% by 2027/28.

However, it is important to note that while hybrid cars can have the same tax advantage, the electric range for the majority of models is too low to qualify for the 2% rate. The current percentage for most hybrids will be a less attractive 12%.

High marginal tax rates

With tax thresholds frozen, more and more employees are facing higher marginal tax rates. In particular, a rate of 60% applies on income between £100,000 and £125,140 due to the withdrawal of the personal allowance:

- For example, an employee earning £125,000 might sacrifice £10,000 of their gross earnings, with the employer then providing an electric car worth £40,000. The employer's leasing arrangements will typically cover the full costs of running the car.
- The employee's tax and NIC bill will be reduced by £6,200, although they will have to pay tax of £480 on the benefit of having the company car.
- However, if the employee had leased the car personally, it would take almost £26,000 of their gross pay to cover similar leasing costs.

From the employer's perspective, an electric car salary sacrifice arrangement could help boost staff retention, as well as attracting new staff.

A basic guide to salary sacrifice for employers can be found here.