



SALARY SACRIFICE AND ELECTRIC CARS

With reference to the initial briefing on Salary Sacrifice, which can be found [here](#), this briefing gives some more specific guidance on salary sacrifice and Ultra low emission cars (emitting less than 75g of CO₂ per km), together with the various associated financial implications and considerations.

What is the definition of an Electric Car

There are broadly three types of car that have some form of electric power and which can yield various tax advantages

- Pure electric cars – plug in cars with electric propulsion system only
- Hybrid cars – cars which combine a petrol/diesel engine with an electric propulsion system, which can be further divided between:
 - Plug in hybrids – these can be recharged by plugging into an external electricity source
 - Conventional hybrids – the electric battery can only be recharged by the engine or through regenerative braking

For the purposes of this briefing, these are all referred to as Electric Cars (subject to the capital allowances section where the definition refers to the emissions).

As the Government is encouraging people to take up low and zero emission cars, which includes electric cars, various tax measures have been introduced, both from a personal and business perspective.

Purchase of an Electric Car via a salary sacrifice arrangement

Where an employer offers cars under a salary sacrifice arrangement, the benefit in kind is valued solely by reference to the benefit in kind calculation. Whilst in most salary sacrifice arrangements, the benefit is calculated as the higher of the benefit in kind figure and the amount of salary sacrificed, this does not apply for electric cars (cars having CO₂ emissions of less than 75g/km). As shown below, the benefit in kind has significantly reduced with effect from April 2020.

As detailed in the main Salary Sacrifice briefing, employers must ensure the necessary paperwork is in place to support the arrangement and that employees have been made aware of the pros and cons of entering such an arrangement.

Benefit in kind rates

The benefit in kind for the private use of an electric car is significantly lower than for all other types of cars. The rates, which have been announced for the next few years, are shown in the table below and apply for cars registered after 6 April 2020:

Vehicle CO ₂	Benefit in kind rate				
	2020-21	2021-22	2022-23	2023-24	2024-25
0g/km	0%	1%	2%	2%	2%
1-50g/km (electric range >130 miles)	0%	1%	2%	2%	2%
1-50g/km (electric range 70-129 miles)	3%	4%	5%	5%	5%
1-50g/km (electric range 40-69 miles)	6%	7%	8%	8%	8%
1-50g/km (electric range 30-39 miles)	10%	11%	12%	12%	12%
1-50g/km (electric range <30 miles)	12%	13%	14%	14%	14%

As previously, and for all car related benefit in kind calculations, the above rates are multiplied by the list price of the car, including VAT and any accessories.

In addition, it should be noted that there is no benefit in kind for the private use of a zero emissions van from April 2021.

Charging costs provided by the employer and mileage claims

Where an employer provides an electric car, if they additionally pay for the installation of a charging point at the employee's home, this is tax free. In contrast, if the employee has their own electric car i.e the company does not provide the car, and the employer pays for the home installation of a charging point, this is fully taxable as a benefit in kind, based on the cost to the employer.

Where an employer provides workplace facilities for charging a battery, no taxable benefit arises, assuming the charge point is at or near to the employee's workplace, applying the same distance rules as the provision of tax free parking at the workplace.

Any reimbursement of charging costs away from an employer's premise are considered to be a benefit in kind. However, if the employee is driving on a business trip in a pure electric car, mileage can be claimed at the rate of 4p per mile (known as the Advisory Electric Rate, AER), where the car is provided by the employer, or at the same rate as for any car if it is owned by the employee, being 45p per mile up to 10,000 miles per tax year and 25p per mile thereafter, in any given tax year (known as the Approved Mileage Allowance Payment, AMAP). Where the car is owned by the employer, and is a hybrid car (or either a petrol or diesel car), business mileage can be claimed at the Advisory Fuel Rate (known as AFR) and this rate is announced by HMRC on a quarterly basis. The applicable rate for a hybrid car will depend on which fuel it uses i.e petrol or diesel.



Capital Allowances

In order to further encourage businesses to provide electric cars to their employees, the Government has put in place advantageous capital allowances which reduce the amounts chargeable to corporation tax:

For cars that are purchased after 1 April 2021, the following capital allowances are available:

- New and unused cars with CO2 emissions of 0g/km or electric cars – enhanced capital allowance i.e you can claim the full cost of the vehicle in the first year
- New and unused cars with CO2 emissions between 1g/km and 50g/km – writing down allowance of 18%
- Second hand car with CO2 emissions between 1g/km and 50g/km or electric cars – writing down allowance of 18%
- New or second hand cars with CO2 emissions above 50g/km – writing down allowance of 6%

For cars that are purchased between April 2018 and April 2021 - different rules applied during that period and further information can be provided on request.

Charging points

From 1 April 2021, businesses are able to claim a “super deduction” capital allowance, which equates to 130% of the cost of installing electric charging points at the workplace. This is a further form of capital allowance and to be eligible the charging points must be used by the business.

Government Grants available on purchase of new cars and charging points

To encourage everyone to buy low emission vehicles, Government grants are available up to a maximum of £2,500. These grants are automatically applied by the vehicle dealer/manufacturer and hence the purchaser does not need to apply for the grant.

Cars which have CO2 emissions of less than 50g/km and can travel at least 70 miles, without any emissions, are eligible (there is a Government list of the specific vehicles). The vehicle must cost less than £35,000, including VAT and delivery fees. The grant will pay 35% of the purchase price, subject to a maximum of £2,500.

The Government provides a grant under the Workplace Charging Scheme (WCS) which reduces the cost of installing electric vehicle chargepoints by their employees by up to £14,000.

The WCS grant is capped at £350 per chargepoint, with up to 40 sockets permitted per applicant business. The grant reduces the purchase and installation cost by 70%, subject to the cap. There are various conditions attached, which can be summarised:

- You have sufficient off-street parking
- Whilst you do not need to have electric vehicles as part of your fleet, you need to show an existing or future need for the business
- The charging station installer must be on an approved list

Where an employee owns (or leases) an electric car, they are also entitled to receive a grant of 75% of the cost, including installation, of one charging point at their home up to a maximum of £350, including VAT per eligible vehicle and up to two eligible vehicles per household. HMRC provide a list of approved installers and the applicant must have dedicated off-street parking, plus the property cannot be a new-build or unoccupied.

Scottish electric vehicle drivers may be eligible for an additional grant of £250.

Road Fund Licence, RFL (or Vehicle Excise Duty)

As this tax is based on CO2 emissions, there is currently no RFL charge for a pure electric car and the Government has confirmed that this will continue until at least 2025.

For cars purchased after 1 April 2017, plug in hybrids are currently charged between £0 and £105, based on their CO2 emissions, in the first year of registration, compared with the highest charge for cars with more than 225g/km emissions of £2,245 in year 1. Thereafter, there is an annual charge of £155, with a reduction of £10 for a hybrid car, compared with either petrol or diesel cars. For all cars, bar pure electric cars, and costing in excess of £40,000, from the second year RFL is paid, there is an additional amount payable, for five years, of £335.

Hence, for any new car, the real advantage from a RFL perspective, is to purchase a pure electric car. However, for most cars that do not have very high emissions, the savings are not very large and certainly none are particularly high after year 1.

The above analysis excludes cars purchased before 1 April 2017, as it is considered unlikely that these will be subject to a salary sacrifice arrangement.

Conclusions

As can be seen from the above, there are a number of financial advantages for both the employer and employee of owning an electric car, together with the additional saving relating to the recently announced increase in National Insurance contributions, where a salary sacrifice arrangement is in place.

Whilst the current purchase price of an electric vehicle is higher than the equivalent petrol and diesel powered cars, due to the cost of the large battery packs, the Government has put in place incentives to counter the additional cost to encourage a greener approach to motoring. There is a target date of 2030, whereby there will be a ban on all new petrol and diesel car sales (although there is an exception for some plug-in hybrids and some full hybrids still able to be sold until 2035).

Please contact your usual Rawlinson & Hunter contact or any of those listed below if you have any queries in relation to the matters raised in this briefing:

Lynne Hunt
Director
Direct Dial: (+44) 20 7842 2025
Email: lynne.hunt@rawlinson-hunter.com

Salma Khan
Senior Manager
Direct Dial: (+44) 20 7842 2070
Email: salma.khan@rawlinson-hunter.com

Craig Davies
Partner
Direct Dial: (+44) 20 7842 2136
Email: craig.davies@rawlinson-hunter.com

James Randall
Partner
Direct Dial: (+44) 20 7842 2131
Email: james.randall@rawlinson-hunter.com

Eighth Floor
6 New Street Square
New Fetter Lane
London EC4A 3AQ

And at

Q3, The Square
Randalls Way
Leatherhead
Surrey KT22 7TW

Kulwarn Nagra
Partner
Direct Dial: (+44) 20 7842 2130
Email: kulwarn.nagra@rawlinson-hunter.com

Catherine Thompson
Partner
Direct Dial: (+44) 20 7842 2028
Email: catherine.thompson@rawlinson-hunter.com

T +44 (0)20 7842 2000
F +44 (0)20 7842 2080

hello@rawlinson-hunter.com
www.rawlinson-hunter.com