Are salary sacrifice schemes for electric cars worth considering?

Some businesses may be looking at the potential tax benefits, given the recent increase in national insurance contributions.

Salary sacrifice schemes – where some of an employee's pre-tax annual salary is given up in return for a benefit like a company car – are used by many employers to help incentivise and retain staff.

This benefits employees by reducing their income tax and national insurance contributions (NIC), as well as lowering employer's NIC.

However, rule changes introduced in 2017 meant that employees using some former salary sacrifice schemes (including those involving cars) were required to pay income tax and NIC on their benefits. These have had to be recorded on their P11D forms in line with other flexible benefit packages.

So, what's the situation with increasingly popular electric cars?

Unlike other so-called benefits in kind, the income tax charge for cars with emissions of less than 50g/km isn't based on the salary given up. Instead, it's based on a set percentage of the list price defined by HMRC, and the higher the CO_2 emissions of the car, the larger the percentage. For cars with emissions of less than 50g/km, this is 2% of the list price for 2022/23.

The employer still benefits from NIC savings in that they don't pay class 1 NIC on the foregone salary. Instead, they pay class 1A NIC on the lower benefit-in-kind amount.

These tax benefits apply to employees. For directors receiving a small salary up to their income tax personal allowance, this type of salary sacrifice arrangement wouldn't bring tax benefits.

It's also worth bearing in mind that that benefit in kind rates may change in future years and that making changes to a salary sacrifice arrangement will also warrant updating the terms of the employee's employment contract.

For further information, please speak to you usual Shipleys contact.

For 2022/23, here's how it might work:	
Employee's annual salary	£42,000
Electric company car list price	£38,000
Amount foregone through salary sacrifice scheme for an electric car	£250 per month
An employee who is a basic rate taxpayer will save:	
Tax at 20% on salary foregone (£3,000)	£600
NIC at 13.25% on salary foregone (£3,000)	£398
Less benefit in kind of £38,000 at 2% *(taxed at 20%)*	£152
Total	£846
The employer also saves NIC based on the difference between the amount sacrificed and the benefit in kind.	
Employers NIC saved at 15.05% x £3000	£451.50
Less employer's NIC on benefit in kind at 15.05%	£114.00
Net saving for the employer	£337.50

Revised tax period rules for unincorporated businesses

Unincorporated businesses are due to enter their first taxable period under new basis period tax rules, potentially impacting on cash flow for some.

The changes affect the tax reporting for self-employed individuals, partners, trusts and estates with trading income. They involve aligning the tax 'year-end' of affected businesses with the fiscal year, taxing them on profits within a fiscal tax year regardless of the accounting period.

Due to be implemented in the 2024/25 tax year, with 2023/24 as a transitional year, the taxable period therefore runs from the start of their basis period in 2022/23 to 31 March 2024.

In some cases businesses may initially find they need to add additional months into the following year's profits and will potentially face taxation on up to 23 months' profit in one year, with an option to spread the accelerated tax over five years.

If you think your business will be affected by the changes, please get in touch with us.

New tax on residential property developments now in force

The new Residential Property Developer Tax (RPDT) came into effect from 1 April, and will see profits of any residential development company exceeding £25m taxed at 4%.

RPDT is intended to help the government raise around £2bn in revenue over 10 years to pay for the cost of remediating cladding safety issues on buildings. The calculation of profits is based on the rules of corporation tax and aligned to its deadlines.

The new tax applies only to companies, so not-for-profit home-building organisations – such as social landlords, housing associations and registered social providers – are exempt, as are any care homes and other housing for the elderly that provides personal care.