

THE BUSINESS OF... SALARY SACRIFICE

Find out how an effective scheme can benefit your company and its employees – and how to implement it correctly



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What is salary sacrifice and is it right for you?

As the popularity of the tax efficient solution grows, we take a look at how it works and the benefits to both employees and employers

By Gareth Roberts

Is salary sacrifice for cars becoming the norm? It is in certain parts of the country, according to Tusker chief commercial officer Iain Carmichael.

"There are key pockets in the UK where it is almost *de rigueur* for salary sacrifice to be part of the employment package," he says.

"In the north east, for example, if you don't have a salary sacrifice scheme in place, a prospective employee might not be terribly interested in coming to work for you."

Employers are having to work a lot harder to recruit and retain employees. Falling unemployment and a growing economy means the competition for talent has intensified.

Companies are fast recognising that to attract the best people, their employment package must match or better their competitors. Salary will always be key, but the lure of additional benefits may prove to be the deciding factor.

AN EMPLOYER OF CHOICE

"Salary sacrifice car schemes can help to position a company as an employer of choice," says Ian Hughes, commercial director at Zenith. "[They] provide a wide range of HR benefits including the ability to recruit, motivate and engage employees at no cost to the business."

Grafton Merchanting GB appointed Zenith to provide a salary sacrifice car scheme to its eligible employees over a two or three-year period. The builders' merchants group worked with its existing employee benefits provider Reward Gateway to give access to the new scheme.

Cliff Rendell, head of HR operations, rewards and payroll at Grafton Merchanting, says: "We already have an excellent benefits platform and wanted to expand our rewards package by offering our employees the opportunity to drive

£300
savings in NIC per car per year for the employer

£900
savings in tax and NIC per year for the employee

£1
sacrificed by an employee can save 13.8p in NIC for the employer

a brand new, fully serviced, maintained and insured car, and save money. It has been very well received by our employees."

But how does a scheme work and what are the benefits for both employer and employee? Sarah Hodgkin, salary sacrifice development manager at Hitachi Capital Vehicle Solutions, explains: "Salary Sacrifice schemes work by allowing eligible employees to give up part of their salary under their terms of employment, in return for their employer providing a non-cash benefit, such as the use of a new car."

TAX EFFICIENT OPTION

Gross salary and cash allowances are usually subject to both income tax and national insurance contributions (NIC). By 'sacrificing' part of this gross salary for a new car, this element will not be subject to income tax or NIC, resulting in lower tax and NIC being paid overall by the employee.

Sacrificing a percentage of their annual salary for use of a new car is considered a taxable benefit though, which is subject to benefit-in-kind (BIK) tax.

However, the tax and NIC savings will usually significantly outweigh the additional BIK tax, particularly if the employee chooses a car with low CO₂ emissions. This is why schemes are generally promoted as 'green' schemes.

For an employer, every £1 their employee sacrifices means a saving in employer NIC of 13.8p (13.8%).

Meanwhile, employees with annual earnings between the primary threshold and upper earnings limit will save 12%. Those earning above the Upper Earning Limit will save 2%.

Income Tax is also calculated on post sacrifice salary which means, depending on an employee's tax band, they could save 20, 40 or 45%.

And, as the scheme is through their employer, employees will benefit from economies of scale and the fleet discounts

IS SALARY SACRIFICE THE RIGHT FIT?

Salary sacrifice car schemes work for a wide range of organisations, but they don't suit everyone, says Zenith.

In terms of industry adoption, Zenith says schemes are most likely to be rolled out in the public services, IT, manufacturing, finance, insurance and professional services sectors.

"Employers should consider factors such as the size of eligible employee population, employee turnover, any planned restructures, redundancies or likelihood of life events such as maternity leave and long-term sickness," says Ian Hughes from Zenith.

Schemes tend to also be successful among companies that have a sophisticated approach towards their reward package.

Hughes explains: "These businesses are more likely to understand the merits of a salary sacrifice scheme in terms of its ability to help retain, recruit and motivate a workforce."

And, while there's the potential for organisations of all sizes to benefit from salary sacrifice, in order for a scheme to be worthwhile size does matter, according to Steve Kinnersley from Lex Autolease. He says: "It works best for larger organisations and those with more than 500 employees."

Employee turnover is also key. Tusker CEO David Hosking says: "You don't want to be providing salary sacrifice to a high churn organisation. Many of our customers have a churn rate of below 15%."

In addition, employers need to consider their employees actually have enough salary to sacrifice.

Sarah Hodgkin, from Hitachi Capital Vehicle Solutions, explains: "Salary sacrifice schemes may not work in organisations with a high proportion of low paid employees as 'sacrificing' part of an employee's salary cannot take them below the national minimum wage."



available to the salary sacrifice provider and the employer, along with corporate finance rates and VAT efficiencies where applicable.

Figures from Tusker suggest employers can save approximately £300 in NIC per car per year, while employees can save an average of £900 a year in tax and NIC.

Steve Kinnersley, consultant in the fleet consultancy team at Lex Autolease, explains: "The simplest way to understand a car salary sacrifice scheme is to think of it as typical company car with a familiar contract hire set up but under the umbrella of a tax efficient salary sacrifice arrangement."

SERVICE AND INSURANCE INCLUDED

All the essential products and services a driver needs to choose, such as insurance, servicing and maintenance while on the road and disposal of the car at the end of the contract, are included within the payment – with the exception of fuel.

All costs associated with the car are the responsibility of the driver, including the normal monthly payments – taken from gross pay as the sacrificed salary – and any additional ad hoc charges, such as cost associated with damage not fixed within insurance claims or fines due to motoring offences, are taken from net pay.

Kinnersley says: "As it is an employer-supported scheme, however, there are instances where the employer subsidises a cost due to reasons deemed 'unfair' or 'excessive'. These reasons are normally pre-determined at the outset of the scheme in order to avoid confusion, and would typically include early termination costs due to redundancy."

In other words, the company pays the early termination cost if an employee leaves – although insurance products are available to cover this, with the cost added to the employee's monthly payment.

Companies that run salary sacrifice schemes through novated leases, rather than contract hire, are relieved of such early-termination penalties.

Novalease from SG Fleet is such a scheme. "The main areas of concern for an employer are what happens when

"The employer manages the payroll deductions. Anything else to do with the lease or car will be managed directly with the employee."

Guy Roberts, SG Fleet

A VIABLE ALTERNATIVE TO A COMPANY CAR SCHEME?

It is difficult to say definitively whether or not salary sacrifice is a suitable replacement for company car schemes as the need varies from business to business, says Zenith.

In some cases, salary sacrifice can replace a traditional company car scheme; however in others it works best if the two sit alongside each other.

Ian Hughes from Zenith says: "A recent trend that the industry is seeing is a blended funding method with some vehicles across a fleet being funded by contract hire, some by employee car ownership and others by salary sacrifice."

"The most cost effective car funding method varies on a driver-by-driver basis due to the individual's tax profile, annual mileage, the car's purchase price, fuel type and CO₂ emissions. Therefore, finding the most cost effective funding method for each and every driver can lead to significant cost savings."

He concludes: "It is best for employers to speak to an experienced provider who will be able to advise them on the best options for their business."

an employee leaves? What is the potential increased administration?," says Guy Roberts, director at SG Fleet.

"With novated leasing, the employer will not be left with any cars if an employee leaves. The employee has the option to take the salary sacrifice arrangement to their next employer or can they can continue the lease on the same contract terms directly with SG Fleet."

If the employee leaves due to events out of their control, such as redundancy, they can hand the car back without penalty, although this isn't the case if they leave voluntarily.

Roberts adds: "The employer manages the payroll deductions. Anything else to do with the lease or car will be managed directly with the employee."

While salary sacrifice puts the early termination risk with the employer, novated lease puts the risk with the employee should they leave. It is down to individual companies to determine which approach best meets their needs and objectives.



For further information on salary sacrifice, go to: fleetnews.co.uk/salary-sacrifice

Salary Sacrifice is a breath of fresh air for your staff and your business

Take a second to think about a fleet solution that works towards your business goals.

Sure, we're all looking for ways to save a pound or two, but what about some of your other goals? Things like keeping hold of your best employees, reducing your carbon footprint and encouraging a happy and engaged workforce.

Introducing a Salary Sacrifice car scheme can make a real difference to all those goals and more. Even better, it's a cost-neutral fleet decision that can be tailored entirely to suit your own company's strategy. So not only is it great for your business, but it's great for you too.

First things first... what is Salary Sacrifice all about?

Salary Sacrifice car schemes allow your employees to fund their cars by using part of their gross monthly salary. It means that they save money by not paying income tax or national insurance on the amount they 'sacrifice'.

For your colleagues, they can drive away in a brand new car with an all-inclusive package for one fixed monthly sum, for two or three years and no deposit.

For you, you'll be able to offer a benefit that motivates employees and helps with retention and engagement.

The goal...

a simple benefit with no hidden extras

Driving a Salary Sacrifice car will give a refreshing lift to your employees. Not only does it save them on income tax and national insurance, but the package is all-inclusive. Meaning insurance, road tax, servicing, breakdown and recovery, accident management, windscreen glass and tyre replacements are all included in the monthly cost, so all they need to do is add fuel.

The goal...

reduce your carbon footprint

Research completed earlier this year shows that cars ordered through Zenith's salary sacrifice scheme are 20% lower in CO₂ emissions than the national average for new car registrations.

Greener vehicles mean lower Benefit in Kind (BiK) tax, and because the costs are lower, more people choose cleaner vehicles which can boost your CSR targets. In fact, you can even tailor your scheme to limit the choice to cars with lower emissions. So it's a proactive way to achieve any environmental goals you might have.

The goal...

attract and keep the best people

Salary Sacrifice schemes can be a real asset to drawing new talent into your business as having the extra benefit of being able to drive a new car without worry is a real bonus. It can be the difference between great new people choosing you over another employer.

On top of that, employees often choose to drive the car for 2-3 years so the scheme can help you keep hold of your brilliant employees.



Most popular cars ordered so far in 2015 through Zenith's Salary Sacrifice car schemes

- 1 Audi A1
- 2 Audi A3
- 3 Ford Fiesta
- 4 Toyota Aygo
- 5 Nissan Qashqai

Discover more benefits for your staff and your business by calling Zenith on **0844 848 9311**, dropping a line to hello@zenith.co.uk or popping over to zenith.co.uk/freshair

Road to success: how to introduce your scheme

Ensuring a high level of uptake for your salary sacrifice offer needs preparation

By Gareth Roberts

The success of a salary sacrifice scheme and its uptake is intrinsically linked with how well the scheme is promoted to an organisation's employees.

Most providers suggest a well-marketed scheme can expect a take-up rate of between 10-15%. But launch it and leave it and the employer won't see the benefits.

Guy Roberts, director at SG Fleet, says: "When a scheme is launched it will be the right time for some employees as they happen to be in the market for a car, but the wrong time for the majority. Therefore, it is important that there is a robust, ongoing marketing plan so that when employees are looking to change their car in the future they are aware there is a car scheme available."

There are a variety of methods of communication that can be used to get the message of salary sacrifice out, but the right approach will vary for each employer. Regular meetings between provider and customer are vital to reviewing communications plans, as are employee surveys pre- and post-launch, road shows and drop-in surgeries.

Marketing materials, such as posters, leaflets and digital assets, are also essential, along with content for e-marketing, newsletters and intranet sites.

Ian Hughes, commercial director at Zenith, says: "As there is no like-for-like equivalent in the retail market, it is crucial that employees understand how much of a good deal they are getting and are supported in making a comparison to alternatives."

As part of the ongoing communications plan, regular promotions, offers and competitions, are all tactics to be considered, says Zenith.

However, employers and providers need to keep it simple. Steve Kinnersley, consultant in the fleet consultancy team at Lex Autolease, explains: "Any salary scheme necessarily involves complicated matters of tax and legislation, and it is vital that these concepts are communicated in the simplest way possible so that everyone understands what is involved."

"Employees also need to be happy that no hidden costs will hurt them due to the complex nature of the scheme's financial set up. It's important that marketing is informative, balanced and jargon-free, while clearly explaining the pros and cons of the scheme to the employee."

Sarah Hodgkin, salary sacrifice development manager at Hitachi Capital Vehicle Solutions, adds: "We also adjust our

Hit the ground running: marketing materials will all need to be ready



10-15%
expected take-up from a well-marketed scheme

2-3%
take-up from a poorly managed scheme

communication style and mediums to maximise the appeal and impact to the employee."

"In our experience, preparing bespoke material for the customer has had an overwhelmingly positive early scheme take-up and employee satisfaction."

Sandwell Council, which has around 5,000 employees, worked closely with Tusker to communicate the benefits of its scheme to employees.

Jan Britton, chief executive of Sandwell Council, explains: "We had a robust communication plan including a dedicated intranet site. We also ran a number of roadshows, and had posters, flyers and messages on employees' payslips."

"As chief executive, I also made sure the scheme was promoted regularly through my blog."

"Having achieved this level of awareness, it is our intention to keep the scheme's profile high and also to show employees that it is available all year round and not just during benefits breaks."

Interest in the scheme needs to be monitored, with scheme data analysed on an ongoing basis, to ensure that it is still attractive and that the promotions are working.

"Varying the messages and types of cars promoted can help and a full re-launch can help revamp the scheme after, say, 12 months," says Hughes.

"Renewals also need to be catered for, with the best approach being to provide targeted offers based on what we know about the particular employee, the types of cars and price points they are attracted to."

Zenith, like other major providers, expects take-up among employees to increase as understanding of the benefit of salary sacrifice becomes more widespread.

However, while a well-marketed scheme should deliver take-up of around 15%, a poorly communicated scheme will see a take-up of only 2-3%.



"It is crucial that employees understand what a good deal it is"

Ian Hughes, Zenith



Find out how to introduce your scheme at: fleetnews.co.uk/salary-sacrifice

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Here, we answer the most frequently-asked questions about salary sacrifice schemes

What is salary sacrifice?

You agree to give up the right to receive part of your gross salary in exchange for a non-cash benefit – in this case, a brand new car. The salary is sacrificed before income tax and national insurance contributions (NIC), resulting in tax savings on the benefit.

What's typically included in a salary sacrifice car scheme?

Most salary sacrifice schemes are all-inclusive and include insurance, scheduled servicing and maintenance, and accident management in the monthly cost. Research has shown that the all-inclusive package, particularly the prospect of saving on car insurance and servicing costs, is one of the main attractions of salary sacrifice car schemes for employees.

What is HM Revenue and Customs' view on salary sacrifice car schemes?

HMRC views this arrangement as an employment law matter rather than a tax law matter. You are free to agree a change in your salary with your employer. HMRC requests that the change in salary is 'permanent', meaning that any change must be for a minimum 12-month period. In addition you must also agree to sacrifice your salary before you take delivery of your car.

The car is made available to you by your employer, and is viewed as a company car by HMRC. Employees also cannot sacrifice any amount that takes their pay below national minimum wage.

Do you need HMRC approval?

HMRC states in its guidance that it needs "full details of the scheme and of the new contractual arrangements". A provider should work with you to make sure the process is

"Employees can save £80 per month in tax and national insurance (NIC). Employers can save £300 per annum per employee in NIC"

as simple as possible and that you have all the necessary information to send to HMRC to give you the peace of mind that your scheme is HMRC-compliant. An organisation wishing to implement a novated lease will be required to be consumer credit licensed.

How do you prevent early termination costs?

As the lease involved is between the leasing provider and the employer, the company is potentially liable for any early termination charges.

However, a good provider will have reliable methods in place to assess and manage these costs. These can include: insurance, contingency funds; and a termination fee written in to an employee's terms and conditions.

Companies that run salary sacrifice schemes through novated leases, rather than contract hire, will not face early-termination penalties.

The employee has the option to take the salary sacrifice arrangement to their next employer (if they run such a scheme) or they can continue the lease on the same contract terms directly with their provider. Any termination cost sits with them.

How do you manage mileage?

Employees are able to select their annual mileage based on their driving habits. Providers should proactively manage the mileage on the cars, so if employees are in danger of exceeding the mileage limit the customer service team will call and discuss options.

Will salary sacrifice increase my admin burden?

While there is a small amount of admin and input required from a customer, one of the key benefits of the scheme is that it is outsourced and the provider should manage the day-to-day running of the scheme, including employee and driver support, a comprehensive communication plan and robust and dedicated account management.

Is implementing a scheme time-consuming?

A good provider will have dedicated teams in place to help drive forward your employees' awareness of the salary sacrifice scheme.

How does it benefit the business and its employees?

Employees can save up to £80 per month in tax and NIC, and £500 a year, on average, in fuel costs by moving to a more fuel efficient car. Meanwhile, employers can save an average £300 net a year per employee in NIC.

Are there any checks to ensure that employees can afford the payments?

A provider in conjunction with the employer should ensure employees looking to join can comfortably afford to do so.



More salary sacrifice questions answered at:
fleetnews.co.uk/salary-sacrifice

CASE STUDY: NEWCASTLE HOSPITALS

Newcastle upon Tyne Hospitals NHS Foundation Trust swapped an existing salary sacrifice provider to work with NHS CPC Drive and salary sacrifice specialist Tusker three years ago.

The pair work in partnership and were one of three shortlisted suppliers when Newcastle Hospitals went out to tender.

David Malone, Newcastle Hospitals' green transport and staff benefits advisor, says: "We selected Tusker as our new provider to give our employees better terms, reduced risk and improved service levels, and to reduce the work involved in administering the scheme."

The contract, which covers approximately 13,000 employees, also included the provision of cars for Newcastle Hospitals' company car lease scheme for essential car users.

The biggest challenge was the speed required to implement the new scheme to ensure no reduction in service levels for staff, and the need to communicate the new details quickly to all employees.

It took just six weeks from Tusker's selection for the new scheme to be up and running and available to staff, through a web portal which provided direct access to the scheme.

It meant arranging communication to all staff quickly, and so the scheme was communicated through a series of web bulletins, emails and payslip attachments, while two large staff benefits events were also held with around 600-800



Staff nurse Rachel Balls takes delivery of a Nissan Juke

staff attending each event.

Three years later and uptake and feedback have exceeded expectations, with an uptake of over 7% and over 950 new car orders received from employees so far.

Staff nurse Rachel Balls, who swapped her 10-year-old BMW 3 Series for a Nissan Juke, says: "I particularly liked the fact that everything

was included, as my insurance and breakdown cover on my BMW was starting to become very expensive."

Malone concludes: "Feedback from staff has been that it is very easy to get quotes and order new cars online through the system, while the delivery of new vehicles has been efficient and on time."

CASE STUDY: UNIVERSITY OF BIRMINGHAM

The University of Birmingham launched its salary sacrifice scheme as part of a wider sustainable travel plan.

It recognised that some of its 6,000 employees had no alternative to the car and salary sacrifice could help minimise their environmental impact.

It also saw that offering staff access to a new car would help with retention and recruitment.

However, it wanted to use a provider with a 'no risk' solution, so it chose a novated leasing scheme.

Novated leasing avoids the potential for early termination costs or having to pay contingency cover, unlike more traditional salary sacrifice.

If an employee leaves, they have the option to take the salary sacrifice arrangement to their next employer or can they can continue the lease on the same contract terms directly with their provider. All the employer has to do is manage the payroll deductions.

Monica Guise, post, portering, transport and interim sustainable travel manager at the university, explains: "After researching the market, we found only one provider at the time that could offer this solution - SG Fleet."

Following extensive contract negotiations the Fuel Efficient Salary Leasing Scheme was launched in October, 2014, with a day of dedicated workshops, giving employees plenty of opportunity to attend.



Monica Guise wanted a no-risk solution

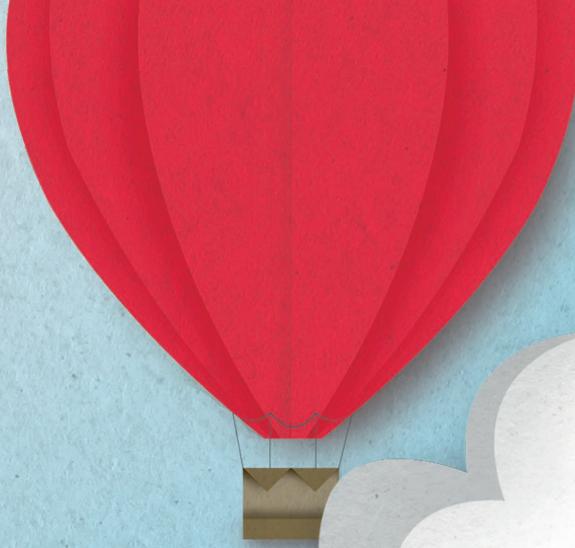
It's still early days for the scheme, so the current penetration rate of 1% will grow, but its launch has been declared a success.

"We had a high uptake when the scheme was launched, which has now evened out," explains Guise. "But the drivers who have taken up the scheme are extremely satisfied."

Guise said it was important to create a real buzz

around the launch; however she admits that in an institute of such size, getting the message across to everyone can be challenging.

She says: "Do your research, work with the leasing provider to create a marketing strategy that is ongoing and ensure you engage with all the stakeholders before signing contracts."



Zenith
Intelligent Vehicle Solutions

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Imagine your employees having access to cars by using part of their gross monthly salary before it's paid into their banks. They'd save money by not paying income tax or national insurance on the amount they 'sacrificed'. **How great would that be?**

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- Windscreen and glass cover ...

In fact, it covers all costs associated with driving a car. We'll make sure everything is done on time, from renewing road tax to booking a service. So all they need to do is **put fuel in!**

Choosing Salary Sacrifice isn't only a great decision for your employees, **there's good news for you too.**

The scheme is cost-neutral to your business and can be tailored to the needs of you and your fleet. And to keep things as simple for you as possible, you can leave the whole implementation and communication process to us.

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email hello@zenith.co.uk or visit zenith.co.uk/freshair

