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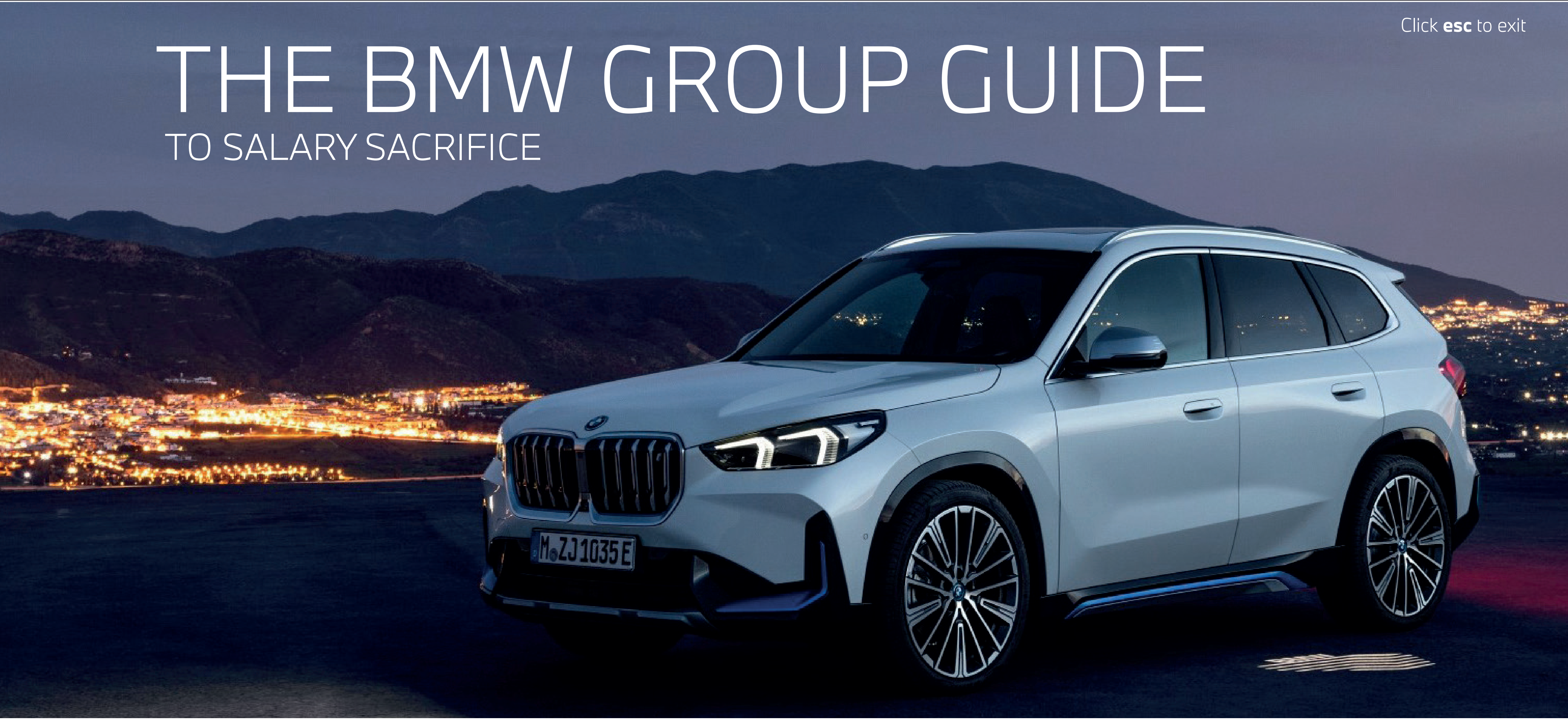
THE BMW GROUP GUIDE

TO SALARY SACRIFICE



BMW GROUP FLEET & BUSINESS SALES

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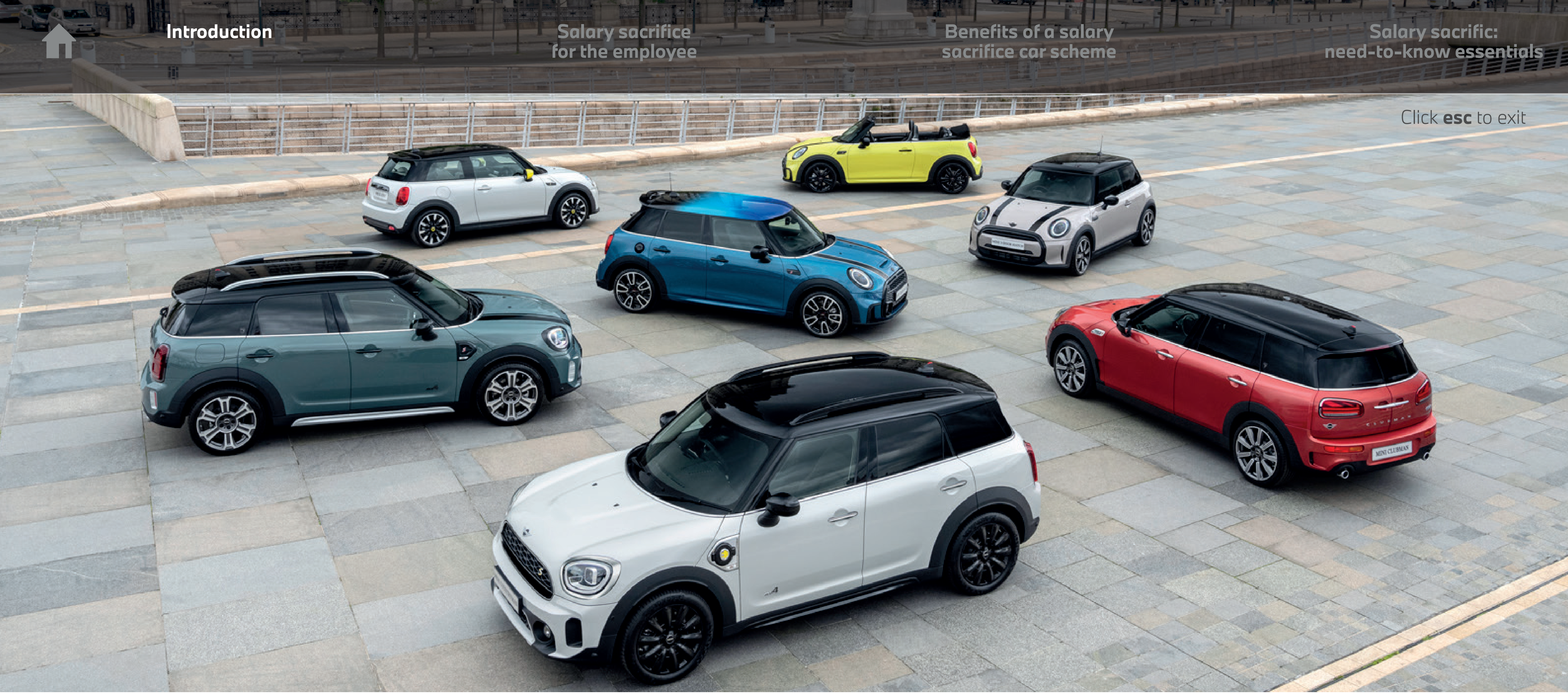


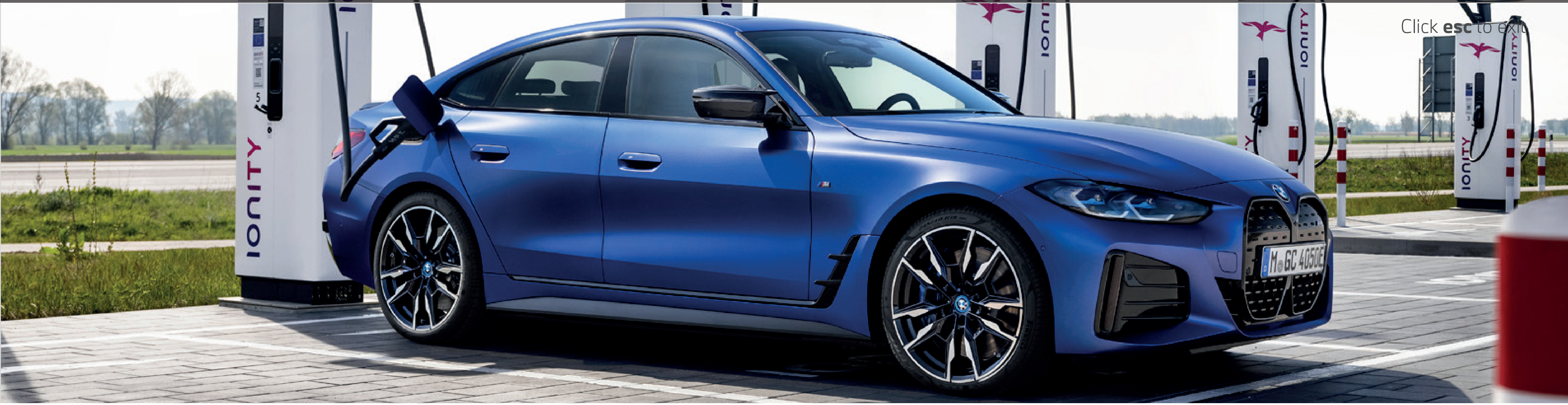
INTRODUCTION

Funding staff cars through an employer-arranged salary sacrifice scheme has become increasingly popular as a valuable employee benefit that, when properly administered, can be highly tax-efficient for both parties.

Put simply, a salary sacrifice staff car scheme involves an employee, who is not normally entitled to a company car, agreeing to give up, or 'sacrifice', part of their pre-tax salary in exchange for a 'non-cash benefit', in this case a car supplied by a leasing company.

Non-cash benefits traditionally have included childcare vouchers, bicycles and even lunch at work, and the same highly tax-efficient principles apply to the acquisition of a new car. The increasing availability of low-emission models, and the resultant reduced rates of Benefit-in-kind tax they incur, has helped boost popularity.

This BMW Guide to Salary Sacrifice offers guidance and information for both employer and employee.



SALARY SACRIFICE FOR THE EMPLOYEE

While a cut in basic salary may seem unpalatable to many employees, when that reduction pays for a fully funded new car with all ownership costs included, their perception might change.

The real advantage is that instead of the employee taking out a car loan or hire purchase agreement in the normal way (paid for from post-tax or net pay), fixed monthly repayments are taken from salary before any tax or National Insurance is deducted.

Benefit-in-kind (BIK) tax is then payable by the employee on the car based on its list price and CO_2 emissions. Under BIK tax rules from 6 April 2022, drivers of new cars with CO_2 emissions of 50g/km or less and a zero-emissions range of 130 miles or more when driving attract BIK tax at just 2% of P11D value, fixed until 2024/25.

Once the car is chosen and supplied, the employer makes a regular deduction from the employee's gross salary. The amount remains the same for the duration of the contract. Normally, the contract runs for two or three years, with a service and maintenance agreement included. Employees could also see an additional benefit by selling their existing personal car, allowing them to release money tied up in loans or finance.

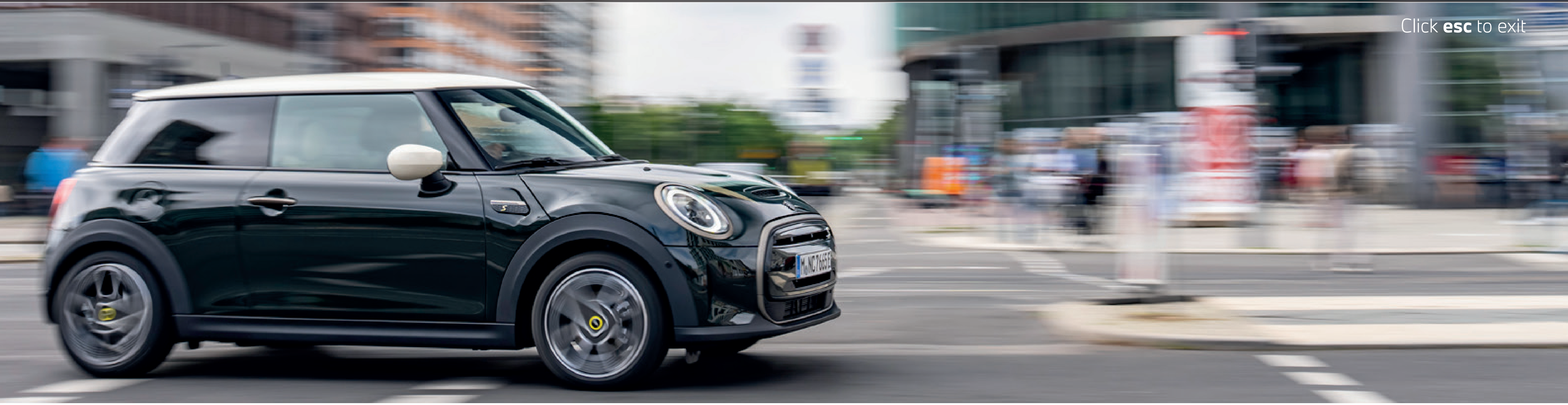
A staff benefit, not a company car
It's important to understand that a car funded through a salary sacrifice scheme is not a 'company car' but is seen as an employee benefit approved by Her Majesty's Revenue and Customs (HMRC).

The reason HMRC allows the existence of salary sacrifice schemes is that they offer a new car to staff who would not normally be eligible for a company car, bringing newer, more efficient and safer cars onto Britain's roads as part of the Government's wider targets on greener motoring, road safety and reducing emissions.

Introducing properly funded, insured and well-maintained vehicles also reduces the risks involved with 'grey fleet' vehicles, where privately owned cars are used by employees for business purposes.

Salary sacrifice schemes are often attractive to employees looking for a second car for their spouse or child, and unlike Employee Car Ownership Schemes (ECOS), are beneficial to all eligible staff, not just higher-rate taxpayers.

HMRC's view
HMRC regards car salary sacrifice arrangements as an employment matter rather than a taxation matter as individuals are free to agree any pay changes with their employer. Entering into a salary sacrifice arrangement involves the employee agreeing to a salary reduction, with HMRC receiving tax revenue, which is not the same as in some other salary sacrifice schemes.



BENEFITS OF A SALARY SACRIFICE CAR SCHEME

How an employee benefits from a salary sacrifice car scheme

- **Reduced tax.** Fixed monthly payments are taken from pre-tax (gross) salary, as long as the salary is not 'sacrificed' to a level below the national minimum wage. The employee's income tax and National Insurance Contributions (NIC) are reduced owing to the lower pay. BIK tax is payable by the employee, but staff choosing a new car with CO_2 emissions of 50g/km or less and a zero-emissions range of at least 130 miles will pay BIK tax at just 2% in 2022/23, fixed until 2024/25.

- **Mobility at lower cost.** In most cases the net monthly cost of the car is less than a car loan or hire purchase agreement.

- **A new car with convenience.** Finance, insurance, annual vehicle excise duty and maintenance are all included in a single monthly payment that enables easy, predictable budgeting without the need for a large initial payment.

- **Buying power.** Cars are supplied through agreements made by the employer with a leasing provider. Due to the leasing company's buying power and the likely volumes involved, repayment rates, funding levels and discounts achieved are likely to be far more advantageous than any consumer could negotiate.

- **Easy disposal.** At the end of the contract the car is handed back to the leasing company. As long as it meets pre-agreed condition standards, and the mileage is at or below what was contracted, no further charges should be payable.

How an employer benefits from a salary sacrifice car scheme

- **Enhanced employee rewards package.** As long as it has been implemented properly, a salary sacrifice scheme should be cost neutral for employers while providing a staff benefit that helps with recruitment and retention.

- **Reduced NIC payments.** National Insurance Contributions are still payable on the provision of a car under a salary sacrifice scheme, but these are usually less than the contributions on the salary being sacrificed by the employee.

- **Duty of care benefits.** Cars supplied through a salary sacrifice scheme will be new models with all the benefits of the latest technology, reduced exhaust emissions and improved fuel efficiency. Insurance, maintenance and all other day-to-day expenses are also included in the fixed monthly payment, therefore so-called 'grey fleet' concerns, such as inadequate insurance for business use or poor maintenance, are eliminated.

- **Minimal employer involvement.** As the entire scheme is outsourced to a leasing specialist, the administration burden for the employer is minimal enabling it to offer a substantial staff benefit with virtually no internal input.

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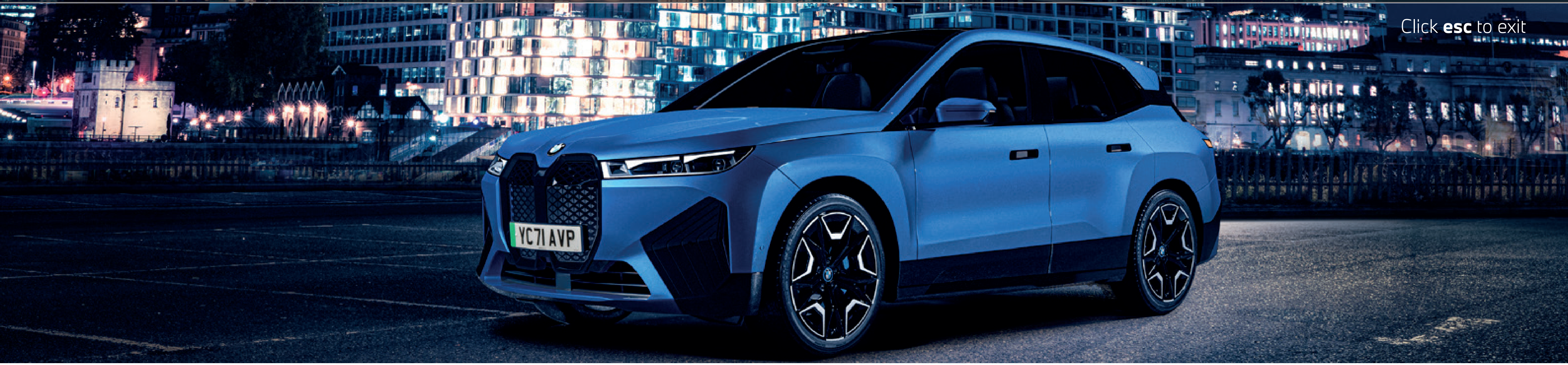

SALARY SACRIFICE: NEED-TO-KNOW ESSENTIALS

The benefits of a salary sacrifice car scheme are clear, but there are important issues to consider before entering into any agreement.

- **Employment status.** To be eligible, the employee usually needs to be in permanent employment to be eligible. HMRC will want to establish that a change in salary is permanent and that any change must last for a minimum 12-month period. The agreement to sacrifice salary must be in place before the car is delivered.

- **The contract.** The leasing contract is between the employer and the leasing company. The employee cannot negotiate or agree the contract with the leasing company but is voluntarily accepting a reduction in their gross salary and receiving the non-cash benefit of a car through their employer.

- **Employer costs.** From an employer's perspective the scheme should be run on a cost-neutral basis. So when it comes to calculating the cost, the company must factor in the cost of leasing the vehicle and other variables such as service, maintenance and repair (SMR) costs, insurance and Class 1A NIC contributions.

- **Administration.** The salary sacrifice provider's communications systems – usually online through an intranet site – should ensure there is little or no administration for the employer. The provider should set up the rules of a company's scheme, including which employees are eligible and which vehicles are available. The intranet site should allow employees to obtain quotes, choose vehicles and see for themselves the tax and National Insurance savings available.

- **Maternity or long-term sick leave.** The employer cannot withdraw the salary sacrifice benefit from staff who take maternity leave or long-term sick leave (and who are faced with a reduced salary as a result) as it is part of their terms and conditions of employment. However, they could end up facing contract early termination costs. Some scheme providers offer insurance to cover such eventualities.

- **Staff turnover.** When staff leave they must hand back the car, and for an employer that could mean early termination charges. There is insurance available to cover this, although as with any insurance if you use it too much the cost can be prohibitive. So when considering implementing a salary sacrifice car scheme, it pays to research and measure the company's staff culture and employment demographics. High staff turnover patterns could make a scheme unnecessarily costly and burdensome.

- **Effective communication.** A salary sacrifice car scheme may often take a while to get off the ground as employees aren't in a position to sell their own car, are initially wary of a new scheme or may already have a car on finance and aren't prepared for the cost of change. Precise, clear communication at regular intervals about the tax benefits and what is offered with salary sacrifice will educate and encourage more employees to join the scheme. Good providers can manage this process for you.

- **Reduced pensionable salary.** The employee's gross salary is reduced with salary sacrifice, therefore, the amount of their pension contributions also reduces. Although some schemes allow the pension to be calculated by 'reference' or 'notional' salary – the pre-sacrificed pay – this depends on the pension scheme chosen.