See the Benefit

Company Car/Salary Sacrifice Tax Briefing

Continue using benefit-in-kind (BiK) tax to accelerate and democratise the decarbonisation of road transport

BVRLA Ask: Pure electric car benefit-in-kind tax rates must be kept as low as possible for as long as possible. 2025/26 rates need to be announced in the Autumn Budget.

Company cars are vehicles provided to employees for business and personal use. (circa 800,000 cars [1]).

Salary sacrifice cars are company-wide benefits where staff give up pre-tax income to pay for a car. Employees can choose any car at the price point they desire (circa 31,000 cars [1]).

BiK = a set % (determined by CO_2 emissions) x P11D values x the driver's income tax bracket

What is benefit-in-kind (BiK) tax?

When a driver uses either a company car or salary sacrifice vehicle for personal mileage, they incur benefit-in-kind (BiK) tax.

Currently, the rate is set at 2% for pure electric cars until 2024/25. Five years of low rates and tax foresight has propelled a electric car revolution in the sector, with unrivalled uptake in these car markets. Where employees fail to provide a electric car, company car uptake is falling.

Critically, after 2024/25, there is no foresight of BiK rates for 2025/26 or beyond. This means there is no further clarity on how BiK bills will change up until the 2030 deadline for the ICEV phaseout.

Pure EVs are significantly more expensive with P11Ds of near **£50,000** compared to **£30,000** for diesel [2]

Over 70% of petrol and diesel company car and salary sacrifice drivers will pick a new car over the next two years [2]

Over 60% of salary sacrifice users are basic rate taxpayers [2]

Most salary sacrifice entrants are driving new cars for the first time (average age of cars they are coming out of is **7 years**) [3]

A driving force for the EV transition

BiK has long been used as an effective tool to drive users into more efficient, less polluting vehicles by linking tax rates to CO_2 levels. Since low BiK rates arrived in 2020/21, **electric car uptake has soared** to record highs whilst petrol and diesel have slumped. Over the past two years, growth has been near ten-fold:

According to the SMMT, **some 58.8% of all electric cars on the road are company registered**. The majority of these are company cars. [4]

- In Q1 2020 company car fleet was 1.8% pure EV (15,600). In Q1 2022 it is **18% pure EV** (145,000) [5]
- In Q1 2020 salary sacrifice fleet was 5.1% pure EV (1,200). In Q1 2022 it is **55% pure EV** (19,000) [5]
- In Q1 2022 the company car order bank is **45% pure EV**. Salary sacrifice is at **80%** [2]

[1] BVRLA Leasing Survey Q4 2021
[2] Q1 2022 BVRLA member data
[3] Survey of 749 salary sacrifice entrants
[4] SMMT Motorparc data 2021
[5] BVRLA Leasing Survey Q1 2020 and Q1 2022
[6] Survey of 250 company car and salary sacrifice drivers
[7] Survey of 668 BEV salary sacrifice entrants
[8] Survey of 376 BEV company car and salary sacrifice drivers
[9] BVRLA Fleet Sustainability Table, September 2021

At a crossroads…

Following global supply shortages and rising costs of materials, the market faces instability and customers currently see wait times of **12 months** for their car. A driver ordering a car on a four-year lease now will **not know the full cost of their tax bill for the final half of their lease.** In this climate, another year of certainty is vital - order bank delays and reduced foresight will mean fewer and fewer drivers have the confidence of knowing their future tax bills. This is especially the case with a cost-of-living crisis where driver finances are under more pressure than ever.

The opportunity

1. Whilst pure electric cars remain expensive, low BiK rates present a route for lower-income earners to afford these vehicles. Salary sacrifice schemes especially are democratising access to electric cars.

- **Any hike in BiK rates would disproportionately impact lower-income earners as electric cars are more sensitive to increases given higher costs.** BVRLA analysis shows that for a 20% taxpayer, a 1% increase in BiK means an annual tax bill hike of £100 a year for a electric car compared to £60 for diesel.

2. There is a critical window to transition petrol and diesel drivers into pure electric cars in the next 12-24 months. As 70%+ of ICE company car and salary sacrifice drivers will pick a new car in the next two years, the Government can maintain EV momentum by preserving the BiK incentive.

- **If BiK rates are raised too much or too steeply, there will be no incentive to move into new electric cars via company car or salary sacrifice schemes** for 200,000-500,000 cash allowance and 10-14 million grey fleet drivers – who use older (average 6 years from cash allowance and 8 years for grey fleet) higher-polluting ICE cars. [9]

- **90% of pure EV drivers were influenced by BiK in their decision (41% cite BiK as the sole reason)** [6]
- **80% of pure EV drivers in salary sacrifice schemes would not have opted for an EV without the scheme** [7]
- **70% of drivers were concerned their EV may become unaffordable should BiK tax rates increase** [8]

How can we all #SeetheBenefit?

The current BiK regime up to 2024/25 is providing a powerful EV stimulus to a fragile market during economic uncertainty. BiK can be the mechanism to meet the EV transition by 2030, but only if the market is provided with further, much-needed certainty. **To maximize EV adoption, Treasury must capitalize on the success of its BiK policy by ensuring that:**

BiK rates remain low **for pure EVs up to 2030/31**	BiK increases in increments **of no more than 1% a year between 2024/25 and 2030/31, with no cliff edges.**	**2025/26 BiK rates announced in Autumn Budget** – with as much extra foresight as possible

Policy Outcomes

Implementing these BiK policies will lead to several advantages:

- **Revenue** – there will be near-term losses for Treasury due to the mass exit of overtaxed petrol and diesel drivers. However, by committing to a no more than 1% per annum increase, pure EV driver numbers will grow to make the UK a world leader in EV adoption meaning HM Treasury will be collecting more BiK revenues by decade end than ever before.
- **Used market** – on the 1% trajectory, the company car and salary sacrifice markets could supply a much needed **2.2 million affordable used EVs** by 2030. Freezing BiK for two years then increasing by 1% in 2027/28 would deliver **2.4 million EVs**. The short duration of leases guarantees a pipeline into the used market. Used EVs will otherwise remain too costly for the average consumer for many years due to the current lack of supply.
- **Carbon** – under the 1% scenario, the shift in the company car segment, growth of salary sacrifice and feeding of the used EV market could deliver carbon savings of **7 million tonnes of CO_2 a year by 2030 (£1 billion in annual savings).**

Failure to implement these BiK policies would be detrimental to the market, the Government's transport decarbonisation goals and its revenue. A sudden surge in BiK rates will 1) slow the electric car transition, 2) shrink the company car market and reduce tax revenues, and 3) incentivise more people to use older, more polluting vehicles instead of a new company or salary sacrifice car.

BVRLA Ask

To ensure everyone can make the transition, **electric car BiK rates must be kept as low as possible for as long as possible** to allow firms to provide an affordable route into new EVs for their staff and consumers to afford these vehicles when they enter the used market. Whilst other barriers to EV adoption remain, this tax incentive is essential. **Rates need to be announced in the Autumn Budget.**