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Guide to Car Salary Sacrifice Terminology

When deciding whether to participate in a car salary sacrifice scheme, there are a number of factors for employees to consider. Read our guide to help fully understand the terminology and support you in making the right choice.

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1. Benefit-in-Kind tax

This applies to car salary sacrifice agreements. Although there is no Income Tax or National Insurance Contributions charged on the amount of salary sacrificed in a salary sacrifice car scheme, you would be liable for Benefit-in-Kind tax (also known as Company car tax – see below) on the value of the car benefit at your marginal rate of tax.

2. Company car tax

Company car tax (also known as Benefit-in-Kind tax) is based on a calculation that includes a number of variables, including the amount of CO_2 its engine emits, the type of fuel used and the taxable list price of the car. The higher the official CO_2 figure of the car, the more tax is due – hence why salary sacrifice car schemes work best with low carbon emitting cars.

3. Early Termination

As with mobile phones, TV packages and gym contracts, early termination (ending your contract before the term is completed) of a car scheme contract is likely to result in charges to you. It's important that you read the Terms & Conditions of your contract closely before ordering a vehicle and are aware of what this cost might be.

4. Excess Mileage Charges

A quote for your chosen vehicle will be based upon an annual mileage. If you go over the total contracted mileage you may be required to pay an excess mileage charge when you return your vehicle. The amount to be paid is based on a pence per mile (ppm) figure which you will see on your quotation.

5. Fair Wear & Tear

When you lease a vehicle you normally return it to the provider at the end of the contract term. To protect both parties there needs to be a common understanding of what is considered to be Fair Wear & Tear for a vehicle of a certain age that has travelled a certain amount of miles. Most schemes are governed by guidelines produced by the industry trade body BVRLA. Before returning your vehicle at the end of a contract you should review your scheme's Fair Wear & Tear guidelines.

Click on the image to read the current BVRLA guidelines, adhered to by reputable fleet experts

6. HMRC approval

HM Revenue & Customs (HMRC) has taken an active interest in the growth of salary sacrifice car schemes because of the amount of Income Tax and National Insurance they save for employees. A reputable employer who deploys a salary sacrifice car scheme will have sought and received approval for the scheme from HMRC.

7. Minimum wage

Salary sacrifice car schemes are not typically available to employees if the deduction from their gross pay takes them below the National Minimum Wage or National Living Wage threshold.

8. National Insurance Contributions

Salary sacrifice car schemes create savings for you in the amount of National Insurance which you pay. However, it is worth being aware that your ultimate state pension entitlement may be restricted due to the reduced National Insurance Contributions.

9. P11D Form

A P11D form is used by employers to report any employee expenses, payments and benefits to HMRC, eg. technology equipment, company car and private health insurance. Therefore, HMRC will recover the tax due, in arrears, via a change in your tax code the following tax year (April 6th – April 5th), you will still benefit from an NIC saving; up to 12% for basic rate taxpayers and 2% for higher rate taxpayers.

10. P11D Value

The amount of tax paid by an employee is based on the P11D value or the Gross Sacrifice, whichever is the higher. The P11D value includes the list price of the car including VAT and accessories, delivery fees, vehicle excise duty and the first registration fee.