

Your car benefit scheme

How will joining affect my finances?



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Introduction

Our scheme offers a simple way to lease a brand new car of your choice that suits your lifestyle and budget.

There are three different ways you can pay for your car through the scheme:

- salary sacrifice
- salary deduction
- private contract hire

But what do each of these arrangements mean and how could they affect your salary and pension?

Our guide will help explain.



Salary sacrifice

Salary sacrifice is when you swap part of your monthly salary *before* tax in return for a car of your choice.

The main benefits of this arrangement are:

- save on national insurance (NI), tax and pension contributions
- all main running costs such as insurance, maintenance and breakdown included in the monthly price
- no deposit or credit checks required

How does salary sacrifice affect my pay?

To help explain how entering a salary sacrifice arrangement could alter your monthly salary, see our example on the next page.

Salary sacrifice arrangements can impact your pension. To find out more turn to page 8 of this guide.



Meet Carol...

Carol is a registered nurse who earns £25,000 per annum. She is a 20% taxpayer and travels an average of 8,000 personal miles a year. Carol's business mileage is reimbursed separately at the agreed rate. Her choice of car is a Volkswagen Up Electric Hatchback 60Kw, 5 door Auto on a 36 month contract.

Under salary sacrifice, the total cost Carol will pay each month is £178.52.

This is made up of:

Monthly sacrifice payments: £285.75

(includes tax, insurance, servicing and repairs, tyre replacement, breakdown cover, accident management)

VAT: £0.00

Monthly payroll savings: £111.24

(split into Income Tax, national insurance and pension)

Net monthly cost: £174.51

Benefit in Kind (company car) tax: £4.01



Salary deduction

Under salary deduction, payments are taken from your net pay (after tax) each month.

The advantages of this arrangement are:

- it does not affect your gross pay or pension
- offers access to a cash benefit (car) you may not otherwise be able to afford
- all main running costs are included
- no deposit or credit checks

If Carol chose the same car through salary deduction, each month she would pay an overall cost of £331.27. This is made up of:

Monthly payments: £276.06
(incl. all running costs as per salary sacrifice)

VAT: £55.21

Monthly payroll savings: £0.00

Benefit in Kind (company car) tax: £0.00



Personal Contract Hire (PCH)

You pay a low, fixed monthly cost for your car and return it at the end of the contract.

PCH agreements are:

- free of Benefit in Kind Tax
- simple, personal arrangements

Unlike salary sacrifice and salary deduction, main vehicle running costs are not included in the monthly contract price but can be added as an optional extra. Insurance is also not included and would need to be sourced separately. To undertake a PCH arrangement you would need to have a credit check.

Under PCH, Carol would pay an overall monthly cost of £309.24. The cost breakdown is:

Monthly payments: £257.70

VAT: £51.54

Monthly payroll savings: £0.00

Benefit in Kind (company car) tax: £0.00

A hand holding a car key with a black fob and a small orange toy car on a laptop keyboard.

Private lease agreement

You may be wondering whether joining our car benefit scheme is a better financial option than taking out a private lease arrangement with your local dealer or garage.

Car deals will of course vary so the example below is based on a lease quote from a recognised national provider for Carol's car choice. The cost includes maintenance and insurance.

You will have to pay a processing fee, possibly a transaction fee and a substantial deposit is usually required. You will also need a credit check.


If you want to amend your mileage during the contract this carries a charge of £100 + VAT. Under salary sacrifice or salary deduction, these adjustments are done free of charge.

Under a private lease agreement, Carol would pay an overall monthly cost of £324.97.

This is made up of:

Monthly cost: £324.97

Benefit in Kind (company car) tax: £0.00



Pension

Will joining the scheme affect my pension?

Your pension will only be impacted if you choose to pay for your car via a salary sacrifice arrangement.

The effect will differ depending on whether your pension is calculated under a Final Salary or a Career Average arrangement. Most NHS staff pensions are calculated using both.

You can check which applies to you at <http://www.nhsbsa.nhs.uk/4017.aspx>



The implications of each arrangement are explained below:

- **1995 Final Salary Scheme** – based on the best of the last three pensionable years of your employment. Avoiding a salary sacrifice arrangement in this three year period will ensure your pension is not reduced.
- **2008 Final Salary Scheme** – worked out using an average of the best three consecutive years over the last ten years of your service. Avoiding a salary sacrifice arrangement in the last three years of your employment may ensure your pension is not reduced.
- **2015 Career Average Salary Scheme** – calculated every year based on your pensionable earnings. Any reduction in earnings will therefore reduce your pension.

Please note: Under the Final Pay Control regulations, opting out of a salary sacrifice arrangement in the final three years before retirement will mean you are liable for any increased pension costs that may be charged by the NHS Pension Scheme.



Lifetime and annual allowance

If you are a higher earner (typically over £100,000 per annum), you may have concerns regarding the lifetime and/or annual allowance limit. Unlike the pension rate, the income tax rate applies to the salary at each band.

Tax band (excluding personal allowances)

Taxable Income	Tax Rate 2021-22
Up to £37,700	20%
£37,701 to £150,000	40%
Over £150,000	45%

Note: In all cases, we recommend you seek independent pension advice before entering into any salary sacrifice agreement that could have an impact.

A chalkboard with a lightbulb drawn in the center. The lightbulb has a spiral filament and is surrounded by several question marks and radiating lines, suggesting a state of confusion or a need for a solution.

Is there anything else I need to consider?

Before joining the scheme, it is important to think carefully about whether the following additional areas apply to you and if so, to seek advice if required:

Unpaid leave – if you are taking an extended period of unpaid leave, you should make sure you will still be able to fulfil the monthly car payments.

Leaving – consider whether you might resign from your post during the period of the lease. If so, you may be liable for early termination costs.

Working Tax Credits – we suggest you seek specialist advice if you receive Working Tax Credits.

Maternity pay – if you opt for salary sacrifice, taking part in the scheme could reduce your occupational maternity pay as this will be calculated on a lower salary. If you fall pregnant during the lease term, please contact us as soon as possible.

On call work – if you make regular home to base mileage claims, HMRC classes this as 'personal' not 'business' mileage and applies a fixed fuel tax. This may exceed your mileage claim.



Free vehicle disposal service

If you are leasing a car for the first time, you may have an old vehicle you need to dispose of.

Our scheme offers a free service to help you avoid the time and hassle of selling your car privately.

The vehicle disposal service is open to all drivers and colleagues and will offer to purchase any type of vehicle, including commercial.

If you're ordering a new car under our scheme, your old car can be collected on the day your new one arrives for a seamless swap, and you will receive payment the same day.

For further information and to find out the value of your car, simply email **vehicledisposals@kafleet.com**.



Where can I get more information or help?

If you have any questions, simply contact our scheme provider Knowles Fleet at:



01206 255420



info@knowlesfleet.com

To join our scheme visit
www.knowlesfleet.com/hdhb