



THE SUNDAY TIMES

MONEY

The tax breaks that are making electric cars cheaper than petrol

If you pay through your job you can get at least 30% off a greener model, says *Nicholas Hellen*

With surprisingly little fanfare the Tesla Model 3 became the UK's bestselling car last month. Regardless of how long it can hold on to its perch ahead of the closest challengers – the Volkswagen Golf, Ford Puma and Vauxhall Corsa – it was a significant breakthrough in the country's transition from petrol and diesel to greener motoring. The rise of the Tesla is surprising not least because of its price tag, from £41,000 to £60,000 – twice the price of the country's other most popular vehicles.

The electric car boom is being spurred on by generous tax breaks through salary sacrifice schemes, which give employees savings of 42 per cent if they are higher-rate taxpayers and 32 per cent if they pay the basic rate. If you earn more than £150,000 the saving is a huge 47 per cent.

The breaks mean that an electric car is significantly cheaper than a petrol car. They apply to vehicles leased for two, three or four years.

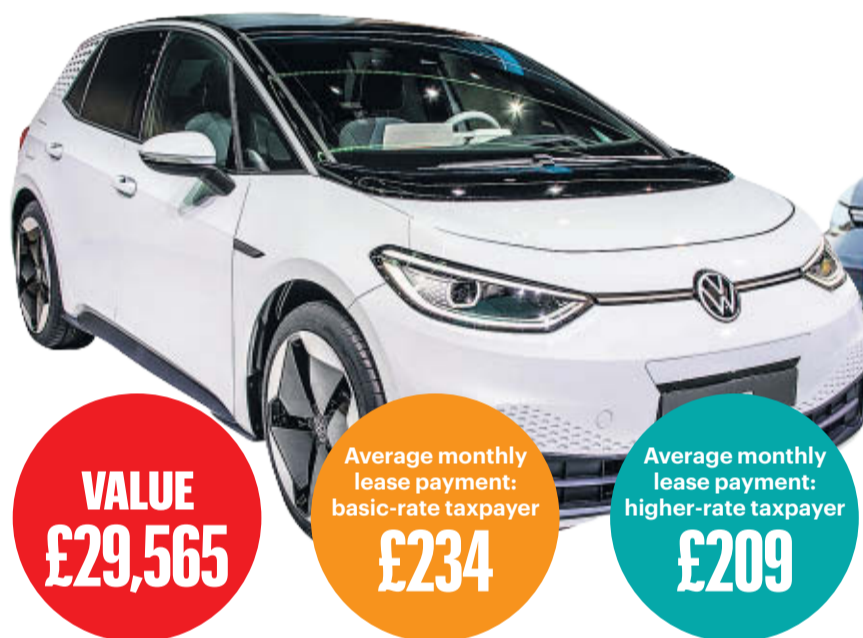
Under the schemes, an employee makes a monthly payment using their gross salary, before income tax and national insurance are deducted. The concept will be familiar to millions who have used salary sacrifice to pay for child-care vouchers, additional pension contributions and bikes to cycle to work.

Until recently it made little sense to lease a car that way because it counts as a taxable benefit, meaning that the taxman levies a separate benefit in kind (BIK) tax that wipes out any gains. In April last year the government cut the tax on the value of the benefit in kind for pure electric cars to zero, rising to 1 per cent in this tax year and 2 per cent for the tax years 2022-24.

Since the tax break was introduced it has been used for salary sacrifice or conventional company car purchases to cut the price of more than half the 121,720 pure electric vehicles registered in a year, according to the British Vehicle Rental and Leasing Association (BVRLA).

The incentive has helped to nudge tens of thousands of drivers to zero-emissions motoring and means that

ELECTRIC: VW ID3



VALUE
£29,565

Average monthly
lease payment:
basic-rate taxpayer
£234

Average monthly
lease payment:
higher-rate taxpayer
£209

most new electric vehicles (EVs) are cheaper than petrol and diesel cars. It's an important shift – petrol and diesel cars will no longer be sold after 2030.

Are electric cars fully tax deductible?

You work out the BIK value of a car by multiplying this tax rate by the car's P11D value. This is a familiar calculation for anyone used to dealing with company car tax. Your P11D is a form from HM Revenue & Customs listing your taxable benefits. The value it gives a car comprises its price including optional extras, VAT and delivery charges, minus the first year registration fee and annual vehicle excise duty.

A car emitting 100g/km CO₂ is charged at 24 per cent, rising to a maximum of 37 per cent for vehicles with the very highest emissions, which wipes out any saving. The same BIK rates apply to conventional company cars, which again means that pure EVs are available at reduced rates.

The success of salary sacrifice in helping us to make the transition to electric seems to have caught the government unawares. This month Rachel Maclean, a transport minister, came under pressure at the transport select committee for the government's decision to cut the taxpayer-funded "plug-in grant" for new electric cars from £3,000 to £2,500 in March, and for withdrawing it from cars, such as the Tesla Model 3, that cost more than £35,000.

She predicted that it would take until 2025 for the "total cost of ownership", lessened by cheaper running costs, of electric cars to even out with petrol and diesel.

For you to use the tax break your company has to offer a salary sacrifice scheme. If it doesn't, you could ask for one to be set up. Other than administration costs there is no additional cost to them.

Fiona Howarth, the chief executive of Octopus Electric Vehicles, says that the value of salary sacrifice is so great that EVs with a list price of more than £35,000, ineligible for the plug-in grant, are still significantly cheaper than their petrol or diesel equivalents. Octopus provides cars to 200 employers. Almost half of the lease agreements have been for Tesla Model 3s, for which there is no direct petrol or diesel equivalent.

Another of Octopus's more popular vehicles, the Audi e-tron is valued by the taxman at £61,220, about £18,000 more than its diesel equivalent, the Audi Q5. Yet on a four-year lease with Octopus it is £45 a month cheaper for a basic-rate taxpayer, £99 a month cheaper for a higher-rate taxpayer and £131 cheaper if you pay income tax at 45 per cent on earnings of more than £150,000.

The electric VW ID.3 City Performance is valued for tax purposes at £29,565, compared with £23,875 for a petrol-fuelled Golf TSI Life Sdr, but monthly costs for a basic-rate taxpayer are £233.96, compared with £259.53 for the fuel car. That's a saving of £1,227 over four years. For a higher-rate taxpayer it is £2,404. A person's tax rate doesn't affect what they pay each month for a petrol car.

An electric Peugeot e-2008 is £1,322 cheaper over four years than a petrol Peugeot 2008 for a basic-rate taxpayer and £2,632 cheaper for a higher-rate taxpayer. The savings for a Citroen e-C4

PETROL: VW GOLF TSI LIFE



VALUE
£23,875

Average monthly
lease payment:
basic-rate taxpayer
£260

Average monthly
lease payment:
higher-rate taxpayer
£260

compared with a petrol Citroen C4 are £1,266 and £2,743 respectively. Because Octopus offers only EVs it has compared prices with the best deals available on the comparison site leasing.com, based on a motorist driving 8,000 miles a year, with an annual salary of £30,000 or £80,000. The prices include maintenance and generous termination arrangements if the employee resigns or is made redundant.

Paul Gilshan, the chief executive of Tusker Direct, which claims to be the market leader in salary sacrifice, has 800 employers on its books and has provided 3,000 electric cars through salary sacrifice since the start of the year. He said that the scheme brought the cars within range of lower-paid workers: four fifths of Tusker Direct's customers are basic-rate taxpayers who earn less than £50,000.

It works out cheaper to lease an electric version of the Mini Hatch, which would normally cost £31,964, than the petrol version, which is worth £20,270. The monthly payment is £40 lower for higher-rate taxpayers and £11 cheaper for basic-rate taxpayers. The electric version of a Volvo XC40 is valued at £56,634, which is £25,000 more than the fuel version, yet it costs £45 less each month for a basic-rate taxpayer and £192 less for a higher-rate taxpayer.

Gilshan would not reveal the actual monthly rates paid for commercial reasons, but said that the fixed monthly cost includes servicing, breakdown cover, MoT, road tax, insurance and replacement tyres. The vehicles are returned after the two, three and four-year leases.

Gerry Keaney, chief executive of the

BVRLA, described the tax break for zero-emissions cars as a "game-changer" and said that salary sacrifice schemes are "democratising access to electric vehicles". He said many would not otherwise be able to afford a new electric car.

For Edmund King, president of motoring association the AA, it is not good enough to shower tax breaks on drivers who are fortunate enough to work for employers who have set up salary sacrifice schemes. He suggested that Britain should follow Norway, which cut VAT on new electric cars a decade ago and has Europe's highest share of pure electric vehicles.

"If we are serious about accelerating the uptake of electric cars for all, the fastest and fairest way would be to cut VAT from all new and leased electric cars – capped at, say, a £35,000 purchase price. To make this more equitable, a means-tested scrappage scheme could be introduced for those in lower income bands, to help them to get on the ladder for an EV lease or purchase."

Mike Hawes, chief executive of the Society of Motor Manufacturers and Traders, said that it was "a step too far" to suggest that the relative price of an electric car would no longer be a problem. He said leasing schemes "aren't necessarily accessible or appropriate for every driver", and the mass switchover to electric cars would require "long-term fiscal incentives for consumers and businesses, and much-needed investment in charging infrastructure – especially on-street public charging in residential areas".

@nicholashellen