



## **EARLY TERMINATION**

FREEDOM FROM FINANCIAL COMMITMENTS IF PERSONAL CIRCUMSTANCES CHANGE

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## **SALARY SACRIFICE - ELECTRIC VEHICLES & EARLY TERMINATION INSURANCE CASE STUDY**

# WHAT IS SALARY SACRIFICE?

An electric vehicle salary sacrifice scheme lets an employee pay for an electric car each month using their gross salary - that's before tax and other contributions are deducted. Its the same as other salary sacrifice schemes, such as childcare, cycle to work schemes or pension contributions.

## What is the benefit of electric car salary sacrifice?

There are some great advantages to the electric car salary sacrifice.

### Employees benefit from:

- Brand new electric cars which are otherwise expensive
- Income tax and national insurance contributions savings
- Substantially lower cost of car ownership
- Savings on fuel costs
- Fixed, tax-free payments
- Low Benefit in Kind rates compared to petrol/diesel cars
- Getting ready ahead of 2030 diesel and petrol ban

### Employers benefit from:

- Savings on Class 1A National insurance contributions (NIC)
- Enhancement to the benefits package offered to employees
- Improved employee recruitment and retention
- A way to support employees who want to go green
- Reduced business mileage reimbursement costs
- Support for corporate social responsibility goals

## Electric car BiK (Benefit in Kind) rates

Benefit in Kind for electric vehicles in the tax year 2020/21 was 0% for cars registered from 6 April 2020.

The Bik rate for the financial year 2021/22 has risen to 1%, and the current plan is for this to change to 2% in 2022/23.

On the other hand, petrol and diesel company cars will be taxed at car tax rates up to 37% depending upon the CO2 emission. The new Worldwide Harmonised Light Vehicle Test Procedure (WLTP) will be used to determine the tax rate for such internal combustion engine cars.





# RISKS TO THE EMPLOYER

Whilst there are many benefits to pursuing a salary sacrifice programme as highlighted, it is not without risk to the employer, who may, for example, face early termination charges in the event of:

- **Resignation** of an employee leaving the employer with the problem of early termination if the vehicle cannot be reallocated. **The employer might find themselves responsible for as much as 40-50% of outstanding rentals.**
- **Accident** or **Sickness** suffered by an employee impacting their ability to continue with the lease agreement.
- **Loss of Licence** if the employee has their driving licence revoked on medical grounds necessitating an early termination scenario.
- **Maternity/paternity leave.** The issue here is that by law, staff are not allowed to sacrifice so much salary that it takes them below the national minimum wage. The employer is still liable for payment, so if the employee is not getting paid enough to be able to sacrifice, the employer is liable to make up any shortfall or look at the option of early termination.
- **Expatriation** when the employee pursues an opportunity abroad leaving the employer with a potential early termination problem.
- **Death** of an employee triggering the need for early termination.

# THE SOLUTION

## EARLY TERMINATION INSURANCE (ETI) FROM JACKSON LEE

Please see below a list of items we would require in order to evaluate your enquiry.

### Underwriting Data

- Makes
- Models
- Cost
- Lease Term
- Finance Type (FL, OL, PCP etc.)
- Down Payment/Deposit
- Industry Sector(s) of your typical customers

### Specifically in relation to your preferred program design

- Any feedback on the credit underwriting process
- Projected volumes anticipated
- Proposed method of distribution
- Triggers for loss e.g. Accident, Sickness, \*Unemployment etc.  
*Redundancy/Unemployment Cover - Our position on redundancy/unemployment cover is currently on pause pending further review of the economic climate. Triggers for loss available include:*
- Accident
- Sickness
- Maternity/Paternity/Adoption
- Loss of licence (on medical grounds)
- \*Resignation
- Expatriation

### Underwriting Considerations

- We would need to think about how a resignation claim would be triggered on a corporate account (e.g. driver made redundant, but does another existing driver take over, or is it loss of distribution volume for the company?).
- We would want to confirm that this is mandatory, not voluntary attachment.
- We would consider the typical interest rate on the finance agreements.
- We would look at the basis of the early termination charge under the finance agreements e.g. is it 40% or 50% of the outstanding rentals?
- We would want to understand your motivation to consider ETI at the present.





# WHY CHOOSE JACKSON LEE?

Our team of experts is ready to analyse your Early Termination Insurance needs for electric vehicles through salary sacrifice and create a bespoke, cost-effective solution. Please contact us to discuss your insurance requirements in more detail.

## **Jackson Lee - The Specialists**

Providing exceptional service, support and quality in product design and reliability with our chosen partners.

### **Interested in talking to us?**

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