BMA

Guidance on NHS car leasing and salary sacrifice

Calculating the value of leasing a car can be complicated. If you are a 'high earner' – or will be a high earner in the future – in the NHS pension scheme, there may be a significant extra cost to consider.

Some of the quotes for electric cars, for example – with zero BIK (benefit in kind) tax – appear very favourable, but it is important to take your pension into account and work out a prediction of the 'real' cost.

This may vary if you:
1. Return the car before you retire. If this brings your salary back up (without salary sacrifice) to a level that takes your pension over the annual allowance threshold, there will be a charge to be paid from your post-tax income.
2. Continue leasing a similar car until you retire, to avoid paying the annual allowance charge. The continued salary sacrifice would mean less is paid into your pension, however, and you will receive less when you retire.

In some cases, of course, a lease can be financially advantageous – it depends on your circumstances, both now and when you return the car.

For consultants and SAS doctors in the 1995, 2008 or 2015 pension schemes, the BMA Goldstone pension modeller will estimate your annual allowance and lifetime allowance charges.

An example

Here is a quote from NHS Fleet Solutions, a typical example from a company offering salary sacrifice leasing.

Employee Name Dr Tony Goldstone
Employer Hull University Teaching Hospitals NHS Trust
Assignment No. [redacted]
Date 13/11/2020
Our REF. 00073[redacted]

fleet
my new car!
by the NHS for the NHS

ORDER FORM

Gross Salary: [redacted] | Contracted Hours: 40.0 | Tax Code: K12

Quotation	
Annual Gross Salary Sacrifice	£8,253.20
Monthly Gross Salary Sacrifice	£687.77
Savings on NI	(£13.76)
Savings on Tax	(£237.97)
Savings on Pension	(£92.85)
Total Savings per month	(£344.58)
Monthly Take Home Pay reduced by	£343.19
Monthly Car Tax Liability❖	£0.00
Total Estimated Monthly Cost	£343.20

Vehicle	
Make:	JAGUAR
Model:	I-PACE ESTATE
Fuel:	Electric
Colour:	Metallic - Santorini black
Range:	I-PACE
Derivative:	294kW EV400 S 90kWh 5dr Auto [11kW Charger]
Options:	Metallic - Santorini black~Luxtec synthetic leather - Ebony, Ebony/Ebony colourway, Light Oyster Morzine headlining + sport seats~Home Charging Unit (supplied by NHSFS) *Please ensure all options you have selected are checked against the manufacturer's website including the contents of Packs.*
Contract Mileage (per annum)	14000 (excess mileage charged at 12p per mile)
Special Offer:	1939

The two figures to note are:
– Annual gross salary sacrifice (this is what your pensionable salary goes down by)
– Total estimated monthly or 'net' cost.

This appears to be value for money – the electric Jag iPACE, a £65k car, for £343 per month with zero BIK tax in year 1, and very little thereafter.

However, if you are a high earner – or will be, when you stop leasing – there are pitfalls.

The gross salary sacrifice in this example is £8,253 –when you give the car back, your salary will go back up by £8,253. Assuming you have been in the 1995 pension scheme (you can find this out from your TRS or 'annual benefit statement') for 24 years, this would equate to 24/80th x £8,253 = £2,476 of pension 'growth'. (This is not real pension growth, but getting your 'old' salary back.)

The way pension 'growth' is calculated involves a factor of 19x (16x pension+lump). At 19x £2,476 this means £47,044 of pension 'growth' – which, if you're over your annual allowance, is potentially £21,170 of annual allowance tax at 45%.

Unlike salary sacrifice, that £21,170 bill is paid from post-tax income.

Alternatively, you could keep on leasing to avoid the annual allowance charge. If you are aged 47 in 2020, and plan to retire at 60, in this example the £8,253 salary reduction would cost you £1,582 from 2015 (after the 'actuarial reduction') and that £2,476 pension from 1995.

This would mean £4,058 less pension per year, assuming you draw from the pension from age 60 to 88 (the life expectancy given by actuaries). In total, £4,058 x 28 years = £121,049 less pension and lump sum.

In summary: if you choose to lease and return the car, that would be a potential annual allowance tax liability of £21,170 or if over 36 months, an additional £588 per month to your net cost.

Or if you choose instead to lease for 13 years until you retire, you would lose £121,049 of your pension and lump sum – adding £9,311 per year, or £776 per month, to your costs during the lease.

Calculating the real cost

This simple tool can show you an indicative alternative quote, using the above reasoning. This is only illustrative, but is intended to show that the 'net' cost on your quote may not be what it seems.

It covers the two options:
1. Pay an annual allowance charge (from your post-tax income)
2. Carry on leasing until retirement at 60, to avoid an annual allowance charge.

In our example, with option 1, instead of the quoted 'net' monthly rate of £343.20 you would consider the potential annual allowance charge of £21,170. Over 36 months, the actual net charge (including annual allowance) is £931.26.

With option 2, you would avoid the annual allowance charge by leasing until retirement, but give up £121,049 in pension benefits (£775.96 per month). That equates to £1,119.16 per month, including the loss of pension and lump sum.

This assumes a worst-case scenario where you have no available annual allowance to cover the pay rise caused by returning the car.

Making your decision

You can use the BMA Goldstone pension modeller for more details, or seek specialist advice.

Further questions to consider:
- The month you end the lease may be important; can you spread the 'pay rise' over two years, and time it with other pay changes or increments?
- Can you 'wean' onto a less expensive car to spread the 'pay rise'?
- Would another strategy entirely, such as a limited company, be a better option (discuss this with your financial adviser)?
- Is a private lease cheaper?

Remember that changes to your pensionable or non-pensionable pay, rates of inflation and income or pension tax rules will also have an impact, but these cannot be known, so no prediction will be 100% accurate.

More on pension tax and annual allowance

This example further demonstrates why the annual allowance does not work in defined benefit schemes – in this case, ending a lease means a £21k tax charge for no benefit in your pension – and the BMA continues to support members in understanding the tax implications of the annual allowance.

Read about the BMA's action on this issue >
Read our guide to annual allowance and your options >

British Medical Association, BMA House,
Tavistock Square, London WC1H 9JP
bma.org.uk

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