# ESG issues moving up the agenda for SMEs

Environmental, social and governance (ESG) considerations are increasingly becoming essential necessities for all sizes of business.

No longer viewed as a luxury, 'tick-box' exercise or merely the preserve of larger companies, implementing an ESG strategy is a business priority that all business leaders and employees need to be engaged in.

While regulations such as the UK climate-related financial disclosures (TCFDs) and the EU corporate sustainability reporting directive (CSRD) put the initial onus on the largest organisations to report their climate-related risks and opportunities, SMEs are also feeling the ESG heat.

Increasingly, public sector bodies are requiring businesses they work with to adhere to various ESG criteria, and this trend is firmly establishing itself in the private sector too.

Growing numbers of businesses are already asking the SMEs in their supply chains to provide assurances about their ESG practices, and ESG is also becoming a key focus when raising finance, through the likes of sustainability-linked loans.

With ever-increasing public scrutiny around the way businesses operate there is a growing focus on the 'S' as well as the 'E' in ESG. Popular areas of interest fall on diversity, equity and inclusion in workforces.

Clearly, SMEs can gain a real competitive advantage where they can demonstrate strong ESG credentials.

Businesses that are seen as values-led, with caring leaders, will have an advantage in attracting and retaining employees who share those values and are likely to be more engaged in ensuring the business is successful.

Tackling ESG challenges will be different for every SME but considering the impact and actions of your business across each of the three pillars of ESG is vital in establishing effective policies and practices.

In terms of environmental factors, this may, of course, involve looking at ways your business can cut waste, reduce water and energy consumption and reduce CO2 emissions. (See some tips on opposite page.)

Social considerations, aside from encouraging greater equality, diversity and inclusion in your own workforce, may mean engaging more with your supply chain over their working practices.

And even relatively small businesses also need to take steps to embed effective governance from the top down, to deliver on their ESG commitments and measure their effectiveness.

***Many of the points above were discussed at a recent AGN conference. Shipleys is a founding member of AGN International, a global association of separate and independent accounting and advisory businesses.***

# *Weighing up the pros and cons of electric company cars*

With the 2030 ban on new petrol and diesel cars a key part of the UK's plan to achieve its net zero carbon goal, businesses are considering the ramifications of offering employee salary sacrifice schemes involving electric vehicles (EVs).

**Emissions-based tax charge**

Salary sacrifice in return for a company car has long been popular but, unlike other so-called benefits-in-kind, the income tax charge for cars with emissions of less than 75g/km isn't based on the salary given up. Instead, it's based on a set percentage, defined by HMRC, of the list price for the car.

For a fully electric car the rate is 2% until 2024/25, rising one percentage point a year thereafter until at least 2027/28 when it will be 5%. For a hybrid car, the percentage is based on a combination of the CO2 emissions and electric range of the car.

The employer benefits from national insurance contributions (NICs) savings in that they don't pay class 1 NICs on the foregone salary. Instead, they pay class 1A NICs on the lower benefit-in-kind amount.

**VAT on charging**

Another tax benefit of EVs (whether it's a company vehicle or not) is that VAT incurred by companies for charging vehicles can be recovered for business use – if the car is charged at work or at public charging premises.

However, HMRC guidance on employees charging an EV at home is that the employer is not entitled to recover any VAT on the cost of charging for business use. More details at: *https://tinyurl.com/32h3t3fx*

**Insurance concerns**

While the June 2023 sales of battery-powered EVs in the UK rose 39.4% compared to last year, a government-funded report has warned of increased insurance costs. This is because battery vehicles are more expensive to repair, take longer to fix and are more commonly written off because of damage to their batteries.