

# Cycle to work scheme

There are some benefits in kind that employers provide to employees that are exempt from both income tax and national insurance contributions. These include the loan of cycles and cycle safety equipment.

## Who can take part in the scheme?

Employers of all sizes, whether public or private can take part in providing loans of cycles and cycle equipment to their employees. If the employer is a sole trader or a partnership, however, the sole trader or partners themselves cannot benefit from such loans.

## What equipment can be included?

A cycle is defined as a bicycle, a tricycle or a cycle having four or more wheels, not being in any case a motor vehicle. Electrically assisted pedal cycles can be included under the scheme.

Cyclists' safety equipment, although not specifically defined in HMRC's rules includes cycle helmets, bells and horns, lights and dynamo packs, mirrors and mudguards, panniers and luggage carriers, cycle clips, child safety seats, locks and chains, pumps, puncture repair kits and tyre sealant, reflective clothing and front and spoke reflectors.

There is no upper limit on the value of the equipment that can be included in the scheme.

## What conditions apply?

To be eligible for the tax exemption the conditions to be met are that:

- Ownership of the equipment is not transferred to the employee during the loan period
- Employees use the equipment mainly for qualifying journeys – that is for journeys from the employee's home to workplace, or part of that journey, for example to the railway station, or for journeys from one workplace to another

- The offer of the loan of cycle and safety equipment must be made across the workforce with no groups excluded.

## What happens at the end of the loan period?

The scheme rules can require the employee to either:

- Give the loaned equipment back to the employer or
- Buy it from the employer at the fair market value or
- Continue to hire the equipment from the employer.

For the situation where the employee buys the equipment from the employer the price paid should be determined using HMRC's simplified approach set out in the following table:

| Age of cycle   | Acceptable disposal value %                | Acceptable disposal value % |
|----------------|--|-----------------------------|
|                | Original price of the cycle less than £500 | Original price £500+        |
| 1 year         | 18%  | 25%                         |
| 18 months      | 16%  | 21%                         |
| 2 years        | 13%  | 17%                         |
| 3 years        | 8%   | 12%                         |
| 4 years        | 3%   | 7%                          |
| 5 years        | Negligible                                 | 2%                          |
| 6 years & over | Negligible                                 | Negligible                  |

## How does the scheme typically work?

The employee enters a salary sacrifice scheme with the employer so that in exchange for an amount of benefit in kind their salary is reduced by the same amount.

## What is the advantage for the employee?

Where there is a salary sacrifice arrangement the employee will be paying for their benefit from their gross pay and so would be saving the tax and national insurance that would otherwise be deducted from that pay. The total discount that the individual receives through this scheme will depend on their tax band and national insurance position.

For the higher rate taxpayer this would typically be 40% tax and 2% national insurance, a total discount of 42%.

Example:

|                                      |             |        |
|--------------------------------------|-------------|--------|
| Cycle cost including VAT             | (A)         | £1,000 |
| Gross pay 'sacrificed' including VAT |             | £1,000 |
| Tax on sacrificed pay at 40%         |             | £(400) |
| National insurance at 2%             |             | £(20)  |
| Net pay foregone                     | (B)         | £580   |
| Total discount received              | 1 - (B)/(A) | 42%    |

From 6 April 2017, rules were introduced which mitigate the tax difference between those who sacrifice part of their salary in exchange for non-cash benefits. This means that the NIC and tax advantages for most benefits paid for via salary sacrifice are now lost. However, these rules do not effect certain benefits including the cycle

to work scheme so the NIC and tax benefits (as noted above and below) remain unchanged.

#### What is the advantage for the employer?

From a tax and national insurance perspective the benefit is a saving of 13.8% of the gross pay foregone, in the example above the employers' NIC saved is £138.

#### What sort of hire agreement is needed?

To qualify for the tax exempt status of the benefit the loan of the equipment to the employee must be in the form of a hire agreement and not of a hire purchase agreement.

Therefore the hire agreement may not contain an option for the employee to buy the equipment at the end of the hire period. However, at the end of the hire period, the employer may choose to give the employee the option to purchase the equipment under a separate agreement.

#### What are the other non-tax issues that need to be considered?

##### 1) National minimum wage (NMW)

A salary sacrifice scheme cannot be used if, in so doing, the employee's gross pay drops below the NMW.

##### 2) Consumer credit licence

Any employer entering into the scheme will need the cover of a consumer credit licence. In order to facilitate the scheme the OFT has issued a group consumer credit licence designed to cover employers setting up cycle to work schemes so that employers need not apply individually for credit licences for this purpose.

##### 3) Insurance

The cycle and safety equipment will need to be covered either on the employee's or the employer's insurance policy and the insurance company will need to be informed of the details.

#### In conclusion:

If you are considering setting up such a scheme and would like further information then please do not hesitate to contact one of our experts.

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