



CYCLE TO WORK SCHEME

Factsheet
2018

What is it the Cycle to Work Scheme

The Cycle to Work scheme lets employees spend up to £1000 on a bike and equipment – paying it off over the next year in monthly instalments – the 'hire period'.

To promote healthier journeys to work, reduce pollution and congestion, the 1999 Finance Act introduced an annual tax exemption, which allows employers to loan cycles and cyclists' safety equipment to employees as a tax-free benefit. This fact sheet tells you how organisations can take advantage of the exemption to implement a Cycle to Work scheme that encourages employees to cycle to work and allows employers to reap the benefits of a healthier workforce.

Who is eligible?

Employers of all sizes across the public, private and voluntary sectors can implement a tax exempt loan scheme for their employees. To maximize the benefit of implementation, it is desirable that participation in a scheme should be as broad as possible. To qualify for the tax exemption, the cycles and cyclists' safety equipment loaned by the employer under the scheme must be available to employees generally with no groups of employees excluded.

Setting up a Cycle to Work Scheme

Salary Sacrifice A salary sacrifice is where the employee agrees to accept a lower amount of salary in return for the employer's agreement to loan them a cycle or cyclists' safety equipment. The employee can receive the benefit in kind free of tax instead of salary on which tax and Class 1 NICs would also have been fully payable.

Employer Savings Where costs of loaning equipment to the employee are offset through a salary sacrifice arrangement, the employer will save Secondary Class 1 NICs (at up to 12.8%) on that part of the employee's gross salary sacrificed. For example; if an employer was to loan a cycle worth £500 over eighteen months, the employee would sacrifice in total £500 of gross salary generating Employer's NIC savings of £64 per employee.

Setting up an Agreement

To be eligible for the tax exemption available for loaned cycles and cyclists' safety equipment and to comply with the CCA, the agreement must be a hire agreement and NOT a hire purchase agreement. Guidance on the form and content of the consumer hire agreement are available on the OFT's website http://www.of.gov.uk/advice_and_resources/resource_base/legal/cca/agreements/

How does my organisation sign up?

1. Your organisation must partner with one of the Cycle to Work providers to make this benefit available – the 2 largest are Cycle Scheme <https://www.cyclescheme.co.uk/> and Evan's Cycles' Ride to Work scheme <https://bit.ly/2Hav1wo>
2. Once your organisation has done this you can then promote this to your staff and they choose a bike and accessories.
3. Your organisation then buys the cycle and accessories (or leases it through a finance provider); the employee then hires it all from the organisation for a fixed period of time – the stipulation is at least 18 months.
4. After the hire period, the employee then has the option to take ownership of the bike at the fair market value (one extra payment).



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How much can employees save?

Looking at one individual example, if you're a standard rate tax payer, and you take out £1000 worth of equipment, your monthly salary sacrifice (payment) will be £83.33. Your savings vary depending upon your tax bracket.

Monthly salary sacrifice	£83.33
Savings per month	£26.66
Savings per year	£320
Total payment towards £1,000 bike	£680

Any restrictions?

- The bike must be used mainly for journeys between home and work.
- Nearly all employers will limit the scheme to bikes under £1000. A separate Consumer Credit Licence is required to run a scheme over £1000.
- Some employers, mostly public sector, can't reclaim the VAT they pay. In that case, salary sacrifice will have to cover the full price of the bike, but the employee can still get the income tax and NI savings.
- The scheme is only available for those over 18-years-old, and you can't make use of it if doing so would make your gross pay drop below the minimum wage.

Noteworthy

- If an employee leaves their job for any reason, they'll have to pay off the remaining hire payments. They lose the tax exemption, so the remaining payments will be made from their net pay, after they've paid income tax and NI.
- The bike belongs to the employer; so the employee will not be able to sell it until it has been paid for in full. However, the employee should insure it themselves – the employee will still have to make the payments if it's damaged or stolen.
- The reduction in salary might affect an employee's eligibility for benefits such as incapacity benefit, maternity or sick pay, and the state pension. This is most likely to be an issue if the salary sacrifice brings pay below £87 per week (the National Insurance Lower Earnings Limit).

What does your organisation need to do?

1. Managing the Scheme

The employer is responsible for managing the scheme in order to ensure that all Cycle to Work criteria are met in order to achieve the PAYE and NIC savings available.

The employer needs to be involved in setting up the scheme, ensuring payroll deductions are made during the period of the scheme and then transferring the bike and safety accessories to the employee once they have been paid for.

2. Scheme Providers Support

The scheme providers will help to set up the scheme; many have pro-forma legal documents which the employer can use to enter into an agreement with an employee to recover the cost of purchasing the bike and safety accessories through a salary sacrifice arrangement. These agreements will also make



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the necessary amendments to staff contracts to deal the salary sacrifice arrangements. They also give employers the option to pay for the bike and cycle accessories online using a company credit card or to pay by cheque.

3. Ongoing Administration

The only on-going administrative requirement is to ensure salary sacrifice deductions are made from the employee's salary. This deduction is a fixed amount for a fixed period. Accordingly the ongoing administration requirement is minimal.

At the end of the salary sacrifice arrangement, once the bike and cycle accessories have been paid for, the employer will need to raise a VAT invoice to the employee for the fair market value of the bike and accessories in order to transfer legal ownership. Market value = one extra payment.

Helpful Links

<https://www.gov.uk/government/publications/cycle-to-work-scheme-implementation-guidance>

<https://www.cyclescheme.co.uk/>