

Cycle to work scheme

(Lecture B1207 – 13.12 minutes)

Lockdown has released the cyclist. And with the government earmarking funds for projects such as pop-up bike lanes, segregated cycle tracks and pavement widening, now that the cycle-genie is out of the bottle, he probably isn't going back in again. This, coupled with plans to increase Congestion Charges and hike-up tube and bus fares, will mean that in London (and in other towns and cities), cycling to work will for many become a much more viable option.

So, the decision is made. I am going to start cycling to work. The next thing I need is a bike.

I have two choices:

1. I buy one from my after-tax salary; or
2. I use the government's "Cycle to Work" scheme and get tax relief on the cost.

The "Cycle to Work" Scheme

On the back of our new-found bike mania, the government has been promoting its "Cycle to Work" Scheme. This by no means new - it was introduced in 1999 to "promote healthier journeys to work and reduce environmental pollution". But now seems the ideal time to remind everyone that it is still around.

The Cycle to Work scheme is a government initiative that encourages employees, by means of a tax incentive, to commute to and from their workplace by bicycle. According to 2019 figures, the scheme has been used by 40,000 UK employers, and around 1.6 million employees.

The scheme is designed to help employees save money on the costs of a new bike for commuting use and spreads employee payments for the bike over monthly tax-free instalments via payroll.

The scheme is very simple and essentially works as follows:

- The employer registers with a scheme provider (of which there are many on the market). Registration is usually free. The scheme provider will then run the scheme on behalf of the employer;
- The employee chooses the bike (and related equipment) that he wants. Scheme providers have their own network of cycle-providers an employee can use to source a bike;
- The employer pays for the bike and subsequently makes that bike available for the employee to use (effectively via a bike-hire arrangement);
- The employee pays the employer back for the costs of the bike via monthly payroll deduction under a "salary sacrifice" arrangement.

It's the "salary sacrifice" element which offers the tax saving.

Salary sacrifice

Salary sacrifice enables an employee to exchange part of their salary in return for a non-cash benefit. The employee is then taxed on the lower salary, thereby saving tax and (both kinds of) Class 1 NIC on the amount sacrificed. [Salary sacrifice schemes used to be widely used to save NIC on benefits, but their usage was curtailed in 2017. They are now mainly used as a means of making pension contributions.]

There is no reciprocal benefit charge for the employee's use of an employer's asset in this case because S.244 ITEPA 2003 provides an income tax exemption for cycles and cycling equipment provided to employees for qualifying journeys (essentially meaning home to work). So income tax and NIC is being saved via payroll without there being a corresponding charge for the resulting benefit provided by the employer. It's a win-win.

The "hire period"

Once the bike is selected and acquired, the employee will enter a contract to "hire" the bike for an agreed hire period.

The hire period dictates the monthly payroll deductions. Most scheme providers offer 12-month hire periods (as this fits with the HMRC guidelines on salary sacrifice which say that salary sacrifice periods must be for a minimum of 12 months). Some scheme providers offer longer hire periods.

Monthly payments for the new bike (typically 1/12th of the bike costs) are taken from the employee's gross salary. The monthly payments should appear on the payslip as a deduction from earnings (typically alongside occupational pension contributions) before tax and NIC is computed. Tax and NIC is thereby saved at source. This means that at the end of the scheme, a basic rate tax-paying employee would have saved 32% on the cost of the bike, increasing to 42% for higher rate taxpayers and 47% for additional rate taxpayers. This is in addition to the cash-flow benefit of spreading the cost over monthly instalments. Employers save 13.8% secondary NICs on the cost of the bike (and 0.5% Apprenticeship Levy where appropriate as this is based on gross payroll).

What happens at the end of the scheme period?

Because the scheme is set up to promote work journeys rather than cycling in general, the employer remains the owner of the bike once the hire period is over.

Clearly the intention of the scheme is to allow an employee to buy a bike and receive tax & NIC relief on the costs of so doing. However there must be no option (either within the initial hire agreement or alongside it) for the employee to purchase the bike or equipment at the end of the hire agreement. If there is, this is likely to make this a hire-purchase agreement (rather than a hire agreement) in which case different regulatory requirements apply and the arrangement would no longer be eligible for tax exemption under S.244. Therefore, scheme rules should not refer to ownership as an option, and any decision to sell the cycle or equipment to the employee at the end of the hire period should be entirely discretionary at the time. If a scheme provider is used, they will ensure that the paperwork is correct.

Assuming all these particular “i’s” have been dotted, at the end of the hire period, the employee has a number of options:

- Return the bike. The bike (and related equipment) is given back to the employer and the employee makes his way home by public transport. That’s it. No more payroll deductions. The employer will normally then sell the bike to the scheme provider. The employee may, of course, start the scheme again with a different bike. This is the least popular option because it means that the employee will have paid for the bike but he does not get a bike at the end of it. Which makes no sense.
- Buy the bike. The employee will purchase the bike (and associated equipment) from his employer for its HMRC-approved “Fair Market Value” (FMV). This ensures that no taxable benefit arises on the transfer of the bike.

HMRC’s guideline figures re end of scheme valuations are as follows:

Age of cycle	FMV calculated as a percentage of original price (incl. VAT)	
	Original price up to £500	Original price over £500
12 months	18%	25%
18 months	16%	21%
2 years	13%	17%
3 years	8%	12%
4 years	3%	7%
5 years	Negligible	2%
6 years and over	Negligible	Negligible

If the employee is allowed to buy the bike for less than its FMV (or if the employer agrees to simply give the bike to the employee at the end of the hire period), a taxable benefit arises equal to the difference between the FMV and the amount paid. This benefit will be reported on form P11D and will be subject to Class 1A employer only NICs.

A potential 18% or 25% end-of-scheme charge to facilitate the legal transfer of the bike to the employee is somewhat unpalatable and erodes the tax savings the employee has obtained via the salary sacrifice arrangement. Which brings us to Option 3...

Buy later. Most third-party scheme providers offer an option under which the hire period is extended in return for the employee paying a small deposit to re-hire the bike for (say) three more years. This deposit is typically 3% or 7% of the original bike value. After that extended hire period, the bike is transferred to the employee for free (reflecting the fact that the residual value of the bike per HMRC guidelines is covered by the deposit paid by the employee). No taxable benefit arises. This avoids the end-of-scheme charge in option 2).

Qualifying conditions for the scheme

All company employees qualify for the scheme, providing that they are over 16 years of age and are UK taxpayers within the PAYE system. Due to Consumer Credit legislation, employees under the age of 18 need a guarantor to be able to participate. Earnings must remain above the level of the national minimum wage after the salary sacrifice. Self-employed individuals are not permitted to participate.

There used to be a £1,000 cost limit for cycles, but this ceiling was lifted in 2019, partly due to the rising prices of bikes but also to accommodate the increased use of electric bikes which are more expensive. As this arrangement is likely to be a regulated consumer hire agreement under the Consumer Credit Act 1974, Financial Conduct Authority (FCA) authorisation may need to be obtained for cycles costing more than £1,000. Scheme providers will help with this.

Although bikes with electric assistance are permitted under the scheme, micro-scooters and motorbikes are not.

Employees can have more than one bike under the scheme. In addition, the scheme also includes the cost of associated safety equipment such as:

- Cycle helmets;
- Security locks and chains;
- Cycle tool kits and puncture repair kits;
- Lights, pumps, bells, bulb horns, mirrors and mudguards;
- Reflective clothing;
- Luggage carriers and child safety seats.

Does the employee have to actually use the bike to commute to work...? The simple answer is yes, but not necessarily every day. The employee should use the bike “mainly” for commuting to and (if relevant) between workplaces.

This means that at least 50% of the bike use should be for work purposes. For example, if an employee uses the bike 100 times in a tax year, at least 50 of those journeys must be work-related. A journey is work-related if at least part of it is commuting or travel between workplaces. For example, if an employee cycles to the station, gets the train to the town / city where his workplace is then cycles at the other end, this is a work-related journey.

The bike and accessories can also be used for non-work purposes without this triggering any taxable benefit.

There is no need for the employee to log his journeys (but it is part of the employee’s agreement with his employer that the bike will be used mainly for commuting).

Other points worth noting...

An employee cannot claim business mileage when commuting to and from work on an employer-owned bicycle. Mileage allowances (at 20p per mile) can only be claimed where the employee uses his own bike to make business journeys (of which commuting doesn't count).

Hire Agreements tend to be non-cancellable, so if the employment ends before the end of the hire agreement term, the remaining balance owed to the employer is deducted from the employee's final net pay.

If an employer purchases cycles and safety equipment to hire out to your employees, this will be capital expenditure on which capital allowances can be claimed. For many businesses, this expenditure will qualify for the Annual Investment Allowance giving a 100% write-off in the period in which the expense is incurred. Any sums received for the sale of the cycle or equipment must then be brought in as disposal proceeds in the main capital allowances pool.

Contributed by Steve Sanders