PAYROLL BRIEFING

JANUARY 2022

SALARY SACRIFICE - BICYCLES AND CYCLING SAFETY EQUIPMENT

With reference to the initial briefing on Salary Sacrifice, which can be found here, this briefing gives some specific guidance on bicycles and cycling safety equipment.

Definition of Bicycle and Cycling Safety Equipment

In order to meet the criteria and be eligible for the Cycle to work scheme, all types of bicycles, including "electrically assisted pedal cycles" are included. The items relating to cycling safety equipment is not defined and needs to have a common sense approach and hence would include helmets, bells, lights, reflective clothing etc. but would not include tagalongs, buggies, wet weather clothing, cycle computer, etc.

Who is eligible to participate

The scheme can be set up by any employer and must be generally available to all employees and not confined to, say, directors or offered to them on more favourable terms. This does not mean that every employee has to be provided with a bicycle or equipment but that the offer is open to employees if they wish to take it up.

There are circumstances in which certain employees might be excluded from the offer of availability of cycles without the exemption being affected. Examples are as follows;

- Casual or temporary employees – as a general rule, this covers employees where the period of employment is less than three weeks
- Some zero hours contracted individuals

For some employees, they may not be able to take up the scheme under a salary sacrifice arrangement, as the reduction in their salary may take them below the National Minimum Wage. However, to ensure the scheme remains compliant with HMRC rules, the employer must extend the availability of loaned bicycles to those employees barred from entering the salary sacrifice scheme. Exclusion of employees who are in their probationary period or temporary workers who are employed for more than three weeks would prevent the exemptions being acceptable.

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Use of bicycle to take advantage of tax exemption

To qualify for tax free status, the cycle and related equipment must be used on qualifying journeys, defined as being used mainly to travel from home to work (in either direction) or between two or more workplaces, with the journey in this latter situation being in connection with the duties of employment. Whilst it is difficult to evidence the use of a bicycle, HMRC inspectors have been told to accept the position, unless there is clear evidence to suggest that less than half the use of the bicycle or equipment is on such qualifying journeys.

There was an easement of this condition during the pandemic, where employees were required to work from home and this remains in place until 6 April 2022 assuming the bicycle was within the Cycle to work scheme on 20 December 2020.

How the scheme works

Generally employers will offer the benefit of the Cycle to Work scheme, in conjunction with a salary sacrifice scheme. To take advantage of the tax free status of such a benefit, the ownership of the equipment is not transferred to the employee during the loan period. Such an agreement typically lasts between 12 and 18 months, although it can be shorter or can be up to 60 months or longer.

Typically the employer would register with a cycle provider whereupon the cycle provider will provide the necessary information to the employer for employees to proceed with the scheme. The employer would pay for the bike, but under the arrangement the bike generally remains the property of the cycle provider. The cycle provider would issue the necessary salary sacrifice documentation for signing by the employee. This approach overcomes an initial problem identified with the scheme relating to the potential credit broking that employers were undertaking, which for any loans over £1,000, necessitates authorisation from the Financial Conduct Authority (FCA). The use of a third party provider has the benefit that they will ensure the scheme is fully compliant for HMRC purposes and administer the scheme for the employer.

To obtain the cycle, the employee liaises with the cycle provider, provides the code supplied to the employer confirming their participation in the scheme, enters into a consumer hire agreement, (subject to their employer rules, such as the maximum amount of the finance, the repayment period etc.) and the employer pays for the hire of the equipment which is financed by the employee's salary sacrifice. The employee liaises with the provider which removes much of the administrative burden from the employer.

It should be noted that the employee can not make a contribution towards the cost of the goods being hired.

Ownership of Bicycle and transfer to employee

At the end of the hire period, the employee has three options;

- Extend the hire agreement
- Return the cycle and equipment
- Buy the cycle and equipment under a separate agreement entered into at the time

It is essential that there is no option, express or implied, as part of, or alongside the initial hire agreement, for the employee to purchase the cycle or equipment at the end of the hire agreement. If there is, this is likely to make it a hire purchase agreement, which falls foul of the tax exemption.

Determining the Value of the cycle if purchased at the end of the agreement

If the employees decides to purchase the bicycle at the end of the loan period, HMRC have issued a table to assist employers in determining an acceptable value of the second hand cycle as follows;

Age of cycle	Acceptable disposal value as a percentage of original price (including VAT) Original price of the cycle less than £500	Acceptable disposal value as a percentage of original price (including VAT) 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

VAT

Under a salary sacrifice cycle to work scheme, there are two approaches to VAT, assuming that the employer is registered for VAT and is not subject to partial exemption rules.

- the input tax can be claimed at the outset and then each loan repayment by the employee is subject to output tax; or
- VAT is ignored.

Whichever approach is adopted, the VAT position is neutral for the employer and for the employee the loan amount being repaid is VAT inclusive, and, if the employee decides to purchase the bike, the price will be inclusive of VAT, as shown in the above table.

Mileage payments

Employers are able to reimburse employees for any business miles travelled on their cycle for work journeys (as always excluding home to work), tax free, at the rate of 20p per mile up to 2,000 miles per annum.

Capital allowances

If the employer purchases the bicycle, including any associated equipment which is treated as capital expenditure, and hence is the owner, capital allowances are available, a claim for the full cost of the bicycle can be claimed under the annual investment allowance in year one of its ownership. Where the AIA is not available, the cost of the cycles and equipment can be added to the main capital allowances pool. When the bicycle is sold, the sale proceeds must be brought into account as disposal proceeds in the main capital allowances pool. If the associated equipment has been deemed to be revenue expenditure, then it can be fully claimed as a business expense.

If the employer is leasing the equipment, these costs will be a deductible expense against profits.

In many cases, the employer actually buys a voucher from the cycle provider and hence is outside the scope of any capital allowances or deductions - the transaction is effectively a loan.

Other Considerations

It is important to ensure that the owner of the bicycle (or the employer if not taken out by the cycle provider) takes out insurance of the bicycle. In addition, there is a concern that should an employee have an accident whilst cycling on a work bicycle that there is a potential vicarious liability. The employer should ensure that such an eventuality is covered under the cycle provider's or their insurance. Government guidance also recommends that the employee takes out insurance, either separate or check that the cycle is covered under their contents insurance. The agreement signed by the employee will usually confirm that they are responsible for the appropriate care, maintenance and security of the equipment.

Conclusions

Since the Cycle to Work scheme was introduced, when there were certain hurdles making its implementation relatively onerous. The scheme has been streamlined and the cycle providers are nowadays able to take care of the majority of the paperwork. As a result, the uptake of the scheme has increased over the years and this has particularly been the case during Covid when employees are keen to avoid public transport where possible. As with various salary sacrifice schemes, there is a financial benefit to be gained by both the employer and employee, together with the associated health benefits of cycling and the added ability to attract and retain employees.

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