



## Enhanced cycle arrangements for employees

Aim: Take part in The London-Paris 2012 

	Costs	Using Cobias Tax Solution
Bike	<del>£3,000</del>	£1,326
Helmet	<del>£119.99</del>	£53.04
Pump	<del>£30.79</del>	£13.61
Gloves	<del>£43.99</del>	£19.44
Reflective Tops	<del>£183.74</del>	£81.21
Reflective Shorts	<del>£112.64</del>	£49.79
Shoes	<del>£215.99</del>	£95.47
Pedals	<del>£189.19</del>	£83.62
Cleats	<del>£17.59</del>	£7.77
Lights	<del>£63.99</del>	£28.28
Lock	<del>£21.99</del>	£9.72
<b>Total cost</b>	<del><b>£3,999.90</b></del>	<b>£1767.96</b>

 Cost per month  
(interest free) **£98.22**  
x 18 months

## Introduction


For a number of years many organisations have provided bicycles for employees to travel to and from work and these arrangements have become increasingly popular as more and more employees have taken up cycling as a way of improving fitness whilst also reducing carbon emissions.

The UK tax system has supported these initiatives by allowing employers to provide bicycles to Directors and employees free of tax — in other words with there being no “Benefit in Kind” tax charge levied on the employee for having use of a bicycle owned by the employer.

Unfortunately, understanding of this generous tax exemption has become increasingly muddled in recent years as employers, employees and indeed third party providers have confused the requirements of the tax legislation with Consumer Credit Licensing rules. As a result, most arrangements in place restrict employees to cheaper bicycles which do not provide the more serious cyclist with everything needed for travelling longer distances.

Cobia is a specialist Employment Tax business and in response to this challenge has designed arrangements which:

- Removes any upper ceiling costs offered by the majority of external schemes; whilst
- Still providing a benefit which is exempt from tax and National Insurance.



*Bike and equipment can cost  
much more than £1,000  
Still no tax to pay!*

# The tax exemption

As outlined in the introduction, in order for the bicycles to be exempt from any tax charge, certain conditions need to be met. These conditions are set out within Section 244 of the Income Tax (Earnings and Pensions) Act 2003.

## Section 244 ITEPA 2003

If an employer lends or hires cycles or cyclists' safety equipment to employees the benefit of this is exempt from tax if the following conditions are satisfied:

- the cycles or equipment are available generally to all employees of the employer; and
- the employees must use the cycle or equipment mainly for qualifying journeys.

### *“Generally available to all employees”*

HM Revenue & Customs confirm that this requirement does **not mean that bicycles need to be offered to all employees on equal terms**, but rather that all employees simply have to be able to obtain a bicycle through the employer's scheme.

Therefore, it is perfectly acceptable for an employer to offer more expensive bicycles to certain employees and not to others.

### *“Qualifying journeys”*

A qualifying journey is from home to the normal place of work. Therefore as long as the bicycle is used mainly for travelling from home to work then the exemption applies even if the bicycle is also used for “pleasure use”. Importantly, employees are not expected to keep detailed records of time spent cycling or miles travelled for the purpose of this ‘main use’ test. HM Revenue & Customs own internal instructions advise their staff:

*“If it is clear that there is substantial use of the cycle for qualifying journeys, do not make special enquiries about the extent of any other use.”*

### *“Safety equipment”*

Cyclists' safety equipment is not defined in the tax legislation and so a common sense approach should be taken when deciding what falls within this description. Examples of items that count as cyclists' safety equipment might include cycle helmets, repair kits, reflective clothing, cycling shoes etc. In other words, anything which can be reasonably described as “safety equipment”.



## Consumer Credit Licence

For bicycles costing up to £1,000, there is a general Consumer Credit Licence (CCL) which can be downloaded free of charge from the Office of Fair Trading website.

For bicycles and equipment costing more than £1,000, a “low risk” Category A and B licence must be obtained which can take up to around 30 days for the Office of Fair Trading to process.

The Office of Fair Trading (OFT) will grant licences where the bicycle scheme is seen to protect the rights of employees in a reasonable manner. Cobia has designed our arrangements in such a way as to be acceptable to the OFT.

The cost of the licence is £1,225 for five years but employers can recover these costs from employees through a salary sacrifice arrangement (see next section).



## Salary sacrifice

Salary Sacrifice is a simple concept which in recent years has been made to sound very complicated by advisors.

In short, salary sacrifice involves an employee swapping pay (which would normally have tax and National Insurance deducted from it) for something else which can be provided free of tax and National Insurance.

This results in a saving for the employee as illustrated below:

	<b>£5,000 Gross Pay</b>	<b>£5,000 Bicycle</b>
Tax Due (assuming Higher Rate)	(£2,000)	Nil
Class 1 National Insurance due	(£200)	Nil
<b>Value left in employee's hands</b>	<b>£2,800</b>	<b>£5,000</b>

In addition, the employer makes a saving in Class 1 National Insurance at 13.8% providing a further saving on the bicycle over the Gross Pay of £690. This saving can also be passed on to the employee as well, reducing the actual cost of the bicycle to the employee by as much as 55.8%.

## Spreading the cost

Employers also have the option of recovering the reduced cost of the bicycle (and safety equipment) over any period of time up to 18 months therefore making the arrangements even more cost efficient.

## Transferring ownership

It must be remembered that the bicycle is owned by the business rather than the employee. If the business decides to subsequently give the bicycle to the employee at some later stage then a tax charge will arise unless the bicycle is more than 6 years old. However, salary sacrifice arrangements can be designed to allow ownership to be transferred earlier than this with no tax charges being applied, although it should be noted that transferring ownership sooner than four years in particular will reduce the tax efficiencies of the arrangements quite significantly.



## Business taxes

Safety equipment not permanently attached to the bicycle will typically be treated as allowable for Corporation Tax purposes and should be deducted in the year purchased.

The bicycle will represent a company asset and will be written down over either 4 years or more depending on the specific arrangements in place with a deduction of 20% being applied on a year by year basis.



## Next steps

Enhanced cycle arrangements offer a genuine opportunity for employers to assist with the genuine costs of the more serious cyclist but care must be taken to ensure that all tax, National Insurance, Employment Law and Consumer Credit laws have been considered.

Cobia is an Employment Tax specialist and would be happy to discuss these arrangements with you in more detail and tailor arrangements which fully meet your requirements.

Should you have any queries or would like to speak with one of our team about your specific circumstances then please contact **0845 226 0580** or email **[info@cobia-uk.com](mailto:info@cobia-uk.com)**.