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# Quick Guide to **Cycle to Work**

**The Government introduced the Cycle to Work Scheme as a form of salary sacrifice to help businesses support employees with the cost of hiring a bike and the necessary equipment to commute on two wheels.**

**This Scheme benefits both employees and employers, while also helping to support a reduction in carbon emissions.**



# How the **Cycle to Work Scheme** operates

Cycle to Work is a form of salary sacrifice that allows employees to give up part of their pre-tax salary for a non-cash benefit from their employer – in this case, the financing and hiring of a new bike.

Although employees will see a reduction in their salary, the amount of income tax and National Insurance paid is also reduced.

Similar pre-tax salary sacrifice schemes include pensions, employer-provided childcare and training courses.

## Eligibility

**To be eligible employees must be over the age of 16 and be paid and taxed via the pay-as-you-earn (PAYE) system.**

The Scheme only covers the hire of “cycles for active travel and cyclist’s safety equipment” by employees, including electrically assisted pedal bikes.

It does not cover the costs of insurance or maintenance, which are usually the responsibility of the employee unless employers say otherwise.

The arrangement is typically over a 12-month period, regardless of the associated hire agreement, and the following criteria must be met:

- An employee must not, at any point during the hire period, own the cycle.
- At least 50 per cent of the cycle’s use must be for ‘qualifying journeys’, i.e. commuting to work purposes.
- The offer of the use of hired cycles must be made available across the whole workforce, with no groups of employees being excluded.

For tax and National Insurance purposes, the value of the cycle and safety equipment you can provide to an employee is unlimited.





# Benefits for **employees**

The amount saved by employees may differ depending on their marginal rate of tax. However, as the amount for the hire agreement is taken out pre-tax the savings can be really beneficial.

In fact, with the combined National Insurance Contribution (NIC) and Income Tax savings, some taxpayers could save up to 48.25 per cent on the purchase of a bike via this salary sacrifice Scheme.

# Benefits for **employers**

As long as the Scheme meets all relevant criteria, businesses can enjoy a tax exemption under Section 244 of the Income Tax (Earnings and Pensions) Act 2003.

This is due to the fact that when a portion of the salary is sacrificed, the employee's tax and NICs decrease.

In turn, the employer benefits by saving on the employer NICs at a rate of 13.8 per cent and the Apprenticeship Levy at 0.5 per cent on the sacrificed amount.

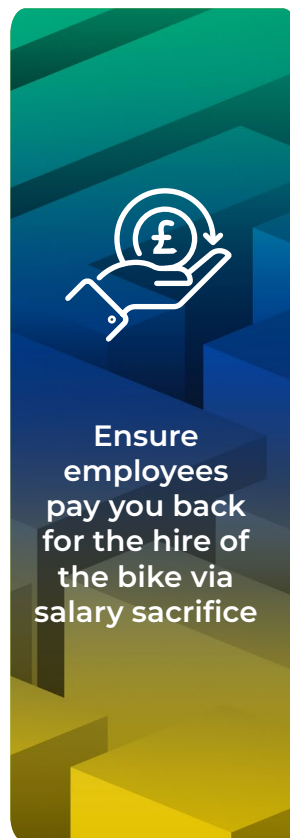
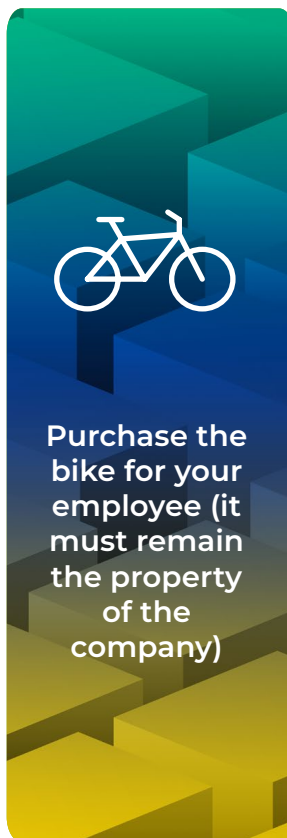
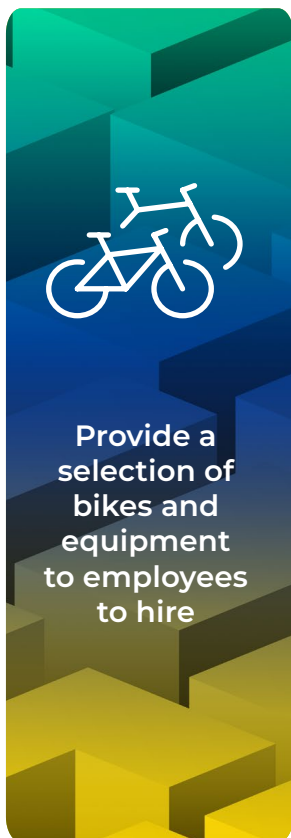
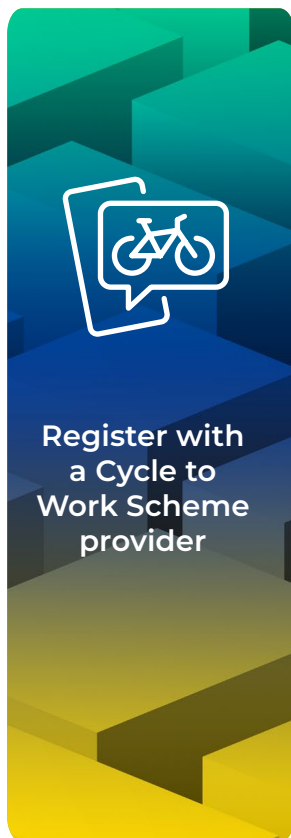
The Department for Transport gives an example of the potential savings on offer to employers:

| Examples of hire value | Employers' NIC Saving |
|------------------------|-----------------------|
| £500                   | £69                   |
| £750                   | £103.50               |
| £1,000                 | £138                  |



# How to **get started**

In order to provide bikes to employees under the Scheme, employers need to follow these steps:



At the end of the salary sacrifice scheme employees can decide to:

- Buy the bike from you at a percentage of its market value.
- Pay between three to seven per cent of the original value to extend the hire period for another term.

After this second term, employees can buy the bike for between three to seven per cent of the original value.

***Should an employee decide to leave the company they must either return the bike to business or consider post-employment cycle financing.***

This will typically involve taking the outstanding value of the bike from their final salary or creating a new agreement for ongoing payments.

# Need **help** getting started?

If you would like assistance setting up and/or managing a Cycle to Work Scheme at your business, please speak to our experienced payroll team today.

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