



SALARY SACRIFICE FOR THE BIKE TO  
WORK SCHEME

ENHANCED BENEFITS  
UNIVERSITY OF ULSTER

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## **CYCLE TO WORK SCHEME: IMPLEMENTATION**

### **Introduction – what is the scheme?**

To promote healthier journeys to work and to reduce environmental pollution, 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. The exemption was one of a series of measures introduced under the Government's Green Transport Plan. The following guidelines clarify how the University of Ulster 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.

The tax exemption refers to cycles and cyclists' safety equipment *loaned* to employees by employers. However, where salary sacrifice arrangements are used, Cycle to Work schemes must be regulated hire agreements between the employer and the employee. The terms 'hire' and 'loan' are therefore both used in these guidelines.

### **1. 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 and not be confined to, nor offered to any particular category of staff on more favourable terms. Accordingly, at Ulster, the scheme will be open to all employees on either the weekly or the monthly payroll.

### **2. What equipment is included under the tax exemption?**

Eligible equipment includes cycles and cyclists' safety equipment. The tax exemption defines a "cycle" as 'a bicycle, a tricycle, or a cycle having four or more wheels, not being in any case a motor vehicle' (192(1) of the Road Traffic Act 1988 (c.52)). An electrically assisted pedal cycle can be included under the scheme.

Cyclists' safety equipment is not similarly defined in the legislation and a common sense approach should be taken to the equipment provided. This could include:

- Cycle helmets which conform to European standard EN 1078
- Bells and bulb horns
- Lights, including dynamo packs
- Mirrors and mudguards to ensure riders visibility is not impaired
- Cycle clips and dress guards
- Panniers, luggage carriers and straps to allow luggage to be safely carried

- Locks and chains to ensure cycle can be safely secured
- Pumps, puncture repair kits, cycle tool kits and tyre sealant to allow for minor repairs
- Reflective clothing along with white front reflectors and spoke reflectors

It is the employer's choice what safety equipment is offered.

### **3. What value of equipment can be supplied?**

As the University of Ulster has a Consumer Credit Licence in place, there is a £3,000 limit on the total value of the equipment including the cycle. It is possible to loan two cycles to one employee if, for example, that employee needed a cycle at either end of a train journey between their home and place of work.

### **4. Scope of tax exemption**

The exemption removes the tax charge that would otherwise apply to cycles and cyclists' safety equipment loaned to employees provided the following conditions are met

- Ownership of the equipment is not transferred to the employee during the loan period;
- Employees use the equipment mainly for qualifying journeys. The tax exemption only applies when an employee mainly uses the cycle and cyclists' safety equipment for qualifying journeys. A qualifying journey for an employee means a journey, or part of a journey,

between his or her home and workplace, or

between one workplace and another,

in connection with the performance of their duties of employment. So, for example, cycling to and from the station to get to work would qualify. In this case, 'mainly' means that more than 50% of time using the cycle and safety equipment must involve a qualifying journey.

Employees are not expected to keep mileage logs but it is made clear here that if employees do not use the cycle mainly for qualifying journeys, they may lose the benefit of the tax exemption. In that event, we would have to report the benefit in kind on form P11D, and account for Class 1A NICs, in the normal way. The employee would be liable for the tax due on the benefit in kind.

- The Cycle to Work scheme is made available generally to employees of the employer concerned and not confined to directors or offered to them on more favourable terms.

## 5. Setting up a Cycle to Work Scheme

### 5.1. Salary Sacrifice

A salary sacrifice happens when an employee gives up the right to receive part of their cash pay due under their contract of employment. A salary sacrifice is neither a deduction from salary nor is it a charge on salary, it is where the employee agrees to accept a lower amount of salary - usually in return for the employer's agreement to provide some form of non-cash benefit (in this case the loan of cycle or cyclists' safety equipment). For a benefit such as a loaned cycle, where there is a specific tax exemption, the employee can receive the benefit in kind free of tax and Class 1A NICs instead of salary on which tax and Class 1 NICs would also have been fully payable.

For example: if it is assumed that the employee is loaned equipment worth £1000.00 over a period of twelve months they could sacrifice £83.33 per month from their gross salary. Net of tax and NICs this would be £57.99 for a basic rate taxpayer (20% income tax plus 10.4% NICs) and £48.33 for a higher rate tax payer (40% income tax plus 2% employee NICs).

EMPLOYEE FINANCIALS	Basic Taxpayer	Higher taxpayer
	20% tax and 10.4% NI	40% tax and 2% NI
Cost of hire	1,000.00	1,000.00
Hire Term	12 months	12 months
Monthly deduction	83.33	83.33
Less tax saving	-16.67	-33.33
Less NI saving	-8.67	-1.67
Monthly net reduction	57.99	48.33
<b>Total cost after tax savings</b>	<b>695.88</b>	<b>579.96</b>

\*Table based on NI code D

### 5.2. Employer's NICs

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 13.8%) on that part of the employee's gross salary sacrificed. For example, if an employer was to loan a cycle worth £1000.00 over twelve months it would generate Employer NIC savings up to £138.00 per employee.

## **6. Frequently asked questions and things to consider in relation to salary sacrifice arrangements**

### **6.1. How does the scheme work?**

For a salary sacrifice to be effective for tax and National Insurance (NICs) purposes:

- The potential future remuneration must be given up before it is treated as received for tax and NICs purposes; and
- The true construction of the revised contractual arrangement between employer and employee must be that the employee is entitled to lower cash remuneration and a benefit in kind. For example the loan of a cycle and cyclists' safety equipment.
- You can use the bike however you like; but a bike purchased under Cyclescheme should be used for work journeys at least 50% of the time.

### **6.2. What happens in respect of the National Minimum Wage (NMW)?**

The University may loan cycles and cyclists' safety equipment to all employees but a salary sacrifice arrangement cannot be used if in so doing the employee's gross pay drops below the NMW.

### **6.3. Does the scheme impact on my benefits entitlement?**

Where a salary sacrifice arrangement is used, the gross pay of the employee is affected, which in turn impacts upon your tax and NICs. As entitlement to some benefits is based on the amount of NICs that are paid and others on earnings, entering into a salary sacrifice arrangement may affect your current or future entitlement to a range of benefits. Although the likelihood is that any effect will be small.

A salary sacrifice will not have an impact on entitlement to holiday pay and bonuses, which are calculated separately using the previous higher rate of pay.

### **6.4 What happens if I wish to withdraw from a Cycle to Work Arrangement**

Should you leave the employment for any reason during the period in which you are sacrificing your salary for the loan of cycle and cyclists' safety equipment, the University will require you to pay compensation. This compensation will be to the extent that the University's costs have not been offset by the non-completion of the term of the salary sacrifice arrangements.

### **6.5. Can the employee keep the cycle at the end of the loan period?**

The University will transfer ownership of all bikes & equipment to Cyclescheme at the end of the 12 month hire period. Cyclescheme Ltd will then engage each staff member in a process that fully complies with HMRC guidance in relation to the transfer of ownership between Cyclescheme and the staff member.

Cyclescheme will provide employees with three options:

1. Purchase the bike in line with the HMRC Valuation Table guidelines after 12 months.  
**<http://www.hmrc.gov.uk/manuals/eimanual/eim21667a.htm>**
2. Sign up to an 'Extended Use Agreement' which extends the hire period by 3 years and then purchase the bike using the HMRC Valuation Table. There will be no further salary sacrifice deductions made through the payroll after the original 12 month hire period.
3. Return the bike to Cyclescheme.

For more information on the transfer of ownership process you can view the FAQ here (**<http://emails.cyclescheme.co.uk/files/mvememployeeafaqsV3.pdf>**) or alternatively contact Cyclescheme on 0844 879 5101.

#### **6.6. How long does a Cycle to Work scheme have to run for?**

There is no fixed time period for which cycles and cyclists' safety equipment must be loaned under a Cycle to Work scheme. Similarly, there is no fixed time period for which a salary sacrifice scheme must run where one is used to offset the cost of loaning the cycle and cyclists' safety equipment.

If the salary sacrifice is ineffective, tax and NICs will be payable on the pre-sacrifice salary. The loan period will be agreed at the outset between the employer and employee and the salary sacrifice agreed to run for the duration of the loan. At the end of the loan period the University and employee will agree to revert to the pre-sacrifice salary.

#### **6.7. What about insurance?**

Even though the University owns the cycles and safety equipment, it is more practical for the employee to have the cycle covered under their own house and contents insurance and accordingly you should advise your insurer that the University has an interest in the cycle. If the bike is stolen, you will be liable for any outstanding monies without any tax exemptions, so it is very important to make sure the bike is insured.

#### **6.8. What about my mileage allowance?**

Employers can pay up to 20 pence per mile tax-free to employees who use their own cycles for business travel. Journeys between home and work are not business travel for this purpose.

Any employee considering joining a Cycle to Work scheme will need to consider whether they would prefer to use their own cycle and be able to claim up to the 20p per mile tax free for any business miles they travel, as opposed to having a cycle loaned to them by their employer.

*Employees cannot claim the 20p per mile tax-free mileage allowance for business travel if they use a cycle loaned to them by their employer.*

## **6.9. What do I do now?**

The scheme uses a certificate system. The University has entered into a contract with Cyclescheme, so all you need to do is sign an employee hire agreement that Cyclescheme will supply or agree to the terms of the hire agreement online (whichever process suits). Prior to this you will have to visit your local bike shop for a quote on a bike and accessories, (find your local bike shop at <http://www.cyclescheme.co.uk/partners>) which you enter onto the Cyclescheme extranet system.

When they receive the quote they will invoice the University, and provide a secure certificate once the hire agreement is signed. You take the certificate back to the bike shop to collect the bike.

One copy of the Hire Agreement will be returned to the employee and one shall be retained on the personnel file.

### **6.9 (b) Can I get a bike from a mail order specialist?**

Cyclescheme's partner shops are capable of supplying bike packages mail order from their shops, but there are distinct advantages when getting a bike from your local bike shop that will be the first port of call for advice, servicing, after sales and warranty. Some mail-order specialists are not part of the Cyclescheme Partner network, and this should be checked out on – line.

## **6.10 What about delivery of my order?**

Once the steps outlined in 6.9 above are complete, the employee will be contacted by the scheme providers to arrange collection of their bike. If the bike is ordered on-line, the scheme providers will arrange delivery details, date and address. The goods will be delivered on standard next day delivery terms, and charged directly to you.

## **6.11 What about product warranty?**

All items supplied by the scheme providers have a standard 12-month manufacturer's warranty. Should any individual or original component incorporated in the bicycle prove defective in terms of material or workmanship within its warranty period, the scheme providers will replace it. The warranty period of frames will vary from 12 – 25 months dependent on manufacturer.

## **6.12 How long is the scheme open for?**

The deadline for this tranche of entries is Wednesday 11<sup>th</sup> January 2012. Employees will be notified of when the next launch will be in due course.

## **6.13 What if I leave the University during the cycle scheme?**

You will be required to pay any future outstanding gross salary sacrifice amounts as a lump sum from your final net salary payment; such a payment cannot be taken from gross pay. If your final

salary will not cover the entire final balance payment due, then you will need to pay the University the balance owed over and above your final salary payment within 14 days of you leaving. Failure to do so will result in court action.

#### **6.14 What if I cannot afford to carry on?**

The rules set by HMRC dictate that once you have signed up to salary sacrifice for 12 months, you will not be permitted to return to your original salary until the salary sacrifice period has expired.

#### **6.15 What is the cost benefit to the University?**

The University will save secondary class 1 National Insurance Contributions on that part of the employee's gross salary sacrifice. This saving will be used to offset the costs of implementing and running the scheme.