Cycle to Work for Workplaces

A guide for employers

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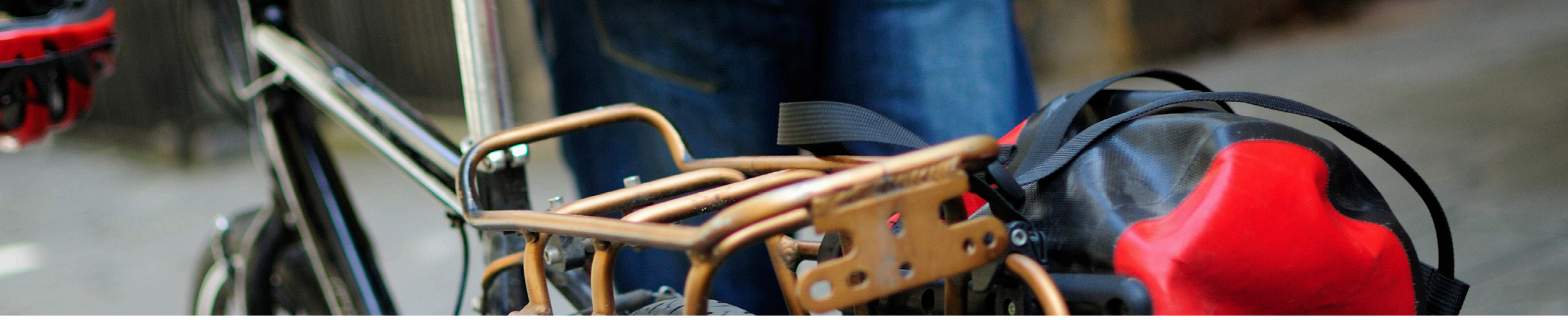

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Introduction

Understanding what cycle to work is

There are many stories and rumours regarding cycle to work schemes. This guide is aimed at employers to help understand what the cycle to work is and how it operates.

The Government has decided that it would like people to be able to cycle to work. It recognised that one of the biggest obstacles to cycling is the cost of buying the cycle in the. So, it put in place financial mechanisms to help employees overcome this initial hurdle.

Ways a company can help staff to obtain a cycle

Salary Sacrifice Scheme	This is the classic “Cycle to Work” scheme. The Employer loans the employee a cycle, paid for from the employee’s gross salary.
Loan (including interest free)	Loan from company to staff members that can be used to buy a cycle or a public transport season ticket. This will not be covered in the guide.
Pool cycles	The company buys a fleet of cycles and makes them available to staff. This may be the only option for staff on minimum wage or under 18.

When people talk about a “Cycle to work scheme” they are usually referring to a salary sacrifice scheme. How salary sacrifice works is the main focus of this guide.

Salary Sacrifice

What is salary sacrifice? How does it work? Who can take part?

Salary sacrifice can sound complex, there are many different providers whose procedures can vary slightly. The fundamentals, and the financial implications, are the same regardless of who is providing the scheme.

What is salary sacrifice?

Salary sacrifice is a financial tool that helps employees take possession of a cycle, reducing both the up-front and total costs of buying the bike.

It is a loan. Someone buys the cycle on behalf of the employee and then loans it to them. The employee pays for it from their gross salary, which makes the overall cost of the cycle lower.

It usually operates as a scheme operated by the employer or an external provider.

How salary sacrifice works

The procedure is:

1. The employee chooses a cycle and accessories (called the package) from an approved supplier
2. The scheme provider buys the package on behalf of the employee
3. They loan it to the member of staff for a set period of time
4. The employee pays off the value of the package in instalments from their gross salary
5. The employee is taxed on what is left of their salary **after** the instalments are deducted
6. At the end of the loan period, the employee may enter into an agreement with the provider to buy the package.

Who is the "provider"?

There are two ways an employer can set up a scheme:

1. Set up a scheme themselves. In this case they buy the package and loan it to the employee. The bikes bought count as capital expenses that can be written off against tax.
2. Use an existing scheme provider. The provider buys and owns the package, makes the agreement with the employee but is paid by the employer. The employer usually acts as an Appointed Representative of the provider.

The provider is the term used for whoever is operating the scheme.

Because of the financial complexities of setting up a Scheme, most employers choose to use an existing scheme provider.

£1,000 limit

The nature of the Cycle to Work Scheme means that the loan will constitute a consumer hire agreement, which is covered by the Consumer Credit Act. This may require the provider to have authorisation to hire cycles from the Financial Conduct Authority (FCA)[1].

As long as the provider has this authorisation, **there is no limit on the value of the package**, as long as any repayments do not take the employee below the Minimum Wage.

There is an exemption under the Financial Services and Markets Act 2000, usually referred to as the FSMA order). This means a scheme can be offered without FCA authorisation, as long as the value of the package does not exceed £1,000.

That exemption cannot be used if:

1. The company already has FCA authorisation for another activity. They will need to apply for authorisation to provide the scheme.
2. The scheme is operated by an external provider. The provider needs to have FCA authorisation.

1 https://www.fca.org.uk/firms/authorisation/fee

Tax Exemption

One of the selling points of salary sacrifice is that it saves both the employer and the employee money because it is tax exempt.

Qualification for exemption

In order to benefit from the tax exemption introduced under Section 244 of the Income Tax (Earnings and Pensions) Act 2003 the Scheme must meet the criteria set out in the act2. They are:

1. An employee must not, at any point during the hire period, own the cycle;
2. At least 50% of the cycle's use must be for 'qualifying journeys', i.e. commuting to work or business journey purposes[3];

2 http://www.legislation.gov.uk/ukpga/2003/1/section/244

3 **HMRC guidance: Accept that the test is satisfied unless there is clear evidence to suggest that less than half of the use of the cycle or equipment is on qualifying journeys.**

3 The offer of the use of hired cycles must be made available across the whole workforce, with no groups of employees being excluded. This does not necessarily have to be through a salary sacrifice arrangement in each case.

4 It must be used to hire a cycle, which is classed as: ‘a bicycle, a tricycle, or a cycle having four or more wheels, not being in any case a motor vehicle’ (Section 192(1) of the Road Traffic Act 1988 (c.52)). An Electrically Assisted Pedal Cycle (EAPC) can be included under the scheme.

If a company uses an external provider, the provider usually ensures legal compliance.

Why is it cheaper for the employee?

The instalments are paid from an employee’s gross (pre-tax) salary. So they pay neither income tax nor NIC on the instalments deducted.

Tax rate	Income Tax	National Insurance Contribution (NIC)	Total tax saving
Basic Rate	20%	12%	32%
Higher Rate	40%	2%	42%

Why is it cheaper for the employer?

As the instalments are paid from gross salary, the employer does not have to pay employer’s National Insurance Contributions (13.8%) on them.

Who can get a bike with Cycle to Work?

An offer of a hire bike must be extended to **all members of staff**. Some members of staff may not be eligible for salary sacrifice:

1 If the sacrifice would take them below minimum wage.

2 If they are under 18 (strictly speaking, there are ways of doing this such as an agreement with their legal guardian but it becomes complicated quickly).

3 If they are self-employed

A company that offers Cycle to Work via salary sacrifice, but has ineligible staff, must have an alternative arrangement in place to “make cycles available” to those staff. This usually involves having a pool of cycles available for a small fee.

Choosing providers and schemes

How to select the right Cycle to Work scheme

Providers and Schemes

Provider

The provider is the company or organisation that operates a scheme. An employer is free to appoint as many providers as they wish.

Scheme

The scheme is the Cycle to Work offer that is made to staff. Employers may choose to offer multiple schemes, including by more than one provider, including providing a scheme in-house (such as a pool bike scheme).

Multiple providers and schemes

Why would an employer choose more than one provider or scheme?

Employers are required to offer a scheme to all staff. This means they need to offer more than one scheme, potentially operated by more than one provider.

An employer who has staff or workers who are ineligible for salary sacrifice will need to make sure that schemes are available to all staff. This will require multiple schemes, potentially including offering an “in-house” scheme where the employer acts as the provider.

An employer who has staff with particular needs, such as those with disabilities or requiring an e-bike, is required to offer a scheme that meet their needs. They may find that schemes offered by an existing provider do not include suitable cycles. This will necessitate offering a scheme that offers suitable cycles in addition to, or as a replacement for, the current one.

Choosing a provider and a scheme

There are a lot of providers in the market place, and the schemes they offer are all subtly different. It can be hard to know how to tell which one is the best to engage with.

Getting the right providers and the right schemes for the individual workplace will increase uptake and is, increasingly, a recruitment tool. So, it is worth investing some time in making that decision.

Whilst it is not the place of this guidance to recommend a single provider or scheme, there are some questions that it is useful to answer before engaging with a scheme. They are presented in roughly the order they should be considered.

Does the scheme have the £1,000 limit?

As has been stated earlier in this guide, the £1,000 limit is not relevant under the current legislation. Some schemes still operate the £1,000 limit. This prevents staff who require an adapted cycle for a disability, or an e-bike from taking part.

Avoid schemes with a £1,000 limit.

How broad is the scheme's choice of sellers?

The greater the choice available to staff, the more likely they are to be able to get the right cycle for them through a scheme. Schemes that allow staff to use local cycle shops means they have access to the expertise of staff in those shops. Schemes that use online direct sellers can give staff access to better cycles at lower costs. Schemes that work with smaller sellers can give staff with particular needs (such as adapted cycles, e-bikes and cargo bikes) access to the cycle that meets their needs.

Avoid schemes that limit staff to a single shop or chain as they limit choice, have in increased chance of low stock and reduce the opportunity for staff to get an appropriate cycle for their needs.

Does the scheme offer variable repayment periods?

Traditionally, schemes have used a 12 month repayment period. Extending that period reduces the individual repayments (for a package of the same value) which can make more staff eligible for salary sacrifice, especially those on lower incomes.

Look for schemes that offer a choice of repayment periods as this makes the scheme available to more staff.

How much commission does the provider charge?

Commission is how schemes make their money. The higher their commission, the greater the obstacle is to staff taking part. This is because more of their money goes to paying the provider, not buying the cycle.

There is a balance to be struck: a low commission may mean a lack of support for employers and staff, or prohibitive administration.

How simple is the scheme's admin?

The level, complexity, and difficulty of paperwork a scheme requires, varies from provider to provider. Look for providers whose admin is streamlined for the employer and staff.

Time spent completing paperwork and admin, or awaiting a response, is a cost to the employer. Look for providers and schemes which have good administrative processes.

Does the provider offer a scheme for staff who are not eligible for salary sacrifice?

Some providers operate schemes that are available to staff who are not eligible for salary sacrifice. These can include discounts on purchases and pool cycle schemes.

If an employer has staff who are not eligible for salary sacrifice, operating several schemes is essential. Using the same provider for schemes can reduce the overheads and admin for an employer.

Does the provider they have a reputation for being good to bike shops and paying on time?

This is not an easy question to answer, but some schemes and providers have a reputation with sellers for being difficult to work with or not paying for the package in a timely fashion.

Vouchers from sellers who are good to work with may grant your staff better service from the seller than they would get with a difficult provider.

Are they offering any other benefits to the employer or to staff?

Some schemes offer additional benefits to the employer, such as accreditation schemes. Some schemes offer additional support for staff such as cycle registration or insurance discounts.

These can be beneficial, but are unlikely to make a scheme a good choice if it has issues such as those mentioned above.

Does the scheme allow "top up" payments?

When most schemes still operated the £1,000 limit, some schemes allowed staff to make top-up payments. This mean that part of the package would be obtained through salary sacrifice, and the balance was paid for by the staff member.

This option can be useful, but its value is limited if there is no limit on the cost of the package.

The process

How it works

The process of getting a cycle through a Cycle to Work Scheme can seem pretty complicated, but it should be fairly simple.

While providers run their scheme in slightly different ways, they all run through the same basic process.

Setting up

Decide what scheme to operate

The first step for an employers is to decide what scheme they are going to operate. This is a choice of the options above: loan, hire bikes and salary sacrifice. The employer can decide to offer more than one option.

It is important that the employer ensures that every member of staff is able to take up one of the options offered.

Decide how to operate the scheme

If the employer decides to offer hire bikes, it is up to them how they operate the scheme. This is the time to work out how that scheme would work and complete any administration that is necessary to make it happen. The employer then purchases bikes and offers them to their staff.

If the employer decides to offer salary sacrifice, they need to decide whether to provide the scheme themselves or appoint a provider to run the scheme. Either set up the mechanism or seek out a provider and enter into an agreement with them to operate the scheme.

EXAMPLE

Andy uses the Cycle to Work Scheme (part 1)

Associated Holdings Ltd has a variety of staff but, currently, all of them are 18 or over and paid more than the minimum wage. So, the company decides to offer a salary sacrifice scheme. If their workforce changed to include staff under 18 or on minimum wage, they would need to make an alternative offer to them.

Looking at the options, they decide to appoint an external provider. Their choice is the Green Cycle Company, who have agreements with a variety of national and local cycle shops. The Green Cycle Company ensure that the scheme is legally compliant and agree with Associated Holding what the process will be for their staff.

Getting started

Ensure eligibility

The first thing an employee needs to do is check they are eligible for salary sacrifice.

Find out about the company scheme

Where a company uses an external provider, many providers have arrangements with particular retailers. Some are more limited than others (that breadth can be used as a selling point for providers). This places a limit on which cycles can be hired through the scheme.

Choosing a package

The employee will look at the range of options available to them, talk to cycle shops and then decide what package they want to hire. The cycle shop will give the employee a quote to send on to the provider.

The provider will give the employer the relevant information for setting up a salary sacrifice agreement.

EXAMPLE

Andy uses the Cycle to Work Scheme (part 2)

Andy is a part-time employee of Associated Holdings Ltd. As an employee earning £21,000 (pro rata) he is eligible to use salary Sacrifice Scheme.

Andy starts by finding out if his company has a Cycle to Work Scheme. The company uses an external provider called the Green Cycle Company. Andy uses the provider's website to find out which retailers he can get his bike from.

He selects a retailer, called Harry's Bikes and selects his dream bike from their catalogue. He adds mudguards, a pannier rack and some panniers. The total Package comes to £1,400. He gets a written quote from the Harry's Bikes, **including their commission** for using the scheme.

Making the Agreement

Once a package has been selected, the employee will make an agreement with the provider to hire a cycle. The agreement usually covers:

1. The full value of the package, including any fees or commission.
2. The repayment period and what the repayments are.
3. The hire period and what happens at the end of the hire.

Government guidance says there must be "no option, whether 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." So the option to buy the package afterwards will not appear in the agreement.

The repayment period (the time over which the employee repays the value of the package) and the hire period (the period during which the provider owns the package) do not need to be the same.

Can an employee hire more than one bike (enter into two agreements)?

Yes. So long as both meet the criteria (both are used for commuting and business) and the repayments do not take the employee below the minimum wage.

Who owns the bike?

This is really important: the whole package remains the property of the provider until the end of the hire period.

Getting the bike

Once the agreement has been signed copies are usually sent to the employer to set up the repayments. The provider will then issue the employee with a voucher for the value of the package.

The employee takes the voucher to the retailer and exchanges it for the bike and any accessories. There is usually a short period while administration around the transfer of money is arranged.

Then the employee collects the bike and rides it to work!

EXAMPLE

Andy uses the Cycle to work scheme (part 3)

Andy goes back to the provider with the quote from the retailer. They offer 18 monthly repayments of £77.78, or 12 monthly repayments of £116.67. Andy takes the 12 month option.

He signs an agreement that he will sacrifice £116.67 from each month's salary for the next 12 months. He will hire the bike and the accessories for 5 years after which they will make a new agreement on what happens next to the package. The agreement is sent to the Green Cycle Company who will pay the retailer. It is also sent to Associated Holdings, who will pay the Green Cycle Company and collect the instalments from Andy.

The provider gives Andy a voucher which he takes back to the retailer. The retailer does the necessary admin and builds Andy's dream bike, complete with mudguards, panniers and rack.

Two weeks later, Andy goes into Harry's Bikes and collects his dream bike. The next day, Andy rides into work!

End of the hire period

At the end of the hire period, the employee has 3 options:

1 Extend the hire agreement (keep hold of the package for longer)

2 Return the package to the employer

1 Enter into a new agreement to buy the package

Buying the package

If the employee enters into a new agreement to buy the package from the provider at the end of the agreement, the package must be bought for a Fair Market Value (FMV) which is set out by the government:

Age of cycle	Original price of the cycle less than £500	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

If a FMV is not charged, the sale counts as a benefit in kind (and is taxed as such).

So, extending the loan period has some value because, eventually, the cycle's value is negligible. Some schemes ask for a refundable deposit to extend the loan period.

Changing job

If the employee leaves their job during the repayment period the employer will ask for the balance of payments, taken from their net salary. They may also ask for the FMV of the package as well.

The employee can choose to give the package back and pay no more.

EXAMPLE

Andy uses the cycle to work scheme (part 4)

After a year of riding to work, Andy has paid off the package. If he changed jobs after this point, he would be free to, as his agreement is with the Green Cycle Company (the provider). He decides to stay with Associated Holdings.

At this point, Associated Holdings' involvement in the process ends as Andy has paid off the value of the package.

After five years of happy cycling, Andy's agreement comes to an end. At this point, the Green Cycle Company offer Andy three options. He can give the bike back, which he chooses not to do. The second option is to enter into a new agreement with the provider to buy the bike. After 5 years it's worth 2% of its original value: £28. Instead, he takes up their offer to extend the hire for another year, and pays a deposit.

A year later the package is worth a "negligible" amount, so Andy pays the Green Cycle Company £1 to take ownership of the bike.

This ends Andy's involvement with the scheme.

Glossary

Some of the terms used in this document and an explanation

Term	Meaning
CCA	Consumer Credit Agreement. The technical term for any kind of repayment scheme when buying something.
EAPC	Electrically Assisted Pedal Cycle. Commonly known as an e-bike
FCA	Financial Conduct Authority. The regulator for all things financial
FMV	Fair Market value. A government-defined value of an object after a certain number of years.
FSMA	Financial Services & Marketing Act 2000
Hire Period	the period during which the provider owns the package
HMRC	Her Majesty's Revenue & Customs
NIC	National Insurance Contribution
Provider	The organisation that runs the Cycle to Work Scheme the employer offers
Repayment period	The time over which the employee repays the value of the package
Salary Sacrifice	A process by which Cycle to Work Schemes work
Scheme	A Cycle to Work offer available to staff. An employer can operate multiple schemes from multiple providers to cover all staff