

"I thought of $E=mc^2$ while riding my bike." Albert Einstein



bike for
leisure

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home cycle to work scheme

CYCLE TO WORK SCHEME

"Look out for a brand new bike in your pay packet."

That's the headline on a Cycling England leaflet for the government's **Cycle to Work** scheme.



Cycle to Work leaflet

Cycle to Work is a tax incentive aimed at encouraging employees to, er, *cycle to work*, thereby reducing air pollution and improving their health. The scheme allows employees to benefit from a long term loan of bikes and commuting equipment such as lights, locks and panniers completely tax free.



Employers benefit from fitter, more punctual, more wide-awake staff. Employees benefit from better health and better bikes because their money goes further. There's more bike commuting positives in this free and online 50-page **Bike to Work Book**. With a budget of, say £400, an employee in the high tax-band can now afford a bike, plus accessories, worth nearly £800.

The typical saving for an average tax-payer is between 38-45 per cent. There are online calculators to help you see how much you may be able to save. This one is from [Cyclescheme](#). Type in your salary, the cost of your new bike and the cost of accessories such as a helmet, lock, panniers and so forth.

GREEN TRAVEL

Worries about climate change, a planned lack of parking spaces at hospitals and new-build company HQs and other 'sticks' is making major employers take a long hard look at the 'carrots' on offer when formulating 'Green Transport Plans'.

Car-sharing is one option, but cycling to work is another.

And to encourage cycling to work, the government created a little publicised incentive in 1999 to encourage employers to help their employees acquire tax-free bikes. In 2005 this scheme was re-branded as **Cycle to Work**.

Employers can loan bicycles to their staff as a tax-free benefit on the condition that the bicycles are mainly used to get to and from work or for work-related purposes. The employee 'buys' the bike at the end of the loan period for a nominal sum.

BIKE BOOSTER

It's possible for any employer to set up their own **Cycle to Work** scheme.

However, creating such salary sacrifice schemes requires a working knowledge of employment law and the intricacies of the

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tax system. The paperwork is tricky to complete and there are pitfalls for the unwary such as falling foul of minimum wage requirements, credit licences and the redrafting of employee contracts.

Each employer will have different challenges which is why salary sacrifice scheme implementation is often outsourced to third-party companies.

Cycle to Work used to have a tax-break parallel in the PC trade. The Home Computer Initiative (HCI) was a salary sacrifice scheme for getting an employer's staff hooked up with PCs for home use. It used the same VAT and NIC rules as the bike scheme and was once a booming sector. Major players such as BT, Comet and PC World operated HCI schemes, as did Boost which entered the bike market via Halfords in 2004. The HCI scheme was discontinued in March 2006 but some HCI players are now investing in **Cycle to Work** schemes, see *The Facilitators*, below.



Does ITN have a C2W scheme?

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NUTS & BOLTS

According to the **official Department for Transport info**, the **Cycle to Work** scheme works thus:



** Your employer signs up for the scheme * You then choose a bike from an approved supplier * The bike is then bought by your employer who reclaims the VAT * You then take delivery of the bike for your exclusive use - provided you use it for qualifying journeys, i.e. commuting to work * The VAT free price is then deducted from your salary by equal instalments over a period of time (typically 18 months), but as you don't pay tax or NI on the income you forego,*

*this will give you further savings. * After the period of salary sacrifice, the employer may give you the option to purchase the bike at a 'fair market price', though depends on the period you have had the cycle loaned to you.*

This 'fair market price' is usually five percent of the original package price. So, after a 18 month 'loan' for a bike package costing £1000, the employee takes full ownership for just fifty quid. This is as yet untested by HMRC.

The actual discount available to an employee will be based upon their own personal tax circumstances (higher tax payers get fatter discounts) and whether their employer can recover all VAT. Some public sector employers (such as the military), charities and some others may not be able to recover all the VAT.

The discount also varies depending whether cash purchase or lease finance is used.

In rare cases, where employers decide to directly bear all scheme costs themselves, employees need no budgets at all, with the full cost of their loan bikes then legally treated as 'non cash tax free benefits'. However, although it is at their discretion, most employers do not actually incur the costs themselves. They achieve this by taking advantage of parallel salary sacrifice tax legislation, allowing them to recover all costs from their employees over a period of time, while their employees still substantially benefit from Income Tax and National Insurance

reduction in line with salary sacrifice, plus input VAT recovery where possible.

FAIR MARKET VALUE (FMV)

A Cycle to Work bicycle is 'hired' to the employee and hence does not fall into a benefit category. If the right to purchase the actual bike hired by an individual employee is guaranteed then this would change to a benefit in kind and exit the salary sacrifice offering.

Cyclescheme, one of the Cycle to Work facilitators, believes that the fair market values offered for a second hand bike, used for a year to cycle to work, would be 'scrap value' and 5 percent of the original voucher value (i.e. bicycle and safety equipment which normally amounts to 15 percent of the package). Bicycle shops are not generally interested in selling second hand bikes as they will need to give a warranty on something that has no service or use record. They will offer less than half of the shop retail value which would be the price that the employee would get via eBay or local papers, notice boards and so on.

Here's an example of how Cycle to Work helped 'John':

1. Under his employer's scheme, John chooses to have the loan of a bike retailing at £450
2. His employer reclaims the VAT – reducing the cost to £383
3. This net amount is met by John agreeing to a salary sacrifice whereby his gross pay is reduced by £21.28 per month over 18 months
4. The monthly net cost to John will be £14.26 because he doesn't pay tax or national insurance on the gross pay (£21.28) that he has sacrificed
5. At the end of the 18 month period John's employer offers the ex-loan bike for sale at a fair market price
e.g. £50 (To establish the fair market price, employers should obtain quotes from local bike shops as the value of the bike will partly depend on the level of use)

6. The cost to John is:

- Net salary given up $£14.26 \times 18 \text{ months} = £256.68$
- Cost to buy the bike at end of the period = £50
- Total cost to John (68% of retail price) = £306.68

BIKE OR JUST BITS?

Many existing cyclists ask whether they can use the Cycle to Work scheme to buy just accessories, as they already have the bike.

In theory, this is allowed - the fine print says "bicycles **and/or** safety equipment" but as most schemes are now run by third-party facilitators it's usually their rules you have to play by. Many facilitators say they have a £200 minimum (and some have a £1000 maximum), and this is to discourage a cyclist asking to buy just a helmet and a lock under the scheme (although this can easily come to £200 for quality items). However there will be some people who want a frame or wheels or some other integral part of the bike like a groupset which means there will be potential tax problems with 'dual ownership' where the employer owns the new bits and the employee owns the rest.

THE FACILITATORS

There are a growing number of **Cycle to Work** third-party facilitator schemes. Click on the company names to go to the websites.

CYCLEScheme

EDINBURGH BICYCLE

HALFORDS

CYCLE SOLUTIONS

POWABYKE

EVANS CYCLES

PMM EMPLOYEE BENEFITS

PROJECT LINK

CYCLE2WORK NOW

ON YOUR BIKE

CYCLE SURGERY

EMPLOYEE CONTRACTS

Some companies wishing to use the Cycle To Work scheme have been advised that employee contracts of employment would have to be rewritten to accommodate the scheme. Some of the third-party C2W facilitators can issue employee hire agreements that temporarily amends employee terms and conditions of pay. Check that this document and the terms and conditions of hire that accompany it are written in strict accordance with the OFT, HMRC and DfT.

OFT LICENCE

The Office of Fair Trading has issued a group consumer credit licence to cover employers implementing Cycle to Work schemes. The ceiling via these licences is £1000. Download info from [here](#). If companies already have a Consumer Credit Licence there is no £1000 ceiling.

WHO OWNS THE BIKE?

Bikes bought via the C2W scheme are owned by the companies concerned, until the end of the C2W agreement. This has concerned some major employers, fearing legal ramifications of faulty bikes and injured employees and so forth.

Most of the third-party facilitators have contract small print that stipulates that the bike shops selling the bikes are responsible for warranties and claims as per usual. Since the employer owns the bike they will pass on any claim to the bike shop who will pass it on to their supplier who will pass it on to the manufacturer. For employees on short-term contracts - even rolling ones, such as doctors - it can be difficult to implement a Cycle to Work scheme, although not impossible. It's also worth noting that if you're made redundant or otherwise leave the company with which you started the salary sacrifice scheme, you'll need to replay the outstanding amount with your final pay cheque.

LIABILITY ISSUES FOR EMPLOYERS

Some employers are concerned they could be liable for an employee cycling to and from work because the bike belongs to the company, not the employee.

Richard Grigsby from Cyclescheme said:

"One way to get around this thorny topic is to lease the bikes from a finance house who then own the bikes throughout the hire period."

The Cyclescheme hire agreement requires the employee to sign that they will maintain the bike in a safe and roadworthy condition

during the hire period. They also sign to say that they will insure the bike themselves.

Sarah Gow from cycle insurance provider Cycleguard/JLT Online said:

"I have taken advice in respect of the legal position employers may find themselves in if an employee is found negligent whilst using a bike to and from work. Whilst there is no legal precedent and case law which we can use to qualify this answer, we feel that it would be unlikely that the employer would be found negligent for the actions of the employee to and from work. If the employee caused an accident, it is out of the control of the employer who is not responsible for how the employee rides the bike. Equally if the bike failed as a result of a defect that would be more likely a product liability claim. However, each incident is judged on its merits and it is impossible to say with 100% certainty that no liability applies.

"We feel that this issue is adequately covered by the Employers Liability cover, which doesn't usually have an exclusion for manually propelled vehicles, so even if an unusual set of circumstances did arise it would more than likely be covered on a standard EL policy.

"However, the issue of using a bike for work purposes is a little more problematic and if an employer gave instructions for an employee to use his/her bike in this capacity, it may be likely a claim could be brought against the employer, again dependent on the circumstances. This event would usually be covered under an employers standard EL cover."

EXCLUSIONS

People working for charities, universities, the armed forces and the NHS are all denied a VAT saving.

Plus, if you don't have a PAYE salary, you can't take part in a Cycle To Work salary sacrifice scheme. The only bike saving for a self-employed person would be to buy a bike via the business and reclaim the VAT, if VAT registered that is.



Cycle to Work leaflet

SPREAD THE WORD

If your organisation is running the **Cycle to Work** scheme already, or thinking of starting, download and print the PDF leaflets from [here](#). Click on the link for 'PDFs'. There's a version for employers and one for employees.

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