

Cycle to Work Scheme General Information and Frequently Asked Questions (FAQs)

1. INTRODUCTION

To promote healthier journeys to work and 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 Governments Green Transport Plan. The following guidelines clarify how Derry City and Strabane District Council employees and elected Members can take advantage of the scheme that encourages them to cycle to work and allows employers to reap the benefits of a healthier workforce.

The scheme allows employees to hire bicycles and/or safety equipment at a reduced cost through a salary sacrifice scheme.

2. COMMONLY ASKED QUESTIONS AND ANSWERS

2A. WHAT IS THE CYCLE TO WORK SCHEME?

The scheme allows Derry City and Strabane District Council to provide an employee with a bicycle and associated safety equipment. The Council buys the bicycle and/or associated safety equipment selected by the employee. Council loans the bicycle to the employee for an agreed period (18 months) whereby the employee pays hire charges through a salary sacrifice arrangement for the duration of the hire period. As a result of the salary sacrifice arrangement, the employee saves on tax and national insurance. At the end of the hire period, the Council may choose to sell the bicycle and safety equipment to the employee for a percentage of the original cost, however, it has no obligation to do so.

2B. WHAT DOES THE TERM SALARY SACRAFICE MEAN?

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.

2C. WHAT ARE THE BENEFITS OF THE SCHEME TO EMPLOYEES?

- Employees pay hire charges of cost less tax and national insurance of the bicycle and/or safety equipment. See the example on Appendix B for further details.
- Tax and national insurance savings. Regular exercise to keep fit and healthy and energise the mind.
- Savings in time and money otherwise spent at the gym by incorporating fitness into daily life.
- Beat the busy rush hour traffic and save money on car fuel.

2D. WHAT EQUIPMENT IS INCLUDED?

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’. An electrically assisted pedal cycle can be included, however, it should be noted that:

In Northern Ireland, you need a motorcycle licence to drive any electric bike (Electrically Assisted Pedal Vehicle) and the vehicle must be registered, taxed and insured. Officials in Northern Ireland are aware of the issue and have drafted the legislation which would bring Northern Ireland in line with the rest of the UK. However, the current political impasse means that the legislation cannot be implemented until a new Assembly is in place, and this may be several months away at least.

Eligible safety equipment includes:

- Bells and bulb horns
- Cycle clips and dress guards
- Reflective and protective clothing
- White front reflectors and spoke reflectors
- Cycle helmets, which conform to European standards BS EN 1078:1997 and BS 6863:1989 or SNELL B.95
- Lights, including dynamo packs
- Locks and chains to ensure cycle can be safely secured
- Mirrors and mudguards to ensure rider’s viability is not impaired
- Panniers, luggage carriers and straps to allow luggage to be safely carried
- Child safety seats
- Pumps, puncture repair kits, cycle tool kits and tyre sealant to allow for minor repairs
- Cycle carriers for motor vehicles may be obtained under the cycle to work scheme, however, they must be substantially used in connection with qualifying journeys

Examples of items that do not count as cyclists' safety equipment include: `

- Cycle computer
- Waterproof clothing that is not reflective clothing
- Cycle training

It may be possible for disabled employees to have reasonable adjustments made to the bicycle provided that those adjustments can be provided within the £1,000 (VAT inclusive) limit.

2E. WHO IS ELIGIBLE?

To be eligible to participate in the Derry City and Strabane District Council Cycle to Work scheme, you must be employed by Derry City and Strabane District Council on either a permanent or long-term contract lasting at least the duration of the salary sacrifice scheme. You must also have sufficient salary to pay the lease costs without going below minimum wage. You must not be retiring from Derry City and Strabane District Council within the period of the salary sacrifice scheme. You must not be on a “casual” contract with no fixed hours of work.

2F. WHAT VALUE OF VOUCHER WILL I BE AWARDED?

Employees can be awarded an amount up to a maximum of £1,000 (VAT inclusive). However, employees may be awarded less than the £1,000 (VAT inclusive) if their net wage were to fall below the National Minimum Wage after the amount awarded has been deducted.

2G. WHO WILL INSURE MY BICYCLE?

By entering into this agreement you are confirming that you will use the bicycle and associated safety equipment for commuting to and from work and it is therefore the **employee's responsibility** to insure the bicycle and associated safety equipment for the duration of the hire period. Employees should mention to their insurers that Derry City and Strabane District Council has an interest in the bicycle and/or associated equipment.

2H. WHO ACTUALLY OWNS THE BIKE?

The bicycle and associated safety equipment remain the property of Derry City and Strabane District Council for the duration of the hire period 18 months.

2I. WHAT HAPPENS IF THE EQUIPMENT IS STOLEN OR DAMAGED?

If a bicycle and/or associated safety equipment is stolen or damaged then the employee will be liable for any outstanding monies **without** any tax exemptions. **It is the employee's responsibility to ensure that the bicycle and associated safety equipment is insured.**

2J. WHAT HAPPENS AT THE END OF THE LOAN PERIOD?

Per HMRC, in order for employees to benefit from the tax exemption i.e. that employees save in tax and national insurance charges as demonstrated in Appendix C, there should be no automatic entitlement for the employee to take ownership of the bicycle and/or associated safety equipment at the end of the loan period.

Also per HMRC Derry City and Strabane District Council cannot suggest that the employee will have the option to buy and DCC cannot make a commitment to sell the bicycles and/or associated equipment. In the event that the bicycles and/or associated equipment were to be sold, this would be covered by a separate agreement.

If Derry City and Strabane District Council chose to enter into a separate agreement to sell the bicycles and/or associated safety equipment, then the items would be sold for either 16% of the original cost (if original cost is under £500) or 21% (if original cost is over £500) plus VAT.

For example, if a voucher were awarded for £1,000, the item would be sold for £252 ($£1000 \times 20\% = £210$ plus 20% VAT = £252). If a voucher were awarded for £350, the item would be sold for £67.20 ($£350 \times 16\% = £56$ plus 20% VAT = £67.20)

This is in line with the most recent HMRC Fair Market Value guidance value, if Derry City and Strabane District Council chose to sell the equipment in a separate agreement and an employee chose to buy the goods, then a taxable benefit would arise which Derry City and Strabane District Council would pay on behalf of that employee.

Please note that at the end of the hire period you have the option of returning the goods to Council or purchasing the goods by means of this final payment. Unless you confirm that you do not wish to acquire the goods you will be invoiced for the final payment at the end of the hire period. If this invoice is not paid within 60 days then you consent to the invoice total being deducted from your next net pay.

2K. DO EMPLOYEES HAVE TO USE THE BIKE FOR WORK?

The tax exemption only applies when an employee mainly uses the bicycle and or associated 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.

‘Mainly’ means that more than 50% of use of the bicycle and associated safety equipment must involve a qualifying journey.

Employees are not expected to keep mileage logs but if the employee does not use the bicycle and associated safety equipment for qualifying journeys, they may lose the benefit of the tax exemption and have to pay tax due on the benefit in kind. In that event the employer 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.

*Using the bicycle for part of the journey to work counts as a qualifying journey (e.g., “mixing the modes” - driving and cycling part of the journey or take bus/train and cycling from station, etc.)

2L. WHERE CAN I PARK MY BIKE AT WORK AND WHO IS RESPONSIBLE FOR IT?

Bicycles can be parked at the cycle facilities at Strand Road and Derry Rd offices or your normal place of work (leisure centres, recycling facilities, etc.) If there is a need for cycle parking and/or storage at one of the Council facilities this will be addressed by the Council.

The bicycle and/or associated safety equipment will be the **employee’s responsibility**.

2M. DO I GET MILEAGE ALLOWANCE FOR USING THE BICYCLE AT WORK?

Journeys between home and work are not business travel. Journeys made at work (e.g., to meetings, between offices, site visits) qualify as work related journeys and employees can claim 20p/mile if they use their bike for the trip.

2N. WHAT HAPPENS IF AN EMPLOYEE LEAVES DURING A REPAYMENT PERIOD?

The employee will have to repay the outstanding amount in full.

2O. WHAT HAPPENS TO MY SALARY IF I AM ABSENT FROM WORK?

No statutory payments may be salary sacrificed. Statutory Payments are Statutory Maternity Pay, Statutory Adoption Pay, Statutory Paternity Pay, and Statutory Sick Pay. As such any salary sacrifice under the Hire Agreement must be put on hold while an employee

is receiving a statutory payment. The salary sacrifice can then recommence when the employee returns to work and begins to receive normal wages again. This will mean that during the period when the statutory payment is received the employee will still have access to the equipment. Therefore the Hire Agreement itself must be extended when the employee returns in order to take into account any missed months

Where an employee is in receipt of company maternity/paternity/adoption/sick pay and this exceeds what the employee would receive as a statutory payment, the salary sacrifice for the bicycle and/or associated equipment can continue.

2P. HOW LONG IS THE HIRE PERIOD FOR?

The hire period is for 18 months (i.e., 18 pay cycles for those paid monthly or 78 pay cycles for those paid weekly).

2Q. WHAT SAVINGS WILL I MAKE?

Please see Appendix B for a working example.

2R. WILL MY ENTITLEMENTS TO CERTAIN STATE BENEFITS BE AFFECTED?

For some employees opting into the scheme could affect their entitlements to certain state benefits (incapacity benefit, pension, maternity allowance, JSA, Income Support, Housing Benefit). Derry City and Strabane District Council therefore recommends that employees seek independent advice in relation to what effect the scheme could have on those benefits before deciding to opt into it.

Also the scheme could potentially affect Childcare Tax Credit and Working Tax Credit and again Derry City and Strabane District Council recommend that employees obtain advice from a benefits advisor/HMRC before they decide to opt into the scheme.

2S. WHERE CAN THE BICYCLE AND/OR ASSOCIATED SAFETY EQUIPMENT BE SELECTED FROM?

Employees can select from the following only:

- BPC Cycle Centre, 30 Main St, Strabane
- Caldwell Cycles, Dromore Rd Retail Park, Omagh
- Claudy Cycles, Barnailt Road, Claudy
- Conway Cycles, Loughmacrory Rd, Omagh
- Halfords, Crescent Link, Derry~Londonderry and Great Northern Business Park, Omagh
- Roe Valley Cycles, Catherine St, Limavady

- So Cycle, 72 Main St, Agher
- Total Cycling, Pennyburn Industrial Estate, Derry~Londonderry

2T. HOW OFTEN CAN I PURCHASE A BICYCLE AND/OR ASSOCIATED EQUIPMENT?

The scheme is being run initially on a pilot basis for the first 18 months. Derry City and Strabane District Council will notify staff in advance should it decide to offer the scheme again at the end of the Hire Agreement period.

2U. CAN I PAY OFF THE HIRE CHARGES EARLY?

No, payments must be deducted as per the Pre-contract and Hire Agreement.

2V. CAN I GET ELIGIBLE ITEMS OVER DIFFERENT VENDORS?

Yes, as long as the employee has the written quotations from the vendors and all items are within the employee's amount awarded.

2W. CAN I SIGN UP TO THE SCHEME ALL YEAR ROUND?

No, the scheme is being run with open 'windows' during which employees can join the scheme. Employees will not be able to join outside of the windows. Depending on demand and how well the scheme runs, Council may decide to open other 'windows' in the future. Employees will be notified via e-mail and printed flyers if and when a 'window' will open.

2X. CHANGE IN HMRC VAT TREATMENT

Where an employer purchases or leases cycles and cyclists' safety equipment, VAT will be incurred on the cost, barring crash helmets which are zero rated, at the point of purchase or on leasing payments for that equipment. Where the equipment is for use in a Cycle to Work scheme for employees, HMRC accept the VAT incurred is for the purpose of the business of the employer and may be treated as input tax, subject to the usual rules on VAT recovery.

Until July 2011 HMRC accepted that, for a bicycle provided under a salary sacrifice scheme, the reduction in the employee's salary did not constitute consideration for the bicycle and output tax was not due. However, following a judgment of the Court of Justice of the European Union HMRC changed its view and, therefore, for salary sacrifice agreements entered into on or after 28 July 2011 VAT will be due on the amount of salary forgone in respect of the bicycle.

CONTACT DETAILS



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