



Department
for Transport

Cycle to Work Scheme Guidance for Employers

Moving Britain Ahead



June 2019

The Department for Transport has actively considered the needs of blind and partially sighted people in accessing this document. The text will be made available in full on the Department's website. The text may be freely downloaded and translated by individuals or organisations for conversion into other accessible formats. If you have other needs in this regard please contact the Department.

Department for Transport
Great Minster House
33 Horseferry Road
London SW1P 4DR
Telephone 0300 330 3000
Website www.gov.uk/dft
General enquiries: <https://forms.dft.gov.uk>



© Crown copyright 2019

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos or third-party material) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk

Where we have identified any third-party copyright information you will need to obtain permission from the copyright holders concerned.

Contents

- 1. Introduction 4
 - Why Cycle to Work? 4
 - What this guidance does 5
- 2. Options for Cycling to Work 6
 - Overview 6
 - Loan Schemes 6
 - Pooled Schemes 6
- 3. How a salary sacrifice scheme works 7
 - Overview 7
- 4. The salary sacrifice scheme 8
 - Overview 8
 - Eligibility 9
 - Equipment included 10
 - Inclusivity and adapted cycles 10
- 5. Consumer hire agreement, authorisation and exemption 11
 - Overview 11
- 6. Cycle to Work scheme providers 14
 - Overview 14
- 7. Frequently Asked Questions 16
- Annex A: What Equipment is included in a salary sacrifice scheme? 18
- Annex B: Technical guidance for a salary sacrifice scheme 19
- Annex C: Valuing cycles at the scheme end 23
- Annex D: Further contacts for advice 24

1. Introduction

Why Cycle to Work?

- 1.1 The Government's ambition that cycling and walking are the natural choices for shorter journeys, or as part of a longer journey, was clearly set out in the Cycling and Walking Investment Strategy published in 2017¹. If we can increase levels of active travel, such as cycling, the benefits are substantial. For individuals, it means cheaper travel and better health. For businesses, it means increased productivity and increased footfall in shops. And for society as a whole it means lower congestion, better air quality, and vibrant, attractive places and communities.
- 1.2 The health benefits of cycling are well understood. Illness as an outcome of physical inactivity costs the NHS up to £1 billion per annum, with further indirect costs calculated at £8.2 billion².
- 1.3 We want to make sure that Cycle to Work schemes continue to attract new cyclists and are as inclusive as possible so that people travelling to work have the opportunity to realise the benefits that cycling affords. The scheme has involved over 40,000 employers across the country, and has contributed to help more than 1.6 million commuters to cycle to work.³

¹ <https://www.gov.uk/government/publications/cycling-and-walking-investment-strategy>

² NICE Report (2013)

³ Source: Cycle to Work Alliance 2019

What this guidance does

- 1.4 This document offers guidance to employers on Cycle to Work schemes. These are employee benefit schemes that enable employees to hire cycles for active travel and/or cyclist's safety equipment from the employer, or from a third party, in return for a deduction from their earnings known as salary sacrifice. For a definition of cycles for active travel and safety equipment see Annex A. If the scheme meets the relevant criteria it can provide financial benefits to both employers and employees.
- 1.5 This guidance updates and clarifies the guidance last published in 2011 by the Department for Transport. It may also be of help to scheme providers.
- 1.6 **The guidance reflects the tax and legal position at the time of publication.** Employers and scheme providers should check the current position (see Annex B for technical details). This guidance has been developed by the Department for Transport, HM Treasury, HM Revenue and Customs (HMRC) and the Financial Conduct Authority (FCA).

2. Options for Cycling to Work

Overview

- 2.1 This document primarily concerns Cycle to Work schemes using the salary sacrifice process. It sets out how such schemes typically operate, and what is needed to ensure that the tax and National Insurance benefits can apply. It also sets out whether the associated hire agreement may be regulated or exempt.
- 2.2 There are also other ways in which you, as an employer, can encourage cycling to work and for active travel. Some of these other options are described briefly below.
- 2.3 Of course, any scheme will only reap the full benefits of cycling if there are suitable facilities to support those who choose to cycle to work. These include secure, safe and accessible cycle parking at their place of work and good quality shower, changing and locker amenities for staff who want them.

Loan Schemes

- 2.4 One alternative option is to provide a loan to an employee to purchase a cycle for active travel and/or safety equipment. This is similar to offering an advance of salary to employees for purchasing rail season tickets.
- 2.5 Loan schemes, including on an interest-free basis, may be subject to regulation by the FCA. Whether a loan scheme meets the criteria to be exempt from regulation will depend upon the nature and duration of the loan. If in doubt, you should consider seeking legal advice. If the loan is not exempt, you will need FCA authorisation⁴.

Pooled Schemes

- 2.6 Another alternative is the workplace pool cycle model. This is a tried and tested option for supporting staff in their commuting and for inter-site and business trip travel which is not currently being well served by public transport. At its simplest, you can purchase a suitable fleet of cycles for active travel and make them available to employees either on a one-to-one or a pool basis. Work place schemes should focus on attracting people who currently travel on less sustainable and less active modes, such as their cars, between local meetings or work sites. Cycles for active travel should be easily accessible both in terms of position, close to where they are needed and are securely stored and maintained.

⁴ Article 60B of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, SI 2001/544.

3. How a salary sacrifice scheme works

Overview

- 3.1 Salary sacrifice is where your employee agrees to give up part of their pre-tax salary in exchange for a benefit from their employer, in this case, the hire of a cycle for active travel and/or safety equipment. See figure 1 below.



Figure 1 Flow diagram of how salary sacrifice works (Image courtesy of the Cycle to Work Alliance)

- 3.2 There will also be a separate hire agreement, which may or may not be regulated by the FCA. This will typically be between the employee and the employer, who has either purchased the equipment or leased it from a third party (such as a retailer or a specialist leasing firm). The employee pays for the hire via the salary sacrifice arrangement with the employer.
- 3.3 In some cases, the hire agreement may be between the employee and a third party, such as a scheme provider, who hires the goods to the employee and is remunerated by the employer from the salary sacrifice proceeds.

4. The salary sacrifice scheme

Overview

- 4.1 A Cycle to Work scheme can benefit both the employer and the employee.
- 4.2 If the scheme meets the relevant criteria it can benefit from a tax exemption introduced under Section 244 of the Income Tax (Earnings and Pensions) Act 2003. Since a portion of the salary is foregone, the employee pays less tax and National Insurance Contributions (NICs), and the employer is able to save on employer NICs at 13.8% and Apprenticeship Levy at 0.5% (where applicable) on the amount sacrificed.
- 4.3 The tables below give examples of how much can be saved by employees:

Examples of hire value	Year 1	Year 2	Total
£500	£80	£80	£160
£750	£120	£120	£240
£1,000	£160	£160	£320

Table 1 Example of Basic Rate Taxpayer Employee Saving at 32% (20% Income Tax and 12% NIC) over two-year term

Examples of hire value	Year 1	Year 2	Total
£500	£105	£105	£210
£750	£157.50	£157.50	£315
£1,000	£210	£210	£420

Table 2 Example of Higher Rate Taxpayer Employee Saving at 42% (40% Income Tax and 2% NIC) over two-year term

If the employee buys the cycle and equipment at the end of the hire period under a separate agreement made at that time, then there are further savings to be made - see B.26 for further details and Annex C for valuing cycles at the scheme end.

4.4 The table below gives examples of how much can be saved by employers:

Examples of hire value	Employers' NIC Saving (13.8%)
£500	£69
£750	£103.50
£1,000	£138

Table 3 Example of how much can be saved by employers

4.5 The salary sacrifice arrangement is typically for at least 12 months. This is irrespective of the length of the associated hire agreement.

4.6 The following conditions must also be met:

- An employee must not, at any point during the hire period, own the cycle;
- At least 50% 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. This does not necessarily have to be through a salary sacrifice arrangement in each case.

4.7 For tax and National Insurance purposes there is no limit on the value of the cycle and safety equipment you can provide to an employee.

4.8 Further technical guidance to support you on how a salary sacrifice scheme works can be found at Annex B to this guidance. In addition, you can find out how to set up a salary sacrifice arrangement and understand the effects on tax and NICs here <https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-pay>

Eligibility

4.9 Any employer, of any size, across the public, private and voluntary sectors can run a Cycle to Work scheme. However, the tax and NI benefits apply only to staff who are treated as employees for tax purposes.

4.10 If your employee is under 18 you may not want to enter into a hire agreement with them because of the law relating to contracts with minors, or you may want to consider requiring an adult to act as a guarantor⁵. Alternatively, you can make a cycle for active travel available to them without a salary sacrifice.

4.11 The scheme does not include people who are self-employed. Specialist tax advice is available to self-employed people who wish to use cycles and equipment for business purposes. There is also some general guidance here: <https://www.gov.uk/expenses-if-youre-self-employed>

⁵ The agreement would need to comply with CCA requirements – there are additional provisions where security is provided in relation to a regulated credit or hire agreement, for example by a guarantor.

Equipment included

- 4.12 Only cycles for active travel and cyclist's safety equipment can be hired under the Cycle to Work Scheme. Cycles are defined as being '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 – see Annex A for more detail.
- 4.13 Providing cyclist's safety equipment is optional and whilst this equipment is not defined in legislation a suggested list of equipment is at Annex A. It is the employer's responsibility to ensure safety equipment is compliant with the scheme.
- 4.14 You can hire two cycles to one employee if, for example, a cycle is used at either end of a train journey between home and place of work. However, both cycles should be used for commuting. As above, this is subject to the £1,000 limit if the employer is relying on the FSMA Order exemption, rather than being FCA authorised.

Inclusivity and adapted cycles

- 4.15 For some people with disabilities, cycling is easier than walking. Depending on the person, the right cycle for active travel may be an Electronically Assisted Pedal Cycle (EAPC), a cycle with adaptations or a non-standard cycle, e.g. tricycle, hand-cycle, cargo-cycle (with or without electronic assist). The relevant conditions in relation to the Cycle to Work scheme will apply as set out in paragraphs 5.1 to 5.7 and if using a scheme provider as set out in section 6.

5. Consumer hire agreement, authorisation and exemption

Overview

- 5.1 Where a cycle and/or safety equipment is made available to an employee under a salary sacrifice arrangement there will be a consumer hire agreement in place which will typically be between the employee and the employer, or it could be with a third party, such as a scheme provider.
- 5.2 This is likely to be a regulated consumer hire agreement under the Consumer Credit Act 1974 (CCA). The owner of the goods will need to comply with all relevant CCA requirements and other consumer protection legislation, including on unfair contract terms. In particular, pre-contractual information must be provided, in the manner required by the CCA⁶, and the hire agreement must comply with form and content requirements.⁷ There are also post-contractual CCA requirements. If the hire agreement lasts for more than 18 months, the employee will have a statutory right to terminate under section 101 of the CCA.
- 5.3 In addition, the owner under the consumer hire agreement may need Financial Conduct Authority (FCA) authorisation.⁸ Details on how to apply can be found on the FCA website here: <https://www.fca.org.uk/firms/authorisation>
- 5.4 There is an exemption from needing authorisation where the owner is the employer and the total value of the goods being hired does not exceed £1,000.⁹ The agreement must be under a relevant employee benefit scheme.¹⁰ This exemption is provided under the Financial Services and Markets Act 2000 (Exemption) Order 2001 (referred to here as the FSMA Order).
- 5.5 This exemption does not apply if the total value of the goods hired under the agreement exceeds £1,000. This is irrespective of the value of the salary sacrifice arrangement. The exemption also does not apply if the employer is authorised by the FCA for another separate regulated activity¹¹, or if the agreement is with a third party (such as a scheme provider), in which case FCA authorisation is needed. Schemes where the total value of goods hired exceeds £1,000 are acceptable provided the requisite FCA authorisation is obtained.
- 5.6 Even if the FSMA Order exemption applies, and your company does not need FCA authorisation, the consumer hire agreement must still comply with requirements set out in the CCA.

⁶ Section 55 CCA and the Consumer Credit (Disclosure of Information) Regulations 2004.

⁷ Section 60 CCA and the Consumer Credit (Agreements) Regulations 1983.

⁸ Article 60N of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, SI 2001/544.

⁹ Paragraph 53 of the Schedule Financial Services and Markets Act 2000 (Exemption) Order 2001, SI 2001/1201 – see <http://www.legislation.gov.uk/ukdsi/2013/9780111100493/article/14/data.xht?wrap=true>

¹⁰ A scheme operated by an employer which is designed to allow employees to take advantage of the relevant tax exemption and under which cycles or cyclist's safety equipment are made available in the manner described in any guidance issued by the Secretary of State.

¹¹ Section 38 of the Financial Services and Markets Act 2000.

5.7 The diagrams below set out scenarios where the employer hires cycles for active travel and equipment directly to employees:

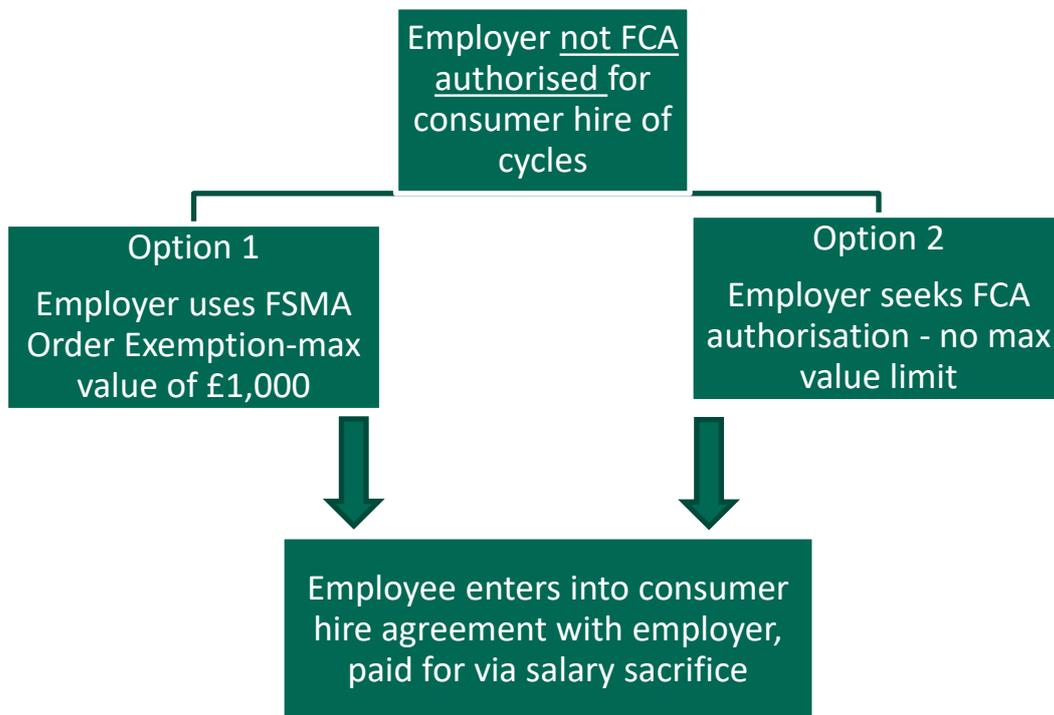


Diagram 1 Employer not FCA authorised for consumer hire of cycles

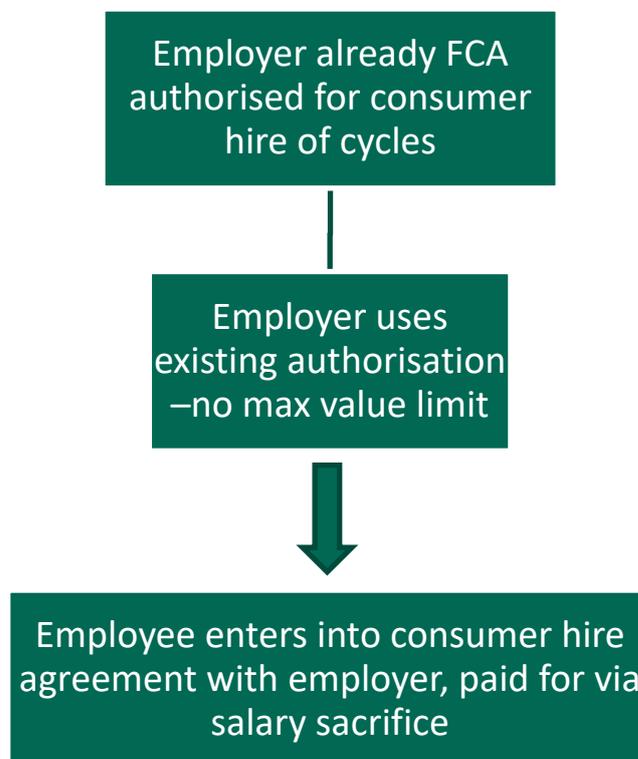


Diagram 2 Employer already FCA authorised for consumer hire of cycles

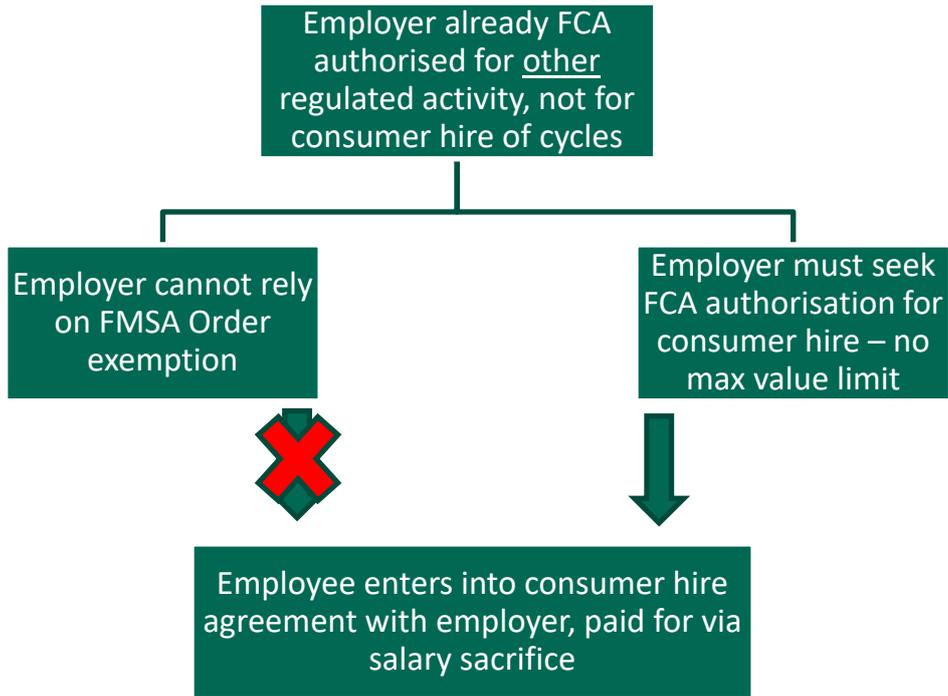


Diagram 3 Employer already FCA authorised for other regulated activity, not for consumer hire of cycles

6. Cycle to Work scheme providers

Overview

- 6.1 You can set up and run your own salary sacrifice scheme, or there are Cycle to Work scheme providers who can run a scheme for you. Scheme providers will normally:
- Ensure the scheme is fully compliant with legislation;
 - Administer the scheme for you, reducing complexity;
 - Advise you on salary sacrifice arrangements;
 - Help you promote the scheme to your employees.
- 6.2 Using this arrangement typically means that your employee enters into a consumer hire agreement directly with the scheme provider. The scheme provider will need authorisation by the Financial Conduct Authority (FCA).
- 6.3 Depending upon the circumstances, you (the employer) may be acting as a credit broker, and so may need FCA authorisation for credit broking.¹² There is relevant guidance in PERG 2.3 in the FCA's Perimeter Guidance Manual – <https://www.handbook.fca.org.uk/handbook>
- 6.4 Alternatively, you could act as an appointed representative of the scheme provider. An appointed representative is a firm or individual that carries on regulated activities under the supervision of another firm that the FCA directly authorises (in this case, the scheme provider). The scheme provider, as principal, must however, take responsibility for your activities as the appointed representative. There must be a written contract, documenting the arrangement, and the principal must ensure the appointed representative complies with all applicable FCA rules.
- 6.5 Details on what it means to be an appointed representative can be found here <https://www.fca.org.uk/firms/appointed-representatives-principals>
- 6.6 If in doubt about this or any other regulatory issues, you should consider seeking legal advice on your position. If you act as a credit broker without being authorised this is likely to be a criminal offence. In addition, the hire agreement is likely to be unenforceable by the scheme provider and the employee would be entitled to a refund of hire charges (unless the scheme provider applies to the court to enforce the agreement and to be allowed to retain sums already paid).
- 6.7 The diagram below sets out a scenario where a third-party scheme provider hires cycles and equipment to employees:

¹² Article 36A of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.



Diagram 4 Third party already FCA authorised for consumer hire of cycles

7. Frequently Asked Questions

Q.1 Can an employee put their own funds towards costs?

No, employees are not allowed to use their own funds towards the cost of goods being hired under a consumer hire agreement. This, however, does not preclude the employee from separately buying additional equipment.

Q.2 Can employers hire a cycle and equipment worth more than £1,000 to employees?

Yes. Cycle to Work schemes where the total value of goods hired by the employer to the employee exceeds £1,000 are acceptable provided the requisite Financial Conduct Authority (FCA) authorisation is obtained. This is irrespective of the value of the salary sacrifice arrangement.

Q.3 Do HMRC need to authorise the scheme?

Cycle to Work schemes do not need approval from HMRC. HMRC provide general information for employers regarding salary sacrifice. See link here: <https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-payee>

Q.4 Can an employee keep the cycle at the end of the hire period?

At the end of the hire period an employee may have three options:

- Option 1: extend the hire agreement;
- Option 2: return the cycle and equipment;
- Option 3: buy the cycle and equipment under a separate agreement entered into at the time (see Annex C for valuing cycles at scheme end).

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. If there is, this is likely to make it a hire-purchase agreement (rather than a hire agreement) where different regulatory requirements apply and it would no longer be eligible for the tax exemption. Therefore, your employee scheme rules should not refer to ownership as an option, and any decision to sell the cycle or equipment to the employee should be entirely discretionary at the time. It is important therefore that the employee is not given any expectation at the outset that they may be entitled to buy the cycle outright.

Q.5 Should cycles be insured?

Whilst the cycle remains the property of the employer (or third-party provider) throughout the hire term, the employee is responsible for its appropriate care, maintenance and security. Therefore, it is recommended that employees take out separate insurance, or check if the cycle is covered under their home contents insurance policy (in which case they should tell the insurer who owns the cycle). Salary sacrifice payments should continue irrespective of any insurance claim.

Q.6 Is it only cycles that can be hired?

Only cycles for active travel and cyclist's safety equipment can be hired under the Cycle to Work Scheme. An Electrically Assisted Pedal Cycle (EAPC) can be included under the scheme – see Annex A.

Annex A: What Equipment is included in a salary sacrifice scheme?

A.1 Eligible equipment includes cycles for active travel and cyclists' safety equipment.

A.2 A "cycle" is '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. For further information on requirements for using EAPCs see:

<https://www.gov.uk/electric-bike-rules>

A.3 Cyclists' safety equipment is not defined in legislation, although this could include:

- Cycle helmets which conform to European standard BSEN1078
- 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
- Child safety seats
- Locks and chains to ensure the cycle can be safely secured
- Pumps, puncture repair kits, cycle tool kits and tyre sealant to allow for minor repairs
- Replacement parts to keep a cycle roadworthy
- Adaptations for disability/mobility issues.
- Reflective clothing or reflective cycle equipment, e.g. spoke reflectors

Annex B: Technical guidance for a salary sacrifice scheme

Scope of Cycle to Work scheme

B.1 For more technical information on general availability, go to:

- [The general rules on availability](#)
- [The definition of 'excluded employees'](#)
- [The definition of making bicycles available](#)

National Minimum Wage and National Living Wage

B.2 All employees must be paid the National Minimum or National Living Wage. Your employee must not sacrifice salary to a level below this minimum (however the scheme should generally be available to all colleagues).

B.3 If a salary sacrifice agreement would put their salary below this threshold, you can:

- offer the employee a lower value package and/or a longer than usual hire period;
- hire a cycle to the employee without a salary sacrifice arrangement.

Time periods for schemes

B.4 Typically, such schemes run for 12 months or 18 months. This is irrespective of the length of the hire period, which can be shorter or longer. If the hire agreement lasts for more than 18 months, the employee has a statutory right to terminate under the Consumer Credit Act 1974. There may also be an initial cooling-off period. Where an employment is less than 12 months, an employee can participate in the scheme as long as they are in the scheme for the duration of their employment. See HMRC advice for further details on time periods <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim21665>.

B.5 If the employee leaves their employment for any reason during the period of the salary sacrifice arrangement, you may require them to pay compensation, to cover the costs that you have not recovered under the arrangement.

Employer's National Insurance Contributions

B.6 If your employee uses a salary sacrifice arrangement, you will save Secondary Class 1 National Insurance Contributions (NICs) (at 13.8%) on the salary sacrificed.

Benefit entitlement - impact on employers to consider

- B.7 The benefits offered through a salary sacrifice arrangement are often exempt from tax, which provides the employee with a financial advantage, and the employer also does not have to pay employer NICs on the salary foregone.
- B.8 The tax advantages of a salary sacrifice arrangement will only apply where the Cycle to Work scheme requirements are met, mainly that the cycle is:
- owned by the employer and/or a third party, and
 - mostly used for commuting or business travel.
- B.9 If a scheme is structured such that either of the two conditions are not met, then the cycle will be considered to be a Benefit in Kind, and employers will be responsible for reporting the taxable Benefit to HMRC.
- B.10 There are two ways to report a Benefit in Kind to HMRC. Employers can register for payrolling services before the start of the tax year (6 April), and use the simple online services to pay tax and NICs on the benefit. This prevents the need to submit a P11D return. Further information can be found at <https://www.gov.uk/guidance/paying-your-employees-expenses-and-benefits-through-your-payroll>
- B.11 Alternatively, at the end of the tax year employers will need to submit a P11D form to HMRC for each employee they have provided with expenses or benefits. Further information can be found at <https://www.gov.uk/government/publications/payee-end-of-year-expenses-and-benefits-p11d>

Benefit entitlement – impact on employees to consider

- B.12 If a salary sacrifice arrangement is used, this can affect your employee's entitlement to some state benefits. This is because both the gross pay of the employee is reduced, and the NICs they pay is reduced. The entitlement to some benefits is based on how much the employee earns, and some on NICs they have paid.
- B.13 Therefore, a salary sacrifice arrangement may affect an employee's current or future entitlement to a range of benefits. Although the likelihood is that any effect will be small, you need to clearly tell your employees what the sacrifice will mean in practical terms - in particular the effect, or potential effect, on:
- any pension scheme being contributed to (in particular this may be important if an employee is nearing retirement and has a final salary pension scheme);
 - entitlement to contribution-based benefits like the State Pension;
 - entitlement to earnings-related benefits like Maternity Allowance;
 - entitlement to work-related payments like Statutory Sick Pay.
- B.14 Salary sacrifice may also impact your employee's entitlement to holiday pay and bonuses, which depends on your contract with your employee.
- B.15 For more information on the potential impact on benefit entitlement go to <https://www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-payee>

Corporation Tax and Capital Allowances

During the Agreement

- B.16 If you purchase cycles outright and cyclist's safety equipment to hire out to your employees, this will be capital expenditure and you can claim capital allowances in the normal manner.
- B.17 For many businesses, expenditure on cycles and cyclist's safety equipment will qualify for the Annual Investment Allowance (AIA). The AIA allows businesses to write off 100 per cent of qualifying capital expenditure currently up to £200,000 each year against the business's taxable profits.
- B.18 More information on claiming capital allowances is available here:
<https://www.gov.uk/capital-allowances>
- B.19 Where the AIA is not available, or your total capital expenditure on plant and machinery exceeds the annual limit, expenditure on cycles and cyclist's safety equipment can be added to the main capital allowances pool and qualify for writing-down allowances at 18 per cent per annum.
- B.20 For example:
- Cost of cycle in year 1 = £500
 - Amount on which capital allowance due in year 1 is $£500 \times 18\% = £90$
 - Amount on which capital allowance due in year 2 is $£410 \times 18\% = £73.80$
 - And so on.
- B.21 As long as you own the assets, you can continue to claim capital allowances regardless of how long it is used in the Cycle to Work scheme.
- B.22 If you lease cycles and cyclist's safety equipment, the leasing costs will be a deductible expense against profits. Your auditor or tax advisor will be able to determine the specific accounting treatment

End of the agreement

- B.23 Where you have claimed capital allowances on the original capital expenditure any sums received for the sale of the cycle or cyclist's safety equipment must be brought into account as disposal proceeds in the main capital allowances pool.

Withdrawing from a scheme

- B.24 The consequences for withdrawing from a Cycle to Work scheme will depend upon the terms of the salary sacrifice arrangement and the associated hire agreement.
- B.25 You should clearly communicate the terms of the arrangements to employees prior to their entering into a Cycle to Work scheme.

End of hire agreements

- B.26 Provided that there is not a built in automatic transfer of ownership at the end of the hire period, you may choose to give your employee the option to purchase the equipment under a separate agreement following the expiry of the hire agreement. If so, you will need to value the equipment for tax purposes. You can either use the simplified approach set out here: <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim21667a> Annex C also sets out the value of cycles at scheme end or you can choose to work out the market value and charge the employee that amount. Any payment must be out of post-tax pay.
- B.27 If you give your employee the cycle without them paying for it, then this is a taxable benefit in kind, and should be reported on form P11D.
- B.28 Alternatively, you may wish to allow your employee to keep using the cycle and equipment after the initial hire period has ended, without transferring ownership, by extending the duration of the hire agreement or by entering into a new hire agreement. As long as the conditions of the tax exemption are still met, no tax charge will arise.

VAT

- B.29 If the cycle has been specifically adapted for a disabled person, no VAT is charged on the purchase. There is therefore no input tax on the purchase or hire, and no output tax on the salary sacrificed amount or end of period transfer.

During the Hire Agreement

- B.30 When you purchase or hire equipment, VAT will be charged on the cost (but not for cycle helmets which are zero rated).
- B.31 If you do not use salary sacrifice arrangements, this is input tax and is subject to the usual rules on VAT recovery.
- B.32 If you use a salary sacrifice arrangement, then this is still input tax, but the salary sacrifice constitutes consideration for the equipment and, hence, output tax will be due on the amount of salary forgone.

End of Agreement Purchase

- B.33 If at the end of hire period your employee is given, as part of a separate agreement, an option to purchase the equipment and they choose to do so, then any charge made will be liable to VAT.
- B.34 Output VAT will also be payable on the purchase price by the employee on the supply by the hiring company or to you as owner of the equipment.

Annex C: Valuing cycles at the scheme end

Age of cycle	Acceptable disposal value as a percentage of original price (including VAT)	Acceptable disposal value as a percentage of original price (including VAT)
	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

Table 1 Valuing cycles at the scheme end

- C.1 For fuller guidance on transfer of ownership, you may wish to refer to EIM 21667, EIM 21667a and EIM 21650 in the Employment Income Manual, available here: <https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim21601>

Annex D: Further contacts for advice

D.1 For further advice on how to implement a Cycle to Work scheme please contact:

- Department for Transport: general-enquiries@forms.dft.gov.uk
- HMRC for specific details on how tax applies in schemes:
<https://www.gov.uk/contact-hmrc>
- General information for employers regarding salary sacrifice is available at:
www.gov.uk/guidance/salary-sacrifice-and-the-effects-on-payee