



BA GUIDE:

Cycle to Work



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The Bicycle Association of Great Britain



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Welcome

The BA Guides are a series of concise documents aiming to offer definitive information on matters of interest to the UK cycle industry. BA Guides are available as free downloads on the Bicycle Association website for reference by the wider industry, media and general public, while more detailed and specific material is reserved for Bicycle Association member companies.

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An explanation of the Cycle to Work Benefit

The cycle to work scheme, introduced in the 1999 Finance Act, is a tax-free, salary sacrifice benefit offered through employers.

Today, over 200k employers offer the scheme to their employees, covering a significant proportion of the working population in the UK. Over £2 billion in bike sales have been processed by retailers in total.

Employers buy cycling equipment from a retailer or scheme provider, which they then hire to their employees. In return, employees agree to give up an equivalent proportion of their gross salary, for an agreed period (usually 12 months), in exchange for the hire thereby paying less income tax and National Insurance Contributions (NICs) on their remaining salary.

Employees can save up to 47% per cent of the cost of a new bicycle, although most employees save 32% (basic rate taxpayer savings). At the end of the hire period, the employee is presented with options which may include taking ownership of the bike, or extending the initial hire period, at no further cost.

Employers also save on Secondary Class 1 NICs (usually around 13.8 per cent) as the amount they're paying in wages is also lower.

The BA strongly recommends any company wishing to learn more about the scheme to read the Department for Transport (DfT) 'Guidance for Employers' which can be found [here](#).

This guide can be shared as necessary, and covers many areas that relate specifically to employer questions in relation to tax, process and HMRC rules.

There are now two variations of the scheme, one where employees choose equipment up to a value of £1000, and the other where equipment choices are above £1000:

Up to £1000 - employers utilise a group exemption (issued by the Financial Conduct Authority) that allows them to enter into regulated hire agreements with employees. This exemption caps equipment choices at £1000. In this scenario the employer is the owner of the equipment that is hired to employees.

Above £1000 - employers utilise the FCA Authorisation of a third party (which may be a C2W provider), which removes the need to have a limit at £1000. In this scenario, the third party remains the owner of the equipment that is hired to employees.

Let's talk about tax

The tax we pay is a mystery to many - despite the significant amounts we all pay. This is unsurprising, given the differing names and rates to be understood. As stated, employees save both [income tax](#) and [national insurance](#) at the notional rates they pay. In practice most people save as follows:

**Pay tax at basic rate - save 32%
in total (20% in income tax
and 12% in NI)**

**Pay tax at higher rate - save 42%
in total (40% income tax
and 2% in NI)**

Three quarters of all people who pay tax do so at the basic rate, and therefore the majority of employees save 32%. A good example of how the savings are made can be found [here](#).



A note on self-employed

Whilst the guidance states that only those employees whose salary is paid via a 'Pay As You Earn' (PAYE) system can access the tax benefit, those who are self-employed can access savings in other ways.

You can't join a scheme if you're a sole trader. As a sole trader, you pay income tax and National Insurance once a year under Self Assessment, the amounts being based on your profits. This means sole traders do not pay tax and National Insurance through PAYE (and therefore cannot avail of the scheme). The exception would be for a sole trader who had a second job that did pay a salary (meaning they could potentially apply via the business that pays them a PAYE via salary).

You may be able to join a scheme if you run your own limited company as a director, even if you're the sole employee. With a single-person business like this, you'll typically pay yourself a minimal salary through PAYE and take the bulk of your income as dividends.

However, the salary you pay yourself is probably at or even below [National Minimum Wage](#) (unless you have a contract of employment with your own company; which is unlikely). If your PAYE salary is at or below [National Minimum Wage](#) then you would not be eligible to join the scheme - to become eligible you would need to increase the portion of your salary that is paid via PAYE. To proceed, you must be earning NMW **after** any salary sacrifice payments. So you must pay yourself at least NMW plus the value of the salary sacrifice you'll be making via the scheme.

Your director's salary will thus be larger in your annual accounts. You'll still draw down dividends, but your administrative expenses will be larger by the increase you make in your director's salary.

Finally, as a self-employed person and if you use a bicycle for business purposes (for example to get to meetings), you may be able to claim tax relief on the costs that are attributable to your business. For further information on claiming expenses see [here](#).

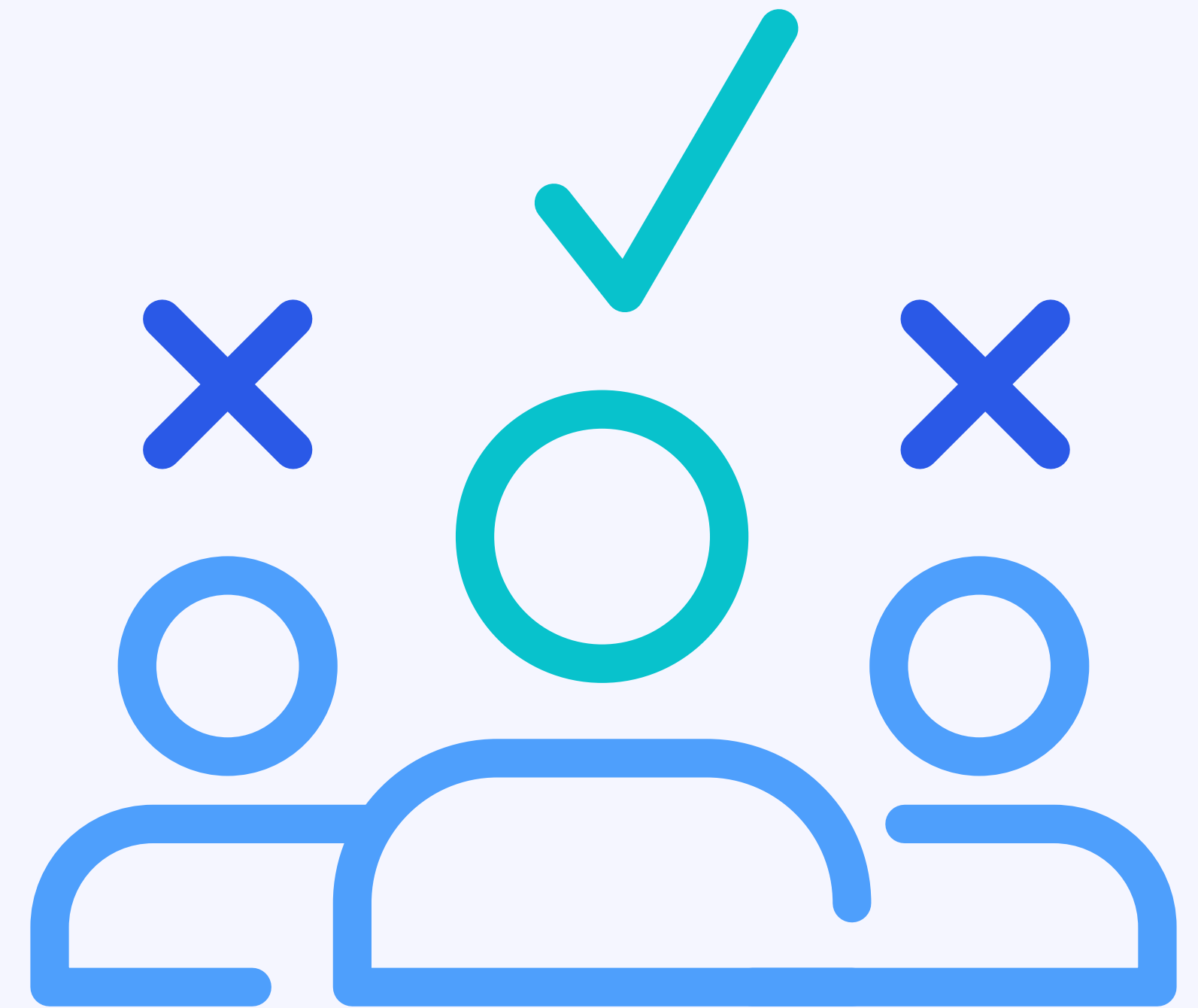
Let's talk about hire

You may be wondering (many do) - why does it have to be a hire arrangement? This is all about the original legislation [that underpins the scheme](#). This legislation stated that, for the tax break to apply, that the ownership cannot be transferred from employer to employee. For this reason the employer (or third party) needs to loan the equipment, and the transfer of goods takes place after the hire period and under a separate transaction.

Further, the hire agreement is regulated, and needs to comply with the Consumer Credit Act (1974). To assist employers, an [exemption](#) exists which allows them to enter into regulated hire agreements with their employees if they decide to offer a scheme limited to £1k (to increase the limit beyond £1000, employers can either apply for their own authorisation or use the authorisation of a third party).

And finally, there are options to manage at the end of the initial hire agreement. Several options exist, all based on [HMRC's guidance](#) for the valuation of 2nd hand bikes - most employees want to keep their costs as low as possible so pay either a small fee (or no fee which is equivalent to the value of the bike at 4 years old) and extend their hire agreement for the appropriate time period.

You can read what options employers have [here](#).



What benefits does the scheme provide?

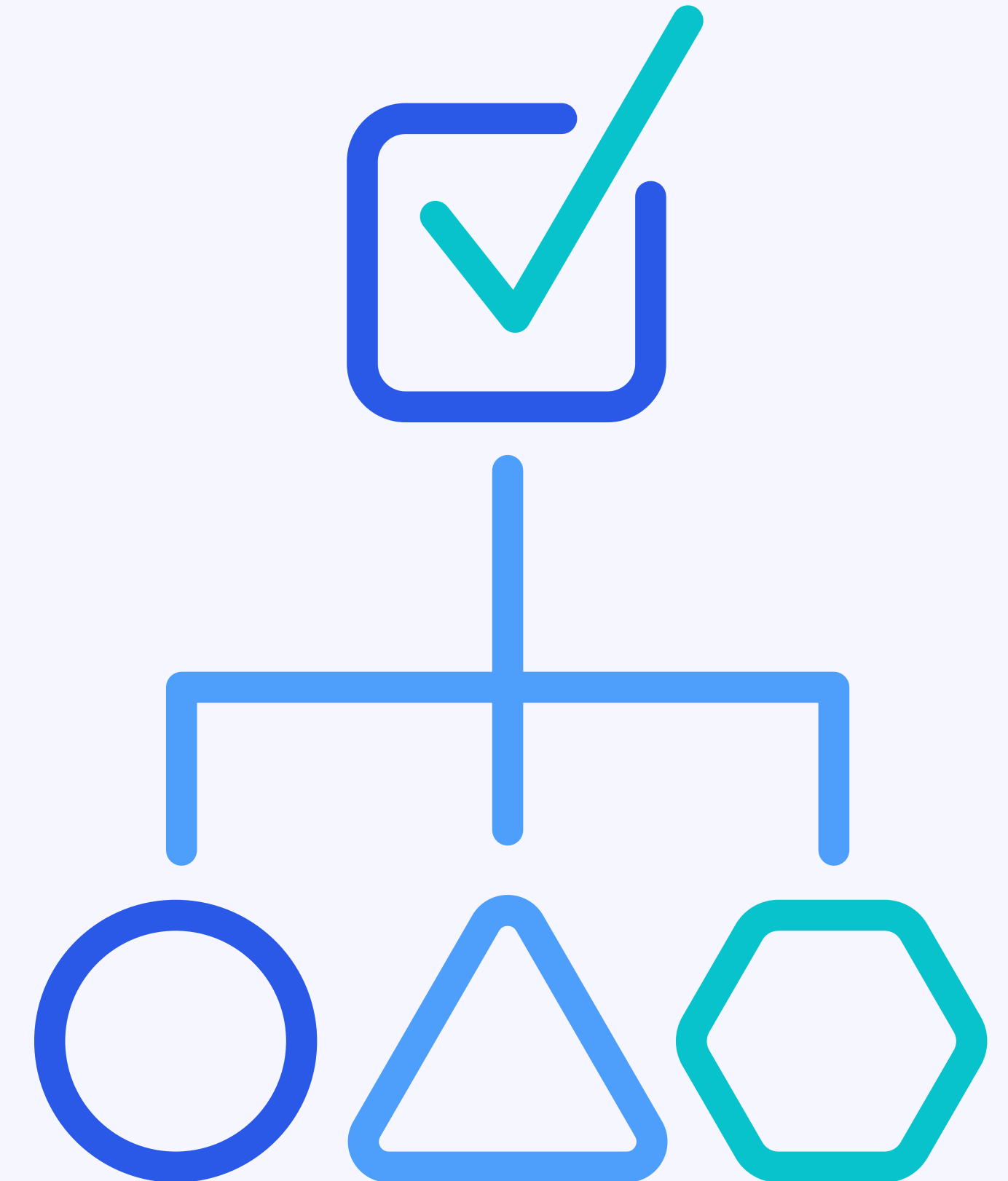
The UK cycle sector is unusual, in being able to benefit from a tax break for the purchase of bicycles and equipment. The perceived benefits of this tax break may be:

For brands and distributors - incremental product sales. generated at retail level, sold at RRP - and in every part of the UK. Transaction values tend to be higher than normal thanks to the tax savings on offer.

For retailers - incremental product sales, sold at RRP. New customer acquisition creates the opportunity of customers for life. Engagement with local employers reinforces their role in the community. Higher transaction values than normal.

Employers - reduced NIC bill. A more engaged and loyal workforce. Health benefits of commuting mean employees are more productive, take less time off and arrive on time. The scheme contributes positively to the company image (which helps to attract and retain staff) and it's environmental plans and targets. More benefits can be found [here](#).

Employees - big savings on new bicycles and equipment. Higher quality items purchased mean a more enjoyable and sustainable experience of cycling. An improvement in health and wellbeing, saving money on car/public transport costs and reducing CO2 impact.



A note on Benefit Providers

Many employers offer a range of benefits to their employees, and may choose to engage the services of a third party ('Benefit Provider') to administer them under a single banner and IT platform (a good example of such benefits can be found [here](#), and a case study [here](#)).

Benefit Providers are an instrumental part of an employers reward and benefit strategy and over 50% of the UK's largest employers use them to administer a full suite of benefits and payroll.

In most cases, it is the Benefit Provider who decides which cycle to work provider is used for the fulfillment of order for bikes and equipment (this usually being based on commercial arrangement or preference).



An end-to-end guide of who does what and when

The steps involved in any cycle to work scheme are similar.

The process for a C2W provider is described as follows:

- | | |
|--|--|
| a. Employer signs contract with C2W provider and informs employees | g. Employee is issued with authorisation and provides this to retailer |
| b. Employees choose bikes and equipment from C2W provider network | h. Retailer releases bike and equipment to to employee |
| c. Retailer provides quotation, employee submits request and signs hire agreement | i. Retailer invoices C2W provider who then pays retailer |
| d. Employer approves request by countersigning hire agreement | j. Employer sets up payroll for salary sacrifice |
| e. C2W provider sends invoice to employer | k. End-of-hire options enacted (usually after a 12 month initial hire period) |
| f. Employer pays C2W provider | |



An end-to-end guide of who does what and when

Taking each step, let's look at the things that need to be considered.

a. **Employer signs contract with C2W provider and informs employees**

To ensure compliance with scheme guidance, the employer must make the scheme available to everyone on it's payroll - no groups can be excluded (for example those employees who are serving a probationary period).

C2W Providers will liaise with employers at this stage (usually with the Human Resources team) to ensure everything is set up correctly and as the published guidance requires. The C2W provider will work with the employer to market the scheme to employees, which may include physical and digital communication as well as events.

An end-to-end guide of who does what and when

b. Employees choose bikes and equipment

The list of allowable equipment can be found in the DfT guide as [Annex A](#). Employees can select a bike and equipment up to a maximum of £1000 (inclusive of VAT, or a higher amount as determined by the employer) - they could choose two bikes if they needed them for their commute, or they may choose a package of allowable equipment only.

Employees cannot add their own money to the transaction, and any bike or equipment chosen must be for the sole use of the employee.

An end-to-end guide of who does what and when

c. **Retailer provides quotation, employee signs hire agreement**

The retailer should be aware that, from this point, they may next see the employee to collect their bike and equipment in 2-6 weeks, depending on the employer's processes (this is for request that the employer approves - if the request is declined the retailer may never see the employee again).

The retailer may decide at this point if any bikes or equipment that are not in stock should be ordered.

It is prudent to do this only once the employee's request has been approved - C2W providers usually have a platform that retailers can access to check this.

The hire agreement is a regulated legal document that contains the terms and conditions of the scheme, and details the salary sacrifice arrangements involved.

Of note:

- **The employee must use the bike primarily for commuting purposes**
- **The employee must not sell the bike/ equipment**
- **The employee is responsible for maintaining the bike and equipment**
- **The employee is responsible for the bike and equipment in the case of loss, damage or theft**

An end-to-end guide of who does what and when

d. Employer approves request by countersigning hire agreement

Employers have little to check to be able to approve a request. The most usual reason for a declined request is that the salary sacrifice takes the employee's pay below National Minimum Wage (NMW) levels. Examples of solutions to this can be found [here](#).

Please note

If the employer is using a C2W provider's FCA permissions to offer a scheme over £1000, then the C2W provider will countersign rather than the employer.

An end-to-end guide of who does what and when

e. **C2W provider sends invoice to employer**

This is often done immediately after an employee request has been approved. Invoices can be sent individually for each employee request, but more often a consolidated invoice is sent detailing all approved requests.

An end-to-end guide of who does what and when

f. Employer pays C2W provider

Many employers will prioritise payment of these invoices - for those that don't there may be a delay depending on when the employer's accounts payable process runs. Some C2W providers will offer employers immediate release of authorisation ahead of any payment being received (and some employers will insist on this before they sign a contract with their chosen provider).

An end-to-end guide of who does what and when

g. **Employee is issued with authorisation and provides this to retailer**

The type of authorisation issued to employees differs slightly for each C2W provider. The retailer in receipt of this authorisation has to confirm the identity of the employee, and then logs into the C2W provider platform to redeem this authorisation. For some providers, this triggers a 'self-invoicing' process with the retailer receiving payment within 48 hours. This invoice will be prepared to take into account any commissions due.

An end-to-end guide of who does what and when

h. **Retailer releases bike and equipment to employee**

At this point in the process, the retailer hands over the bike and equipment to the employee. The employee is able to change equipment at this point in the process, but the total value should remain equal to that already approved within the hire agreement. The employee cannot add their own money to obtain higher value items at this stage.

An end-to-end guide of who does what and when

i. **Retailer invoices C2W provider who then pays retailer**

If the provider does not have a self invoicing process, the retailer must now send an invoice to the C2W provider.. The provider then pays this invoice minus any commission payments (which can range from 5-15%). Depending upon the commissions and levels of work involved in this stage can affect the final margin, the final margin achieved can vary significantly

An end-to-end guide of who does what and when

j. **Employer sets up payroll for salary sacrifice**

The employer must now begin recovering money from their employees by setting up the payroll system. Money is usually recovered in 12 or 13 equal payments over 12 months. The employee usually begins paying their salary sacrifice in the month after they signed their hire agreement..

An end-to-end guide of who does what and when

k. End-of-hire options enacted (usually after a 12 month initial hire period)

At the end of the hire period, the employer (or third party) must facilitate options that consist of ownership transferring to the employee, or more commonly retaining ownership but extending the hire period with a new agreement.

This latter option is most common - the fees for the employee to take ownership at this point are seen as prohibitive (and negate much of the savings the employee has made).

Please refer to the guidance [here](#).

Please note

If the employer is using a C2W provider's FCA permissions to offer a scheme over £1000, then the C2W provider will countersign rather than the employer.

Cycle to Work providers

As you can see in the prior section, whilst the scheme offers significant savings and is attractive to employees, there are a number of things that need to happen to get employees cycling on their new bikes.

For this reason C2W providers exist - they have built platforms and processes specifically for this purpose, and remove much work for employers (whose work is limited to approving requests, paying invoices and setting up payroll systems) and suppliers. All providers offer a service to manage the full end-to-end process, including the end-of-hire options (often taking ownership of the bike for up to 6 years upon expiry of the original hire agreement, to ensure compliance with guidance).

When an employer wishes to offer the scheme to its staff, it may choose to do so itself. This is feasible if the employer is based in one location, but if it exists across multiple locations it may be easier for them to work with a cycle to work provider.

These providers represent a range of options for employees to obtain bikes and equipment across the UK, whilst offering one point of contact and one process for the employer to adopt.

All providers offer their services to employers at zero cost, and the major cycle to work benefit providers are detailed below:

Bike2Work

Cyclescheme

Cycle Solutions

Evans Cycles (Ride to Work)

Any retailer can apply to become part of the provider's network - so long as they agree to the relevant commission, payment terms and contractual obligations

Green Commute Initiative

Halfords (Cycle 2 Work)

Vivup

Cycle to Work - retailer scheme options

Retailers have two options to benefit from cycle to work sales. The first option is to join a C2W provider network. Most providers have a searchable map that allows employees to find retail partners.

Retailers should decide if these benefits outweigh the commission that each provider charges. Please note that all C2W providers now operate processes for employers that enable the sale of bikes and equipment at a value greater than £1k.

The second option is for your business to engage with local employers to offer a scheme to them and their employees (further details on how to do this are available for Bicycle Association members).

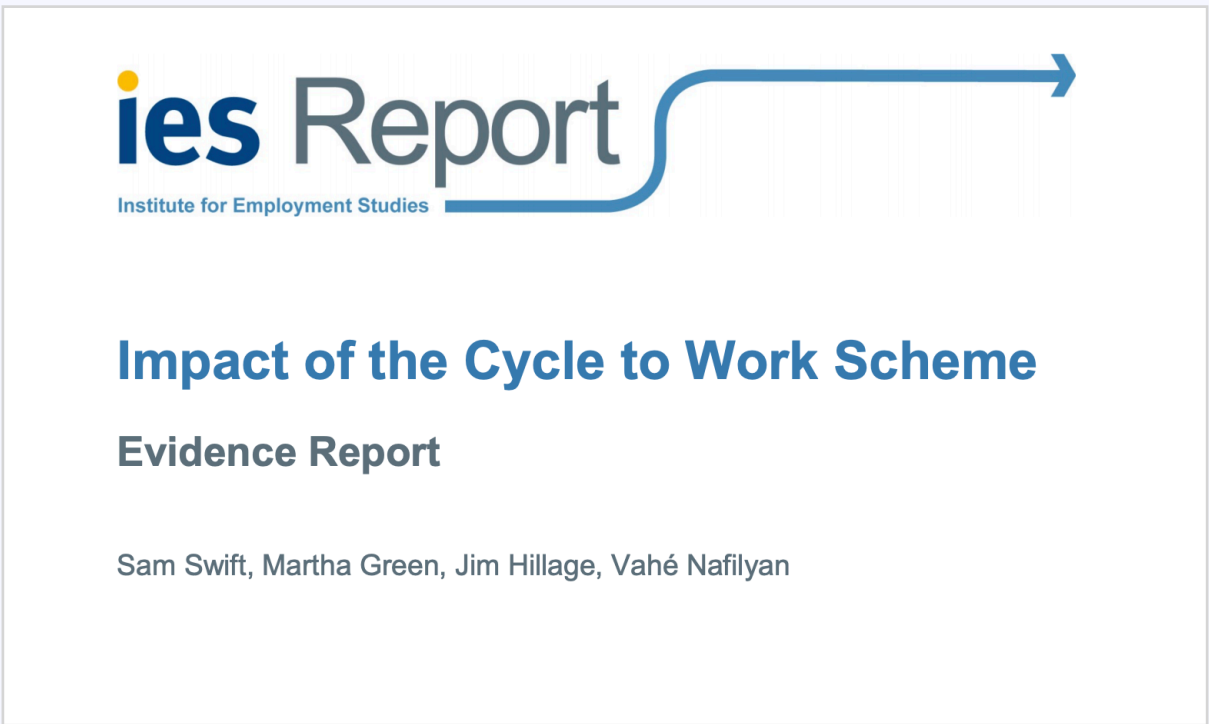
THE BENEFITS OF JOINING A PROVIDERS NETWORK ARE:

- **Retailer administration is reduced, allowing staff to focus on sales**
- **Some providers self-invoice and pay within 48hrs**
- **Assurance of the benefit being run in line with all published guidance**
- **Retailers may be able to acquire and retain new customers (with employer marketing being done by the provider)**
- **Retailers may benefit from an increase in transaction value**
- **Retailers may benefit by selling more higher margin accessories and equipment**
- **Access to larger employers who may work exclusively with one scheme provider and/or benefit provider**
- **Are able to arrange finance provision if employers do not wish to manage the initial outlay of the cost of the bikes and/or safety accessories**

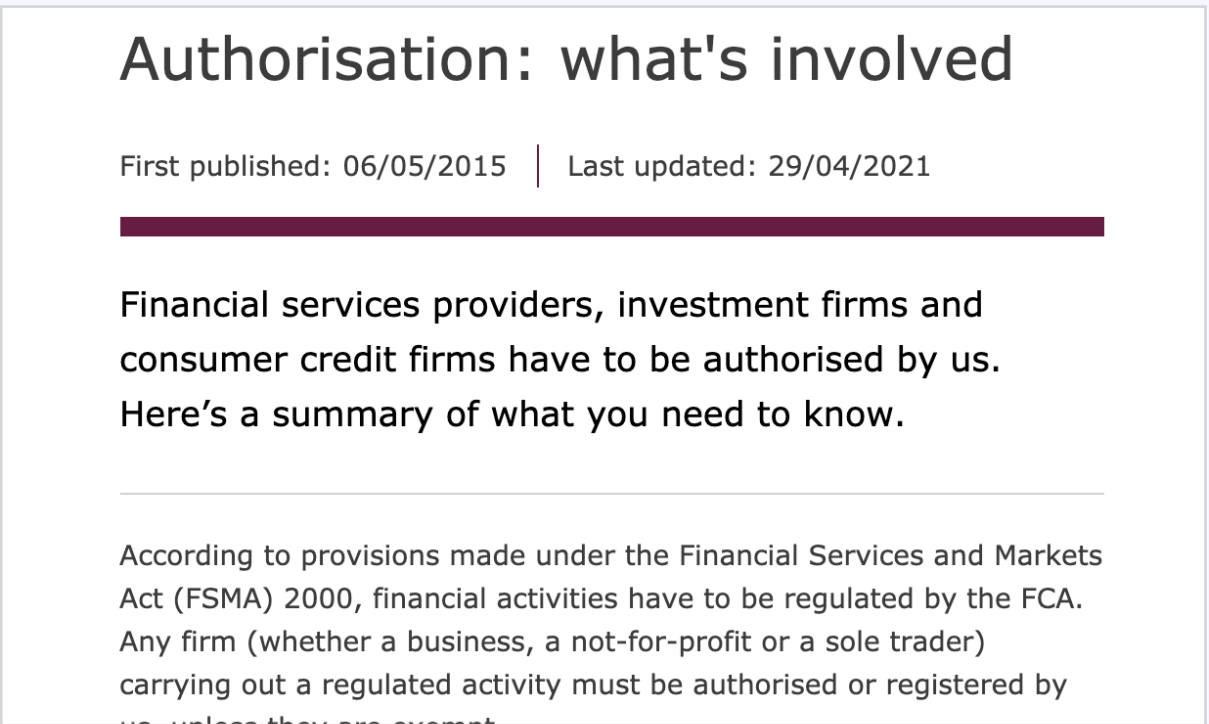
Useful further information and links



Department for Transport
Cycle to Work Scheme Guide
for Employers



Impact of the Cycle to
Work Scheme



Financial Conduct Authority -
authorisation portal



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