

SUNDAY TIMES 22.8.10.

End of the road for cycle to work plan?

Incentive is threatened by tax changes, writes Ali Hussain

EMPLOYERS have started to suspend cycle to work schemes after HM Revenue & Customs (HMRC) "clarified" the rules regarding the tax-saving plans last week — in some cases costing participants hundreds of pounds more.

Under the scheme, their employees buy bikes from gross income, saving up to 50% of the original cost.

However, at least one big employer has suspended its offer to new employees and others are reconsidering how they run their schemes, said the Cycle to Work Alliance.

Most schemes have a final-payment option where employees pay 5% of the original value of a bike to own it outright. A £1,000 bike would therefore have a final payment option of £50. Under the new guidelines, the final payment could be 25% of the original price, or £250.

We explain the scheme and how it has changed

How does it work?

Participating employers allow staff to buy bikes without paying Vat, income tax or National Insurance.

The employee is issued a voucher, typically worth up to £1,000. This is used at retailers such as Halfords and Evans, or Cyclescheme.

The bike is technically owned by the employer, with the employee renting it for a fixed monthly fee.

CHRIS BOURCHIER



Mathew Gillborn, 40, a building firm manager from Hampshire, may have to pay an extra £260 under the new cycle to work rules. Previously, he would have made a final payment of £65 to own his £1,299 bike. Now he may have to find £325.

For example, say you wanted a bike retailing at £1,000. You first deduct Vat from this, currently at 17.5%, giving you £851.

Schemes vary in duration but are usually over 12 to 36 months. Assuming the former, the employee would pay £71 a month in the above example.

However, as this sum is deducted from their gross salary, a higher-rate taxpayer would need to pay only about £42 month from take-home pay as 40% tax and 1% National Insurance is deducted from the monthly payment. So the total payment over 12 months would be £504 on a bike worth £1,000.

What happens when the scheme ends?

The employer continues to own the bike. However, the employee has the option of paying a final amount to take ownership.

Previously, this final payment had to reflect fair market value at the time of the final payment. HMRC

did not specify what "fair" meant, though many providers assumed it was 5% of the original price.

Others, such as Evans, based the final payment on the condition of the bike. One in excellent condition would be worth 15% of its original value if it was worth more than £500 when bought.

The new guidelines are based on the age of the bike rather than quality, and stipulate a one-year-old bike is worth 25% of its original value if it was worth more than £500 when bought.

Bikes with an original value of less than £500 would be worth 18% after a year.

Will this affect existing participants?

Yes. HMRC said that employers disposing of the bikes for less than fair value would need to justify the final payment — even if the employee joined a scheme before the new guidelines were issued.

HMRC said: "Employers can sell the bike to their employees at whatever price they like but if it is lower than 25% at one year old, then they would need to explain why the value was lower."

Are there ways round it?

Yes. You can extend the hire period, without making any further payments, according to Cyclescheme.

This way, when you make your final payment, it will be less because the fair market value will have gone down.

WHAT WILL I PAY FOR MY BIKE?

Age of cycle

Final payment¹

| | Final payment ¹ | |
|----------------|----------------------------------|----------------------------------|
| | If original price less than £500 | If original price more than £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 |

¹ Percentage of original retail price

SOURCE: HMRC