

# Cyclescheme Q&As

## 1. Who are Cyclescheme?

Cyclescheme are an independent company created to help both employers and employees make the most of the Green Transport Plan Initiative and associated tax concessions offered by the Chancellor. Cyclescheme use their industry experience and trade contacts to get you riding to work on a bike of your choice from your local preferred bike shop.

## 2. Who is entitled to use Cyclescheme?

Under this agreement, employees who have contracts of employment that outlast the duration of the salary sacrifice (pay back) period can benefit from obtaining a tax-free bike and accessories (safety equipment). Employees must be over 18 years old. See also FAQ 11.

## 3. Why use Cyclescheme?

Cyclescheme customers are not limited to any particular bike or accessory brand and therefore can choose the best for quality and value-for-money. This results in the best package of bike, accessories and safety equipment.

Cyclescheme work with Employers, under this arrangement, to ensure that Hire Agreement terms and conditions are written in full compliance with the Office of Fair Trading, Her Majesty's Revenue & Customs, Trading Standards and the Department for Transport regulations.

Cyclescheme's partner shops are also fully supported nationwide by 12 representatives (from Fisher Outdoor Leisure plc) who liaise with independent bike shops providing up-to-date literature and point-of-sale material.

## 4. What support will Cyclescheme offer to you when the scheme is running?

Cyclescheme will offer full support for handling your queries, and advice on choice of bike and safety equipment. Our partner shops (the cycle shops in your area who are partnering with your employer and Cyclescheme) will also be your local contact for test riding etc. Once the bike package is purchased these local bike shops will also handle servicing and any warranty issues.

## 5. What is a salary sacrifice arrangement and how are savings made?

A salary sacrifice happens when you give up your right to receive part of your pay in return for the employer's agreement to provide some form of non-cash benefit, in this case the loan of a bicycle and related equipment. A summary of the advice from the HM Revenue & Customs is available from their website at [www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf). You are paying back the loan on your goods from gross, rather than net, pay for the hire period - hence allowing you to benefit from income tax and NI relief.

## 6. The actual amount of discount appears to be a bit vague - precisely how much do I save on my equipment?

Typical savings are 43% but the precise amount depends on the employee's personal tax band. An individual being taxed at the higher rate will save a bit more (around 50%) than someone who pays standard rate tax. Some employers cannot reclaim VAT in the normal way so the savings are not as great as with a VAT-registered company. In this case expected savings are 33 and 41%. If the employer uses external finance, to get the bikes, then savings may be around 5% less as the cost of finance is usually passed on to the employee. This is countered as reduced salary reductions are usually spread over 18 months to achieve a better borrowing rate. Finally, the fair market value payment of around 5% needs to be taken into account to establish the total savings.

## Ownership

### 7. Is the bike mine straight away?

No, the bike and goods remain the property of the employer until the hire period finishes. At this point you may be given the opportunity to buy the bike at a fair market value. See Fair Market Value (FAQ no. 9) below for more details.

### 8. What happens if the bike gets stolen before I've paid for it?

If the bike is stolen then the employee has effectively left the scheme and needs to pay all outstanding monies from their net salary. See FAQ: 'What happens if I leave my job before I've finished paying for my bike?' for more information. It is very important to insure the bike, and any goods fitted to the bike, to safeguard against the losses following theft. Employees can obtain safety equipment from Cyclescheme's partnering shops, where they can ask for Home Office-approved 'Sold Secure' D-locks and cable locks to conform to insurance companies' requirements.

### 9. What happens if I don't want the bike at the end of the loan period?

It's your employer's choice whether they opt to sell you the bike at the end of the hire period. If you choose to become the owner of the goods, you may be offered the opportunity to pay the Fair Market Value for them from your net salary. If you choose not to buy the bike you will be charged the equivalent of the Fair Market Value to dispose of the goods, probably to a charity.

The fair market value cannot be stated before or during the scheme as this could be considered a benefit in kind as hire-purchase does not warrant any tax-relief.

## How Cyclescheme works

### 10. How do I go about getting a tax-free bike through Cyclescheme?

The scheme is a voucher scheme and you will need to apply for a voucher to redeem against your goods when you collect them from the bike shop.

To obtain your voucher you will first need to get your employer on board with Cyclescheme. We can send them an email pack containing a contract and general details on running the scheme. Once the contract is signed, you are free to go into any partner store to get your quotation. When we receive a copy of this quote we will invoice your employer, when payment is received the secure voucher is issued. For partner stores please go to [http://www.cyclescheme.co.uk/show\\_partners.php](http://www.cyclescheme.co.uk/show_partners.php)

### 11. Are there eligibility criteria for employees?

Yes. The Scheme is open to all full- and part-time staff whose term of employment is more than the period of the loan (usually 12 months). To take advantage of the tax breaks that result from salary sacrifice please also note:

- You need to be a UK taxpayer
- You need to be over 18 years of age to comply with Consumer Credit Act legislation
- You need to be earning more than the National Minimum Wage after your loan repayment has been deducted.

### 12. What is the payback period?

Usually 12 months with a monthly salary sacrifice but this is at the discretion of the employer. The Repayment frequency will vary according to how you are normally paid.

### 13. What is the hire period?

Usually 12 or 18 months to coincide with the employee's salary sacrifice repayments.

Early leavers need to pay all outstanding monies from their net salary and may be charged a termination fee that covers the fair market value payment (legally required to transfer the title of goods to them).

The termination fee will not exceed a value equal to the outstanding monthly salary reductions. The termination fee will be collected by you from any remaining net salary payments.

### 14. How many times a week do I have to use the bike for work?

There is no requirement for you to cycle to work for a specified number of days throughout the year and there is no special requirement for you to record your trips. You can also use the bike for leisure at weekends and on holiday, although a bike purchased under Cyclescheme should be used for at least part of 50% of the trips you make to work. (Please see [http://www.dft.gov.uk/stellent/groups/dft\\_sustravel/documents/downloadable/dft\\_sustravel\\_038229.pdf](http://www.dft.gov.uk/stellent/groups/dft_sustravel/documents/downloadable/dft_sustravel_038229.pdf) for guidelines on bike use.

### 15. Do I have to keep a record of my commuting mileage?

The Inland Revenue does not expect you to keep a record of mileage. (Please see [http://www.dft.gov.uk/stellent/groups/dft\\_sustravel/documents/downloadable/dft\\_sustravel\\_038229.pdf](http://www.dft.gov.uk/stellent/groups/dft_sustravel/documents/downloadable/dft_sustravel_038229.pdf) for guidelines on bike use.

### 16. Can I use the bike for local trips during the working day?

Yes, you can use your bike for business purposes during the working day, although you may not claim expenses for business trips made on a bike obtained through this scheme until the hire period ends. Employees should ensure they are covered for third party and theft during these trips.

## Insurance

### 17. Is it my responsibility to insure the bike?

Employees are responsible for maintaining the bike during its use and they agree to this when signing the hire agreement.

We recommend Cycleguard (02476 851 000) for insurance and the free services provided by Fetch (0870 460 8167). Fetch will expedite their claim and ensure that they are able to replace their bike using the bike shop of their choice.

### 18. What's the best way to insure the bike?

Household policies are usually much cheaper than specialist policies but you must ensure that the insurer covers the bike when in storage away from your home. You also need to check that there's no upper limit on a claim (if you have a reasonably expensive bike).

If your bike cannot be covered on your home insurance, we recommend Cycleguard (02476 851 000) for insurance and the free services provided by Fetch (0870 460 8167) who will expedite any claims and ensure that you are able to replace your bike using the bike shop of your choice. Please note that it is your right to decide which shop you use to replace your stolen bike.

## 19. Can I claim a mileage allowance for using the bike for business trips?

No, since the employer owns the goods you cannot claim mileage when using your Cyclescheme bike until the end of the salary sacrifice period.

## Consumer Credit Licence

### 20. Does my employer need a Consumer Credit Licence?

The government has issued a blanket consumer credit licence to all participating employers getting bike packages up to £1000 including VAT and safety equipment. When you sign the Hire Agreement, the resulting relationship is defined under the terms and conditions of the Credit Consumer Act.

### 21. What happens if I want a bike costing over £1000?

Your employer needs to apply for an individual consumer credit licence which costs £275, last for 5 years and takes up to six weeks to come through

### 22. The cost of the consumer credit licence is inhibitive. Is there any other way around it?

If the bike package is over £1000, the employees are advised to pay the surplus to the bike shop. The surplus amount is not subject to any tax relief and fair market values are only paid on the £1000.

If you have a consumer credit licence in place from the home computer initiative scheme you can top-up your existing licence via the following link:

<http://tinyurl.com/2bu8g5>

Tick categories A & B.  
This top-up costs £40.

### 23. Can I use Cyclescheme to get a sale bike?

Yes, but this is subject to the bike shop's discretion.

## Fair market value

### 24. What is the fair market value payment?

A fair market value payment is the amount that a willing buyer would pay to a willing seller to purchase certain property at a particular point in time.

### 25. When do I pay the fair market value to make the bike mine?

At the end of the 12 month hire period the bike may be bought for a fair market value. This payment is subject to 17.5% VAT. This is a separate contract covered by an invoice from your employer.

## Getting the bike mail order

### 26. Can I get a bike through Cyclescheme via a mail order specialist?

Cyclescheme's partner shops are capable of supplying bike packages mail order from their shops, under the government's green travel plan. However, there are distinct advantages when using your local bike shop that will be the first port of call for advice, servicing, after sales and warranty. Please note that, because of this deficiency, some mail-order specialists are not part of the Cyclescheme partner network.

## Maintenance

### 27. Do I need to maintain the bike myself?

You are responsible for maintaining the bike for your own use. Your local shop will be able to advise you about necessary servicing depending on how you use your bike. They are also likely to give your bike a first free service once you have bedded it in.

## Changing jobs

### 28. What happens if I leave my job before I've finished paying for my bike?

Under the terms of the Hire Agreement and the Credit Consumer Act, the agreement to pay your employees' loan is non-cancelable. This means that employees will need to settle all outstanding monies before they leave. The outstanding balances will be deducted from their final net salary payment. Settlement will be from net pay because once employees leave; they also leave the bike scheme, and are no longer eligible for tax deductions.

For early leavers the fair market value payment (to legally transfer the title of goods) will be covered by a termination fee.

The termination fee will not exceed a value equal to the outstanding monthly salary reductions. The termination fee will be collected by your employer from any remaining net salary payments.

## Effects of salary sacrifice

### 29. I receive out of hours payments on top of my basic salary: will these be affected?

No. In calculating all other payments to you such as out of hours payments, your total unreduced pay will be used.

### 30. What happens when there is a pay award?

You will receive any relevant pay awards based on your unreduced salary.

### 31. How will salary sacrifice affect pensions?

The scheme may affect your pension but this depends on your particular pension scheme. If your employer's contribution to your pension scheme is proportional to your gross earnings, these will be reduced by a salary sacrifice. It is important for you to check this out with the department which deals with pensions.

- Local Government Pension Scheme: if you contribute to LGPS your pension will not be affected as your gross salary, before salary sacrifice, is the amount that is pensionable.
- Teachers Pension Scheme follow the same rules as Local Government Pension schemes please see <http://www.dfes.gov.uk/localauthorities/index.cfm?action=content&contentID=1406> for more information.
- Additional Voluntary Contributions (AVCs): if you have elected to pay AVCs these could be affected by participation in this offer. You should speak to the administrator of your AVC scheme. NB: It is likely that salary sacrifice arrangements may have only a minimal effect on the payments/benefits described above

### 32. What happens if I go on unpaid leave?

During approved unpaid leave such as extended maternity leave or career break, up to a maximum of six months, the Hire Agreement period may be extended by the number of months when the salary was not paid and your employer was not able to collect payments

### 33. And maternity/paternity/parental/sickness leave?

Your reduced income may also have an effect on the following:

**Statutory maternity pay:** Employees with sufficient service and who meet certain conditions may be entitled to statutory maternity payments during a portion of maternity leave which will be affected by participation in the Bikes Scheme. Although statutory maternity pay is a flat rate for part of the qualifying period, the first 6 weeks are usually paid at a rate of 90% of average weekly earnings. During this period, normal deductions will continue to be made. When you go on maternity leave, payments may be suspended until either you return or you resign from the post. If you return, payments will be restarted. If you resign, you will need to pay

the balance due, as described in FAQ no: 28

**During maternity/paternity/parental/adoption leave:** you will continue to have the bike and equipment on loan during your absence with your gross salary still at the reduced level according to the salary sacrifice arrangements. You will continue to have deductions made from any payments you are receiving and/or will accrue a debt that will be recovered as soon as you return to work and receive a payment from your employer

### 34. What happens if I am made redundant or my contract is terminated?

Employees with sufficient service and who meet certain other conditions may be entitled to statutory payments on redundancy. It is possible, though unlikely, that such payments could be affected when you join the scheme. If you leave your employer before the final deduction has been made from your salary you will be obliged to pay the remaining amount in full, as described in FAQ 28

### 35. Will the repayments affect student loan payments?

Yes. Your student loan repayment is 9% of your earnings over £10k. This will alter as the trigger point is based on the salary on which you are liable to pay National Insurance Contributions (NICs). Under salary sacrifice your total gross salary on which NI is paid will reduce, so your loan repayments will reduce.

### 36. Does it affect Childcare Tax Credit?

Current advice from the Inland Revenue suggests that you can still apply for Childcare Tax Credit whilst being in a salary sacrifice scheme. For more information check with your Inland Revenue advice line on 0845 300 3900

### 37. And Working Tax Credit?

The vast majority of staff will benefit from joining the scheme. However your personal circumstances may mean that it is not beneficial. This is most likely to be the case for those on a low income affected by Working Tax Credit, which may cancel out the savings made on Income Tax and National Insurance Contributions. Please seek advice from the Inland Revenue Tax Credits helpline on 0845 300 3900

### 38. Although I will be better off financially, my gross salary will be less. How will this affect my credit status, eg when applying for a mortgage?

In replying to credit reference checks we will inform companies of the situation with regard to your total remuneration package. On the grounds that you are actually better off under this scheme, it can be seen that you should not be disadvantaged. However, all lending companies are different and your employer can make no guarantees.

### 39. Does anyone need to tell the Inland Revenue about this benefit?

The bike scheme is a government-sponsored initiative that has been set up so that you do not have to pay tax on items bought under the agreement. There is no need for you to contact the Inland Revenue

### 40. Is there a credit check?

There is no credit check

### 41. What happens if someone changes their mind after joining the scheme? Under the unique terms of the scheme it is not possible for you to cancel your loan.

You are therefore committed to making the salary sacrifice for the duration of the loan period. If your employment is terminated during the loan period you will still be liable to complete payments identified in the loan agreement. This means that you must be sure you are happy entering the scheme and with the selection you have made. See FAQ no 28.