

# Implementation of the Velocommute scheme

Thank you for your interest in Velorution's Velocommute scheme to take advantage of the 'Cycle to Work' Government-sponsored tax exemption initiative for bicycles. This manual will give you all the information you need to set up and run the Scheme within your organisation. This document should be read in conjunction with the Department for Transport's 'Cycle to Work schemes' booklet, which is available from <http://www.dft.gov.uk/pgr/sustainable/cycling/cycletoworkschemeimplementat5732>. Paper copies are available at Velorution.

The Velocommute is an Open Source scheme: it can be used by any employer and it puts no restrictions on the source of the bicycles the employees choose.

The 'Cycle to Work' initiative is designed by the Government to encourage cycling as a transport method for those getting to work. The 1999 Finance Act introduced tax incentives that allow employers to loan bicycles and bicycle safety equipment to employees as a tax-free benefit. This exemption was introduced within the Government's Green Transport Plan, and has been implemented via the Department for Transport's 'Cycle to Work' initiative.

## Contents of this manual:

1. How the scheme works
2. Setting up a Velocommute scheme
  - a. Salary sacrifice arrangement
  - b. Publicising the Velocommute scheme
3. Administration of the scheme
4. Things to consider
5. Resources for further information

## 1. How the scheme works

The scheme can be initiated either by the employer or employee. For example, one of your employees may find out about the scheme through visiting Velorution's showroom, and request that you set up the scheme. Alternatively, you may want to initiate and publicise the scheme to encourage cycling among your employees. Either way, once you have set the scheme up, it will work in the following manner:

1. One of your employees visits a bicycle shop to find a bike that they would like to use to cycle to work.
2. The shop will prepare an invoice addressed to you, including the bicycle and additional equipment chosen by the employee.
3. Once you receive the invoice you should contact the employee and ensure that the details are correct. Once this is confirmed, you, as the employer, pay the invoice. Upon receipt of payment the shop will release the bike to the employee.
4. You and the employee sign a loan agreement, which details the equipment loaned and the payment terms. These payments will take effect through a reduction of the employee's salary, called a 'salary sacrifice'. It is likely that you will want to charge the employee the amount of your disbursement less the VAT (assuming you are VAT registered)
5. At the end of the loan period, you may make the equipment available for purchase by your employee for a fair market price.

## 2. Setting up a Velocommute scheme

### 2a. Salary sacrifice arrangement:

In order to provide tax-exempt bicycles to your employees, it is necessary to agree a salary sacrifice contract with your employee. This arrangement is an agreement for an employee to accept a lower level of salary in return for a non-cash benefit – in this case the loan of a bicycle and bicycle safety equipment – which can be provided free of tax and National Insurance contributions (NICs). The “sacrifice” is achieved by varying the employee's terms and conditions of employment relating to pay.

In order for this salary sacrifice to be valid, you will need to be able to show:

- The salary sacrifice has been implemented: i.e. documentation of the variation of the employment terms and conditions; a pay slip that shows the employer has paid a lower salary.
- That the scheme is offered to all staff as appropriate.

The amendment to an employee's contract needs to state that the employer will pay for the service and that the staff member will receive a salary that is reduced by an equivalent amount. It should not state that the salary will revert to the previous level.

To ensure that the purchased equipment qualifies for inclusion in this scheme, the following guidelines must be followed:

- Although the bike can be used for recreation, its main use must be for cycling to and from work.
- The bike and accessories must remain the property of the employer for the period of the Lease Agreement.

## 2b. Publicising the Velocommute scheme

Once the necessary documentation for the salary sacrifice arrangement is in place, the next step is to publicise the Velocommute scheme to your employees. For this purpose Velorution can provide promotional materials, and can visit your organisation to discuss the scheme with your employees. Your employees are then free to come into our showroom or visit our website to browse the range of bikes that we have in stock, and to discuss the scheme further with a representative from Velorution. Naturally your employees are free to visit and order from other shops.

## 3. Administration of the scheme

Once the salary sacrifice arrangement has been set up, your employees can select a bike and safety accessories from any bike shop, who will then prepare an invoice addressed to yourselves. The employee will sign an Employer's Lease Agreement for the bicycle, in the presence of their manager on your business premises. This will confirm the salary sacrifice arrangement, and your company will then purchase the bicycle from the shop.

The length of the Lease Agreement is at your discretion (although we can advise you on this if necessary), and the salary sacrifice arrangement will be spread out over this period, resulting in a monthly reduction in the employee's wage.

At the end of the lease period, the employee may be given the option of purchasing the bike and accessories from you at a fair market value. This value is calculated depending on the cost of returning the products to their retail condition, and will be, for example, around 2% of the bike's initial value after a 12 month lease period. It is important to note that, until this transaction, the bike and accessories must remain the legal property of you as the employer, in order to qualify for the tax benefit. If the employee chooses not to purchase the bike package at the end of the lease period, you may still award them the right to use it.

The exact saving each employee makes will depend on their income tax level; an employee who pays 40% tax will save more than one who pays 20%. However, most savings are 40-50% of the retail price of the bike.

### Sample savings for medium and high earners:

Tax rate	Basic (20%)	Higher (40%)
Retail price of package (A)	£500.00	£500.00
VAT saving (B= A – A/1.175)	£74.47	£74.47
Repayment period (C)	12 months	24 months
Salary sacrifice per month (D=(A-B)/C)	£35.46	£17.73
Income tax and NI saving per month (E=D*(.20+.11) or (E=D*(.40+.01)))	£10.99	£7.27
Net cost to employee per month(F=D-E)	£24.47	£10.46
Fair market value after scheme (G=A *0.02)	£10.00	£10.00
Net cost of bike overall (H=F*C+G)	£303.64	£261.04
Percentage saving on retail price (S=(A-H)/A)	39.27%	47.79%

Once the transaction has been made, it is the responsibility of the employee to take out insurance against the loss of the bicycle. It is important to note that the Lease Agreement and the salary sacrifice will hold even if the bike is stolen. The upkeep of the bike is also the employee's responsibility, although Velorution can provide a full range of servicing either at our showroom or at your company if you so choose (please ring to discuss the details of this).

#### **4. Things to consider**

##### **National Minimum Wage (NMW)**

You may not enter into a salary sacrifice arrangement with an employee if it results in their wage dropping below the NMW.

##### **Entitlement to future State Pension, benefits and tax credits**

In most cases an employee's entitlement to state benefits will not change. However, if the salary sacrifice scheme brings an employee's wages below the Lower Earning Limit (LEL) for NICs, this may affect a future pension or benefit entitlement. For further details on this, please see the Revenue and Customs fact sheet on salary sacrifice schemes here: [http://www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf)

##### **Withdrawing from the Velocommute scheme**

If an employee withdraws from the Velocommute scheme, they may be required to pay compensation to you, as their employer, equivalent to the residual cost of the salary sacrifice arrangement to you. If they wish to purchase the bike at this point, the employee must also pay the fair market price at this point, which will be greater than that anticipated at the end of the Lease Agreement.

##### **Consumer Credit Act 1974**

The salary sacrifice arrangement and the Lease Agreement together fall under the Consumer Credit Act 1974, which requires that the Lease Agreement is signed on the premises of the business in question, in the presence of the employee's manager.

##### **Universal Credit Licence**

The Government has issued an universal credit licence up to the value of £1000, for companies to operate the scheme without the need to apply for a licence. If the value of the equipment chosen by the employee is over £1000, you need to apply for a credit licence, or limit the charge for the loan to £1000.

If you would like to discuss any of these implications in more detail, please give Velorution a ring on 020 7637 4004, and we would be happy to discuss this with you. However, please note that Velorution cannot advise on the tax consequences of a salary sacrifice arrangement, and we would advise you to discuss the implications of this scheme with a tax advisor.

#### **5. Resources for further information**

A sample loan agreement can be downloaded from: <http://www.scribd.com/doc/25898140/velocommute-sample-hire-agreement-long>

To complement this manual, and for further information on the implementation of this scheme, please see the Department for Transport's 'Cycle to Work schemes' brochure, which is available from <http://www.dft.gov.uk/pgr/sustainable/cycling/cycletoworkschemeimplementat5732>>. Paper copies are available at Velorution.

For further details on salary sacrifice arrangements, and the possible implications for entitlement to state benefits, please see the Revenue and Customs factsheet on salary sacrifice schemes here: [http://www.hmrc.gov.uk/specialist/salary\\_sacrifice.pdf](http://www.hmrc.gov.uk/specialist/salary_sacrifice.pdf)