

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Cabinet Member for Regeneration and Environment
2.	Date:	4th October 2010
3.	Title:	Bicycle Salary Sacrifice Scheme 2010 Revised Taxation Arrangements
4.	Directorate:	Environment and Development Services

5. Summary

To review the 2010 bicycle salary sacrifice scheme and to outline changes to the final valuation fees for bicycles that may be sold to employees at the end of 12 month scheme.

6. Recommendations

That employees who joined the 2010 Bicycle Salary Sacrifice Scheme are informed about recent advice issued by HMRC which requires that any employment income gained through the final purchase of bicycles at the end of the scheme is taxed via the income tax coding system.

7. Proposals and Details

The Council adopted a Travel Plan for staff, visitors and customers in January 2003. (Council Minute 320 of 20th January 2003 refers). The aim of the plan is to contribute to the aims and objectives of the South Yorkshire Local Transport Plan and regional and national aspirations by:

- Reducing the need to travel and especially the need to travel by private car
- Improving travel mode choice
- Having a healthier workforce by promoting more trips on foot or by bicycle
- Leading by example to others

Amongst other initiatives, the Travel Plan recommended that a “cycle purchase / loan scheme” should be introduced to encourage more staff to cycle between home and work and to use bicycles for some work related trips. The 1999 Finance Act introduced tax incentives for such a scheme in the form of a salary sacrifice, giving an employee a benefit in kind, free of tax and Class 1 National Insurance Contributions and also employer savings on Secondary National Insurance contributions. The Council approved the introduction of a salary sacrifice scheme for 2010 to give employees an opportunity to hire bicycles over a 12 month period (Council Minute 153 of 19th April 2010 refers).

8. Finance

80 employees joined the 2010 scheme. The value of bicycles and accessories hired to them was £39,255 (exclusive of VAT). This amount will be recouped via salary sacrifices by July 2011.

Scheme income from employer savings in Secondary National Insurance Contributions will be approximately £3500.00. Further scheme income of approximately £1950.00 will be realised if the Council opts to sell bicycles to employees at the end of the 12 month hire for a one off final purchase fee.

There is no automatic entitlement for an employee to take ownership of the bicycle. At the end of the 12 month sacrifice/hire employees can, by contract, be asked to return their bicycles and pay 5% of the original purchase price (inc. VAT) to cover basic costs of inspecting the goods. Actual return costs may be much higher and can include:

- Storage costs estimated at £5.00 per month/ bicycle.
- Full safety check / service of each bicycle at a cost of £60.00 to £80.00.
- Administration of the subsequent sale of the bicycles at an estimated cost of £30.00 per bicycle.

When taking into account return costs, it is more common for employers to encourage employees to use any additional payments to purchase their bicycle outright at the end of the scheme under separate contract. Final purchase costs are usually set at 5% of the bicycles initial cost.

HMRC has recently issued guidance on the final purchase option. *EIM21667a - Particular Benefits: Bicycles: Simplified Approach to Valuing Cycles Sold to Employees After End of Loan Period* advises that employers should impose generally higher final purchase values than those that have become custom and practice (5%). HMRC argue that if an employee pays less than their assessment of market value, the difference will be taxable as employment income. HMRC purchase option values are shown in Table 1.

Table 1: The HMRC Valuation

Age of Cycle	Acceptable Disposal Value Percentage	
	Original Price of Cycle Less Than £500 (Excluding VAT)	Original Price of Cycle More Than £500 (Excluding VAT)
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

Shaded area shows percentages applicable to the 2010 Rotherham Scheme.

There is a significant difference between the default purchase valuation (5%) and those of HMRC. A cost illustration based on a maximum and average 'spend' per bicycle is show in Table 2.

Table 2: HMRC vs. Default Valuation

12 Month Hire Period				
	Maximum Value		Average Value (below £500.00 exc. VAT)	
	HMRC Valuation @ 25%	Default Valuation @ 5%	HMRC Valuation @ 18%	Default Valuation @ 5%
Purchase Cost (inc VAT)	£1000.00	£1000.00	£577.00	£577.00
Purchase Cost (less VAT)	£851.00	£851.00	£491.00	£491.00
Estimated Cost to Employee	£587.00	£587.00	£339.00	£339.00
Final Purchase Fee (inc VAT)	£250.00	£50.00	£104.00	£29.00
TOTAL COST TO EMPLOYEE	£837.00	£637.00	£443.00	£368.00

It is common practice for employers to illustrate the final purchase cost of a bicycle at the start of salary sacrifice scheme. In the 2010 scheme, the widely accepted figure of 5% was quoted. Whilst the Council has not committed to sell bicycles to employees, it has suggested an 'expected' final purchase fee which may have influenced an employees' decision to join the scheme. Although the Council is not contractually obliged to do so, it would seem reasonable to honour the illustration given at the start of the 2010 scheme. This can be done in two ways:

(i) Employees would need to be advised that in paying less than the HMRC assessment of market value, the difference will be taxable as employment income. The Council would need to declare to HMRC each employee's benefit via the internal Taxation team. HMRC would then recalculate the employee's tax code the following year in order to recover the tax. Based on the maximum and average spends outlined in Table 2, this is likely to equate to a cost of between £1.50 and £4.00 per month spread over a single tax year. There would also be a cost to the Authority in respect of Class 1A NIC's (currently 12.8%) on the benefit amount. This is estimated to be £700.00 and could be comfortably met from scheme income.

(ii) Allowing a continuation of the initial hire of the bicycles for a fixed one off payment (5% of initial purchase) for 6 years and until such time where the bicycle has no residual value. However, should an employee leave the Authority within the 6 year period, the taxation arrangements in (i) above would apply. This option would require ongoing administration from both the Transportation Unit and RBT payroll/HR over 6 years.

Assessing the options available, option (ii) is not preferred because it will place an otherwise avoidable administrative burden on the Council during a period where staff resources may be under extreme pressure. It would be more prudent to terminate the salary sacrifice scheme as planned in mid 2011 and to inform participants of the revised taxation arrangements detailed in (i) above.

9. Risks and Uncertainties

Complying with HMRC advice will negate any taxation risks and uncertainties associated with the 2010 Bicycle Salary Sacrifice Scheme.

11. Background Papers and Consultation

- Department of Transport Cycle to Work Schemes
- EIM21667a - Particular Benefits: Bicycles: Simplified Approach to Valuing Cycles Sold to Employees After End of Loan Period

Consultation has taken place with:

- RMBC Central Finance (Taxation)
- RBT Payroll

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