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Mr Iain Patton
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Our ref 10/84336/2011
Your ref

Dear Mr Patton

Thank you for your letter of 31 January to the Chancellor of the Exchequer about Cycle to Work schemes. I hope you will understand that the large amount of correspondence Ministers receive makes it impossible for them to answer it all personally. They therefore have to ask officials of the relevant department to answer on their behalf and on this occasion I have been asked to do so.

You suggest that the 'fair market value' be removed from Cycle to Work schemes. The legislation covering these schemes applies to the loan of cycling equipment to an employee and not any eventual sale. There has not, as you suggest, been any changes to the rules but we did, in late summer 2010, issue guidance on the scheme which included details helping employers to arrive at a value, should the equipment be sold. The valuation helps determine whether there is a taxable benefit on the provision of a cycle but does not stipulate the amount employers can charge for it.

Benefits received in the course of someone's employment are a form of remuneration and, as such, are treated for tax purposes as far as possible in the same way as remuneration in cash. There are various Government schemes designed to encourage more environmentally-friendly travel and the tax exemption and national insurance disregard applicable to Cycle to Work Schemes on what would otherwise be a taxable benefit is an example.

This exemption is subject to certain conditions. One is that an employer hires or loans a cycle (or cyclist's safety equipment) to an employee for a period of time. Ownership of the cycle must not pass to the employee during that period, nor must there be any agreement at the beginning of the period that ownership will pass to the employee at the end.

If, at the end of the period, an employer agrees to sell the cycle or equipment to the employee, there is potentially a taxable benefit on its open-market value. We have never agreed, prior to the guidance issued last summer, on a fixed market value but have found that employers have been selling cycles for as little as 5% of their original cost. For this reason we have, in some cases, queried the basis on which employers have arrived at the market value. It became clear that employers were uncertain about what represented a market value and they asked us to develop a simple means of valuing cycles and equipment. This was published recently in the form of a matrix.

The matrix provides a means for employers to calculate the market value of a cycle or equipment based on its age and the original purchase price. Where employers use the matrix to determine the price at which they sell the cycle or equipment to the employee (or where they charge more), we will accept that there is no taxable benefit without further enquiry. Use of the matrix by employers is, however, entirely voluntary. The maximum valuation percentage included in the matrix is 25% of original cost for a year-old cycle with an original price of £500 or more. This is reduced to 18% for a year-old cycle with an original price of less than £500. And the percentages for both price brackets are progressively reduced with age.

Employers do not have to sell cycles for the amounts specified in the matrix. However, where a cycle is sold to an employee for less than its market value, the employer can use the matrix as a simple method of calculating the taxable amount of the difference between market value and the amount paid by the employee.

For example, if a cycle bought by an employer for £1,000 is sold on to the employee for £50 when it is a year old, the employer can use the matrix value of £250 to work out the tax position. In this instance, this would give a taxable benefit of £200, and we will accept this figure. For a basic-rate taxpayer, this would equate to a tax charge of £40.

The tax exemption for cycles loaned to employees is not subject to any time limit and applies as long as conditions about use and availability continue to be met. The length of the period for which a cycle is loaned to an employee is up to the employer and employee to agree. Our guidance makes it clear that Cycle to Work arrangements should not have any automatic transfer of ownership built into them, and we see no difficulty in the period for which a cycle is loaned to an employee extending beyond that originally planned. This is the same regardless of whether the employee ultimately hands the cycle back to the employer or buys it from them at a later date.

Thank you for writing in with your concerns.

Yours sincerely



Neil Northage