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Cycle to Work Alliance wins compromise on VAT implementation

Employees who are using cycle to work schemes which were signed on or before 27th July 2011 will now not have to pay VAT on the remainder of their salary sacrifice payments. HM Revenue and Customs have confirmed they will be issuing a new Brief shortly to make clear these new transitional arrangements for VAT rules.

After close consultation with the Cycle to Work Alliance, HMRC have agreed to issue further clarification on the judgement of the European Court of Justice's ruling on applying VAT to salary sacrifice payments. Cycle to work scheme agreements which had been signed on or before the 27th July 2011 and which extend beyond 31st December 2011 will not be affected by the new VAT changes.

Ministers are in agreement that the cycle to work scheme forms a key plank in the Government's strategy to tackle objectives for sustainable transport, carbon reduction and promoting improved public health.

Steve Edgell, Chair of the Cycle to Work Alliance and Director of Cycle Solutions said:
"The Cycle to Work Alliance is delighted to have worked with HMRC to achieve this new Brief. It is a victory for common sense and ensures that employers who followed the previous guidance will not be affected by the changes."

The cycle to work scheme is recognised by Government as an important means to encourage more active and environmentally friendly commuting"

Employees whose salary sacrifice arrangements had been signed on or before 27th July 2011 will not have to account for VAT on their salary sacrifice payments. Participants signing up to the scheme after 28th July 2011 will have the VAT changes built into their salary sacrifice payments by their provider. The Alliance called for this amendment to reduce the administrative changes for existing schemes.

-ENDS-

Notes for editors:

- The Cycle to Work Alliance is a group of the leading providers of the cycle to work scheme, including Cyclescheme, Cycle Solutions, Evans Cycles and Halfords.
- The cycle to work initiative is a tax-efficient, and on the whole, salary-sacrificed employee benefit that provides a way of encouraging more adults to take up cycling. Introduced in the 1999 Finance Act, the scheme encourages employers to loan bicycles and cycling safety equipment to employees as a tax-exempt benefit for the purpose of cycling to work. Under the scheme, employers buy cycling equipment from suppliers approved by their scheme administrator, and hire it to their employees. At the end of the loan period, the employer may choose to give the employee the option to purchase the equipment.

- To date over 400,000 people have taken advantage of the scheme, which involves over 2,220 bike retailers and 15,000 employers.
- The Cycle to Work Alliance has previously welcomed the new VAT ruling as a helpful clarification on the tax implications of the scheme for participating companies. Following this the Alliance has been working closely with HMRC to ensure that participants achieve the best possible savings; typically scheme participants are able to save up to 43% of the cost of a new bike.
- HMRC's brief can be found here: <http://www.hmrc.gov.uk/briefs/vat/brief2811.htm>; a new Brief will be issued in the coming days. The Briefs have been published as a result of the European Court of Justice's ruling on Astra Zeneca.
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