

Take advantage of your tax

Tax changes have introduced incentives to encourage staff and self-employed people to cycle. Check what you can claim, says David Brodie — it could save you hundreds of pounds

Fancy a brand new bike for about 60% of its retail price, spreading your payments over three years interest-free, and all courtesy of the taxman? If so, read on...

Some years ago the government started using the tax system to promote cycling as part of its Green Travel agenda, but tax can be dull and the changes have rarely hit the headlines. Indeed, the only reform noticed by the tabloids was last year's announcement on 'cyclists breakfasts' — simply because it showed how daft tax can be.

Back in 2002 Gordon Brown had announced that employers could offer staff who pedal to work a free breakfast on arrival, without any tax on the 'benefit in kind'. But since few people had ever thought that such meals were taxable, and because the new concession was limited to six tax-free breakfasts a year, Mr Brown was simply accused of penny-pinching! So last year he removed the six-day cap, and employers can now provide tax-free breakfasts on any day they designate as a 'cycle to work' day. The media were underwhelmed!

Mileage allowances

A more generous concession is the cycle mileage allowance. Your employer can pay you up to 20p per mile tax free, if you use your bike for business travel such as going to meetings, or visiting other branches or customers. If your employer pays you nothing, or less than the full 20p, you can claim the balance as a deduction from your tax.

If you get a tax return, enter the total you are claiming in box 1.32 (or box 9 if you get a 'short return'). Otherwise phone your tax office and ask them to increase your Pay As You Earn (PAYE) tax code to reflect your mileage allowance, so you pay less tax. At the same time, ask for a tax refund for all work-related travel since April 1999, when the rule was introduced. If you do not know exactly how many miles you travel, the Revenue should accept a reasonable estimate. See example in the panel:

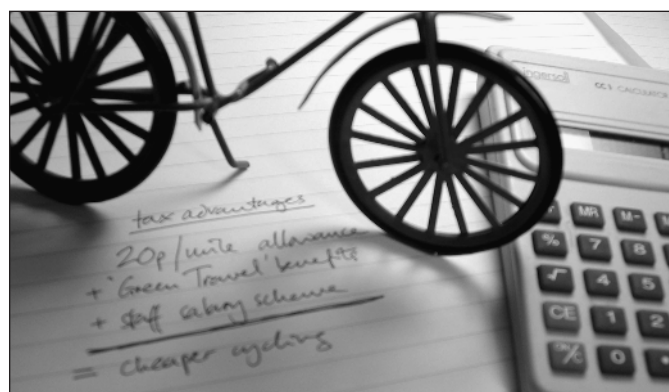
Tax man pays cyclist £167

Lynette regularly cycles from her office to attend work meetings, covering 40 miles a week, or about 1,000 miles a year, for which she receives no payment from her firm.

- Business miles travelled 1,000
- Tax allowance at 20p per mile £200
- Annual tax refund (£200 x her 22% tax rate) £44

As Lynette can also claim for previous years since the allowance was introduced, originally at 12p a mile in 1999, she receives a total refund of £167 plus interest.

Although you cannot normally claim the 20p allowance for home-to-work travel, such commuting can be claimed if your employer requires you to work away from your normal workbase for less than two years. For example: Peter is sent to work at a different branch of his firm for 12 months, during which he commutes 5,000 miles from home to work. The allowance amounts to £1,000, knocking £220 off his tax bill (£1,000 x his 22% tax rate).



Calculating the benefits of biking: see how it adds up for you

Other tax breaks

These rules are explained in the Revenue's leaflet IR 176 Green Travel, obtainable by calling 0845 9000 404 and on <http://www.inlandrevenue.gov.uk/pdfs/ir176.htm>. IR 176 lists other benefits that employers can now provide tax-free, including secure bicycle parking at work, and showers and lockers for staff.

Your employer can also lend you money interest-free to buy a bicycle (not only season tickets), provided you borrow less than £5,000. But you would ultimately have to repay the loan, so this lacks the excitement of a proposal by columnist Rob Morse in the San Francisco Chronicle last year. He suggested that President Bush should give each American \$1,000 to buy decent bicycles: "By purchasing bicycles, Americans will fight the obesity epidemic and reduce dependence on foreign oil at the same time."

Tax concessions have yet to fire the imagination of major UK employers. Miles Price, Planning Executive at British Land plc, which won an LCC Award last year for Best Workplace Cycling Activity — for promoting cycling at its office development at Regent's Place — says that "tax is a minor issue" compared to other factors. He cites the congestion charge, unreliability of public transport and rising employee expectations, as more important reasons for employers to be cycle-friendly. The need to be seen to be green, and the lure of staff discounts at local cycle shops, both figure higher than modest tax breaks.

Ahmet gets a bike for 62% of retail price

Under the Boost scheme, Ahmet selects a bike retailing at £450. His employer buys the bike and claims back the VAT — reducing the cost to £382.98 — and recovers this by reducing Ahmet's salary by £10.64 per month over 36 months. The true monthly cost to Ahmet is only £7.13 as he does not pay tax or national insurance on the salary foregone. At the end of three years Ahmet buys the bike at a 'fair market price' of £22.50.

The cost of the bike to Ahmet is:

• Net salary given up - £7.13 x 36	£256.68
• Final payment	£22.50
• Total cost (62% of retail price)	£279.18

The big new discount

But one development that may change all this. Last year the government announced that employers may lend or hire bicycles and cycle safety equipment to staff without any tax charge on the benefit, provided that at least half of the mileage travelled on the bike is for commuting to work and other work-related travel, the offer is open to all staff, and the bike is owned by the employer.

While this sounds a bit complicated to capture the public imagination, a company called Boost has found a way it can be used to help workers to purchase bikes at discounts of around 40% (see www.boost.com). So far more than 1,000 bikes have already been sold through branches of Halfords, and distribution is now being extended to a nationwide network of independent bike dealers.

The Boost scheme works broadly as follows:

- Your employer signs up for the scheme
- You then choose a bike from an approved supplier
- The bike is then bought by your employer, who can usually reclaim the VAT
- You then take delivery of it for your exclusive use — at least half of the mileage must be for commuting or other work-related travel
- The VAT-free price of the bike is then deducted from your salary by equal instalments over the next 36 months but, as you don't pay tax or national insurance on the income you forego, this may save you a further 33% (or 41% for higher earners)
- During this period your employer may pay for repairs and maintenance without any tax charge on the 'benefit in kind'

After 36 months, you may have the option to purchase the bike at a 'fair market price' — perhaps 5% or 10% of its original cost

The example shows that a person on average earnings may pay just over 60% of the retail price of the bike. For those earning over £36,145 and paying tax at the top rate, this comes down to 55%. And if you take account of the 'interest-free loan' over three years, the true cost can be close to 50%. And if you wish, you can include safety equipment such as a helmet in this tax-effective package.

Getting the system right

There are certain conditions. The scheme must be open to all staff, and it can involve some administrative hassle for your employer. Paul Bullett of Halfords says that typically it is attractive to employers who offer flexible benefits packages, or on a stand-alone basis in conjunction with the Home Computing Initiative (a similar tax break scheme). He says a bank and software company have already signed up, as have some county councils and a police force.

To get the tax right, your employer must be careful as the scheme involves what is called a 'salary sacrifice' (see www.inlandrevenue.gov.uk/specialist/salary_sacrifice.pdf). And because your nominal salary has come down, this could reduce your occupational pension slightly when you retire.

Also, the Office of Fair Trading is fussy about the wording of the scheme — you cannot be guaranteed that you will have the right to purchase the bike at the end of the three-year period, although in practice you can hope to do so. So your employer should run the arrangements past their own professional advisers before signing up. But the scheme could prove to be the most popular tax concession for cyclists that we have yet seen.

If you are self-employed

The rules described above are aimed at cyclists who work as 'employees'. If you are self-employed you can claim cycle costs under the rules for business expenses, and this will reduce your class 4 national insurance contributions as well as income tax.

You may claim capital allowances (usually 25% a year) for depreciation of the bike, the cost of spares and repairs, cleaning and replacement of cycle clothing — although all these figures must be reduced to reflect business use (for example, if 40% of your bike's mileage is for business travel, you can claim 40% of those amounts).

If this seems too complicated — and your business income is below the VAT threshold of £58,000 a year — you may instead opt to claim 20p per business mile (see panel).

Magician conjures up £360 a year

Celia is a self-employed magician and cycles 120 miles a week to performances and events — about 6,000 miles a year. She may claim £1,200 for cycling expenses in her business accounts (6,000 x 20p). This saves her tax and class 4 national insurance contributions of £360 a year (£1,200 x 22% tax and 8% national insurance).