

Cyclescheme 'Extended Use Agreement with Continuation Deposit' Process – Advice for Employees plus FAQs

Cyclescheme Market Value Process – Great News!

Cyclescheme is set to launch a new Market Value process in response to the August 2010 HMRC Employment Income Manual (EIM) updates.

The Employment Income Manual updates provide a simplified method for the valuation of bicycles at the end of the period of use in the form of a 'Valuation Table'.

Cyclescheme are pleased to announce a fully compliant Market Value solution to HMRC's latest advice. This has been produced after discussions directly with HMRC and independent Tax experts. Our solution is based on three principles:

1. Full compliance with current HMRC guidance;
2. Minimising payroll and HR administration for employers;
3. Maintaining the attractiveness of the scheme for you.

Please refer to the Cyclescheme MV Flow Chart shown at the foot of this document for a summary of the process.

When the EIM Updates come into effect:

The process detailed below is effective immediately for any schemes where the initial 'Hire Period' (with the Employer) ended after 6th August 2010:

The August 2010 HMRC Employment Income Manual (EIM) updates did not contain an effective date for implementation. However, during recent discussions with HMRC it has been made clear that the new updates come into force from the date of publication, 6th August 2010.

Therefore, the new Cyclescheme process is effective immediately for any participants who have so far not received a secondary Extended Use Agreement from Cyclescheme regarding your options after the end of the hire period.

Whilst this is contrary to previously published advice, our new process will mean little change in the prospective value of bicycles at the end of the extended use period; in many cases the prospective value according to HMRC's Valuation Table will be less than Market Values that have been charged in the past.

Benefits to you as a scheme participant:

- You can opt to have continued use of the Bicycle for a period of up to 4 years without the ownership transferring to you, in return for a one-off payment of the 'Continuation Deposit';
 - Extending the period of use reduces the value of the Bicycle in line with the 4 Year valuations in HMRC's table of 3% and 7% including VAT (depending on the original value of the equipment (below or above £500 respectively);
 - Peace of mind that the process is compliant with HMRC guidance and the Valuation Table;
 - You can participate in the scheme again once your initial hire period has ended, even if you extend the use period with Cyclescheme.
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Things you need to know:

- No guarantee of offer of ownership can be given to you at any point before or during the initial hire period with your employer, or once you have entered into an Extended Use Agreement with Cyclescheme;
- At the end of the hire period with your employer, you may be given the option to take ownership of the bicycle or extend the period of use with Cyclescheme. The appropriate Market Value will be calculated using HMRC's Valuation Table;
- If you choose to sign an Extended Use Agreement with Cyclescheme you may be given the option to take ownership of the bicycle at the end of the extended use period;
- You are free to participate in the scheme again once your initial hire period with your employer has ended, even if you sign an Extended Use Agreement with Cyclescheme;
- The 'acceptable disposal value percentages' in HMRC's Valuation Table for bikes aged up to 4 years are 3% or 7% inclusive of VAT (depending on the original value of the equipment (below or above £500 respectively). Here's an illustration of how the Market Values differ from previous calculations, with a 'material' difference shown below based on a £499.99 and £1000 example;

Old Valuation Example Ex VAT

Original Bicycle Value	£499.99	£1,000.00
12 Month Valuation	5%	5%
Market Value Payment ex VAT	£25.00	£50.00
VAT @ 17.5%	£4.38	£8.75
Total Payment By Employee inc. VAT	£29.38	£58.75

And With 20% VAT (as of 1 st JAN 2011)	£30.00	£60.00
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New Valuation Example Inc VAT

Original Bicycle Value	£499.99	£1,000.00
4 Year Valuation	3%	7%
Market Value Payment inc VAT	£15.00	£70.00
Total Payment By Employee inc. VAT	£15.00	£70.00

And With 20% VAT (as of 1 st JAN 2011)	£15.00	£70.00
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Material Difference @ 20% VAT	-£15.00	£10.00
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Employee FAQs

How is the market value (MV) for a bike obtained through a Cycle to Work scheme now determined?

HMRC has published EIM Updates relating to the sale of cycles after the end of the hire period. The following 'Valuation Table' has been published in EIM21667a and provides a matrix, which can be used to calculate the Market Value (MV) at the end of the hire period, rather than determining the MV on a case-by-case basis:

The valuation table

Age of cycle	Acceptable disposal value percentage	
	Original price of the cycle less than £500	Original price £500+
12 months	18%	25%
18 months	16%	21%
2 years	13%	17%
3 years	8%	12%
4 years	3%	7%

Why should I sign the Extended Use Agreement and extend the period of use by a further 31 months?

By extending the period of use, any valuation of the bicycle at the end of this period will be at substantially lower values than those shown in HMRC's Valuation Table for a bicycle aged 12 months.

Why should I extend the hire period by 31 months?

This extension will take your total continued period of use up to 3 years and 7 months. As a result, the valuation of the cycle can be rounded up to the 4-year (48 months) figures detailed in the Valuation Table.

Why do I need to sign the Extended Use Agreement?

The 'Extended Use Agreement' forms the agreement between you and Cyclescheme and details your respective responsibilities during the extended use period.

Will I have to pay any more for the bike during the extended hire period?

You will be asked to pay an upfront 'Continuation Deposit' in return for the continued use of the bicycle at the point you sign the Extended Use Agreement. There are no further salary sacrifice payments or hire charges due during the extended use period.

What is a 'Continuation Deposit' and why am I required to pay it?

This is an advance 'consideration' to be paid to Cyclescheme in return for the continued use of the bicycle for a further 31 months.

What will happen at the end of the 31-month extended use period?

Cyclescheme will contact you to discuss your options. At this point ownership of the bike may be offered to you for a 'consideration' in the form of a market value fee, which is equal to the 'Continuation Deposit' you have already paid.

Does this mean I have to pay the 'Continuation Deposit' and a market value fee?

No. The 'consideration' of the fee is offset against the 'Continuation Deposit' you have already paid.

What if I don't want to own or keep the bicycle at the end of the extended use period?

No problem. You will be able to return the bicycle to Cyclescheme and, upon safe receipt of the bicycle, Cyclescheme will fully refund your 'Continuation Deposit'.

Can I participate in a new scheme with my employer whilst the extended use period is running?

Yes, you can. The Extended Use Agreement is not a salary sacrifice arrangement and, apart from the 'Continuation Deposit', no further payments are required from you during the extended use period. This leaves you free to participate in future schemes with your employer. However, you must continue to use the bicycle under the Extended Use Agreement) mainly for commuting journeys to and from work or between workplaces ("commuting").

What happens if I leave my employment during the extended use period?

The Extended Use Agreement is between you and Cyclescheme, so even if you leave your current job the extended use period will continue to run, subject to continuing to use the bicycle for Commuting. Cyclescheme will contact you at the end of the extended use period to discuss your options.

What happens if I leave my employment during the initial hire period with my employer?

Upon early termination of your hire agreement, the ownership of the bicycle and safety equipment will transfer to Cyclescheme.

At this point you do not need to do anything; Cyclescheme will contact you to discuss your options at the point where your hire agreement would have ended if you had not left your employment early.

However, if your contact details change during this time you should inform Cyclescheme immediately by emailing us at endothire@cyclescheme.co.uk.

What if my contact details change during the extended use period?

If your contact details change you should inform Cyclescheme immediately, otherwise we may not be able to contact you at the end of the extended use period. You will be able to update your records using your own 'my Cyclescheme' online login details. Alternatively, you can email us at endothire@cyclescheme.co.uk.

Can I extend the extended use period for longer than 31 months?

No. The option to extend beyond 31 months is not available.

What if my original hire period (with my employer) was not 12 months?

Your extended use period will be calculated to bring the total period of use to 3 years 7 months (43 months). For example, if your initial hire period with your employer was 18 months, the extended use period will be calculated as:

43 months – 18 months = 25 months extended use period.

Who is responsible for the maintenance and upkeep of the bike during the extended use period?

The Extended Use Agreement outlines your responsibilities during the extended use period. You continue to be responsible for the maintenance of the bicycle, and we strongly recommend that you insure the bicycle during the extended use period.

What happens if the bike is lost or stolen during the extended use period?

If the bike is lost or stolen at any point during the extended use period you will be unable to claim your deposit at the end of the extended use period.

What will happen if my employer is handling the end of the initial hire process?

That will depend on the solution your employer adopts for the processing of Market Value payments after the end of your hire period. You will need to contact your employer to find out more information.

