

# VAT and its impact on Cycle to Work

In 2011 HMRC clarified the way that VAT impacts a Cycle to Work scheme. The clarification concluded that from the 1st January 2012, the provision of a Cycle to Work benefit via salary sacrifice constitutes *consideration* (payment) for the provision of a service and therefore attracts VAT. This means that:

**ALL** employers may reclaim VAT (input tax) incurred on the initial purchase of the bikes and safety equipment.

**ALL** employers must account for VAT (output tax) on bikes and safety equipment made available to their employees via salary sacrifice Cycle to Work arrangements.

## How does VAT impact the salary sacrifice process?

Following the clarification employers must charge output VAT on the amount salary sacrificed by each employee and forward this to HMRC as part of their usual VAT return process.

### For example

	Transaction	Balance
Employee selects £1,000 bike:		
1 Employer pays Halfords £1,000 (£833.33 net + £166.67 VAT)	£1,000 out	-£1000
2 Employer reclaims £166.67 input tax from HMRC	£166.67 in	-£833.33
3 Employer enters £1,000 salary sacrifice with employee - split equally over the hire period	£1,000 in	£166.67
4 Employer pays £166.67 output tax to HMRC - split equally over the hire period	£166.67 out	£0

Please note: 1) Assumes 20% VAT, 2) Assumes Employer is VAT registered

## How does this effect the Cycle to Work scheme I run?

This clarification effects Cycle to Work schemes in different ways – however there are a number of common scenarios.

**My organisation is not VAT registered** - You will not be required to account for output tax on salary sacrifice reductions nor will you be able to recover input tax on the original purchase. You should note that the amount salary sacrificed by your employees should be considered when determining whether or not you have exceeded the VAT registration threshold. Your employees can continue to benefit from tax and NI savings through salary sacrifice and you will also benefit from NI savings.

**My organisation is partially VAT exempt** - Organisations that are unable to recover all of their input VAT are able to claim VAT, subject to the normal rules on input VAT recovery, on acquiring equipment that is hired to employees under a salary sacrifice. It is a principle of the VAT system that, broadly speaking, if you make supplies that are subject to VAT then you can claim input (purchase) VAT that is wholly related to that supply.

**Can an organisation not claim the VAT on the purchase and not pay over VAT included in the amount of salary sacrificed?** No - because the employer is making a supply of the equipment, which is a supply for VAT purposes, HMRC cannot set aside the normal VAT treatment that must be applied.

Accordingly, employers are expected to claim from HMRC the VAT incurred on purchasing the equipment and pay over to HMRC VAT included in the payments received (the salary sacrifice) from the employee.

**Do employers have to issue monthly VAT invoices to their employees?** No - invoices are only legally required when there is a business-to-business transaction.

## Summary

The Halfords Cycle2work team are not VAT experts, so we would suggest that you refer to your internal VAT experts to further discuss this document. However, if you do have any specific questions regarding the application of VAT in relation to the Halfords Cycle2work scheme or any other queries regarding the Halfords Cycle2work scheme please speak with your Account Manager and we will assist where we can.

[www.cycle2work.info](http://www.cycle2work.info)

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