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Nasa Consulting Contractor Newsletter

Contractor Limited Company owners benefit from tax free bicycles

As Cycle to Work schemes are gaining more and more headlines, we have reviewed two methods that contractors can benefit from when purchasing bicycles through their limited company. Both are tax free and one is even free of red tape and accountancy costs.

As a little background, limited companies can purchase bicycles and safety equipment (helmets, locks etc.) and loan them to their employees whilst obtaining full tax relief - providing of course that a few conditions are met. These include:

- The bicycle must be used predominantly for work (>50% of usage). Mileage records do not need to be kept!
- The scheme must be available to all company employees
- If your employment terminates, you need to hand the bicycle back to your employer or pay a 'market' value to your company.
- The value of the bicycle should generally be less than £1,000.

We turn now to the differing methods of implementing a cycle to work scheme. We've set them out below for you and it is important to remember that **both** methods save the identical amount of tax.

The simplest method

If you meet the above conditions, your limited company can purchase a bicycle to loan to you - the employee. The company receives full tax relief and there is no benefit-in-kind tax to you.

Simply purchase the bicycle through your limited company bank account or list it on your Director's expense bookkeeping form and we will record it as an expense in the limited company accounts. This means that you get full corporate tax relief on the bicycle.

You are also able to expense safety equipment which includes helmets and locks.



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The red tape method

Providing you meet the above conditions, you can use a registered Cycle Scheme Provider (Google 'Cycle to Work schemes) to purchase the bicycle on behalf of your company. You then take out a loan agreement between yourself and your limited company for the loan payments and a balancing payment. Your limited company provides you with a voucher from the Cycle Scheme Provider which you can then exchange through certain cycle retailers for a bicycle of your choice.

Thereupon, you will need to run a salary sacrifice scheme through your limited company where you give up some of your salary as part of the repayment of the bicycle. If your salary is set as minimum wage, you will need to raise your salary first.

Notwithstanding the effectiveness of the Governments desire to promote cycling to work, we are definitely recommending the first option for our clients.

For those that already have a bicycle, it may be effective to upgrade to a work bicycle or to charge your company £0.20p per mile for business usage in getting to your place of work. The details of the mileage charge can be found in your bookkeeping forms.

Please do remember however that if your company purchases the bicycle; you can't claim the £0.20p mileage allowance.

Happy Cycling!