

## Cycle to Work Schemes – VAT Update

- **The new VAT rules come into play on 1<sup>st</sup> January 2012.....**

The new VAT rules will affect all new schemes where payroll reductions start in 2012, **and** existing schemes, where the salary sacrifice agreement was entered into after 27th July 2011 and extends beyond 31st December 2011. Schemes entered into, on or before 27th July 2011 are unaffected, irrespective of when the hire period finishes.

- **New schemes starting in 2012 – The changes**

- **Claiming VAT on the cost of the bicycles and accessories**

For new schemes, starting on or after 1st January 2012, VAT can be recovered on the cost of the bicycles and accessories, **in full, by all** VAT-registered organisations. This applies, whether or not the organisation's supplies (sales) are considered as standard rated, exempt or partially exempt.

The only exception is for organisations that are **not** VAT-registered (with no VAT number), where they can neither reclaim or charge VAT. (This can apply to organisations whose supplies are wholly exempt, such as certain schools)

- **Charging VAT on the hire rentals (salary sacrifice reductions)**

Salary sacrifice is no longer 'Outside the Scope of VAT'. Therefore, **all** organisations (except those that are not VAT-registered) must charge and account for VAT on the monthly salary sacrifice, hire rentals under Cycle to Work schemes. The Fair Care hire agreements have been updated to accommodate these requirements.

You will most likely need to involve your finance team in order to make the necessary monthly accounting entries (VAT invoices do not need to be issued) and the entries on the VAT returns. The VAT collected will need to be accounted for to HMRC by inclusion on the relevant VAT return.

- **Important note – Savings**

- These changes do not result in any extra cost for the employer (in fact, the employer saves a little more National Insurance), but
- Employees no longer benefit from any savings in VAT, although still make significant savings in tax and National Insurance (32% up to 52%)

- **Example**

- An employee orders a bicycle at a value of £720. This is the shop price, the retail value, which includes VAT.
- The employer receives and pays an invoice for £600 plus VAT at 20% = £120, total £720
- The employer can recover the VAT of £120, resulting in the net cost to the company of £600
- The employer recovers from the employee through salary sacrifice £600, but has to add VAT to this figure, which is collected from the employee and paid across to HMRC in the organisation's VAT return. This results in £720 being collected from the employee in 12 equal salary reductions of £60.

- **Existing Schemes entered into on or after 27<sup>th</sup> July 2011**

For schemes where the salary sacrifice agreement was entered into after 27th July 2011, where salary reductions continue into 2012, VAT will now need to be charged on the salary sacrifice values from 1st January 2012 onwards. This will mean increasing the salary reductions through payroll. The VAT collected must be accounted for to HMRC by inclusion on the relevant VAT returns.

With schemes operated by Fair Care, affected employees will have already signed an addendum to their original hire/salary sacrifice agreement, allowing for the salary reductions to be increased from January 2012.

Fair Care will be issuing reports to employers in respect of all affected schemes, which will show the required increases for the remaining salary sacrifice period. The reports will be submitted to recorded contacts on or before December 22nd 2011.

- **A note on other Salary Sacrifice Schemes:**

Whilst salary sacrifice payments have generally been brought into the scope of VAT, certain other popular schemes remain unaffected. **Childcare Vouchers** and **Health Screening**, for example, are treated as exempt supplies and therefore VAT need not be charged to employees under these schemes.

**If you have any questions regarding these changes, please contact your Fair Care Account Manager, or call the Fair Care Helpdesk on **0800 652 4745**. Alternatively send a message to **[cycles@faircare.co.uk](mailto:cycles@faircare.co.uk)****