

The potential of further tax reforms to support cycle commuting

Report for the National Cycling Strategy Board

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Report Summary

Since 1999 there have been a number of tax concessions on employer support to cycle commuting and the introduction of a generous cycling business mileage rate. However few employers provide serious support to cycle commuting. Simply introducing tax changes alone is insufficient. In particular there are no incentives to employers to promote cycling. At the moment the tax concessions we have appear to be rather isolated and, as a result, their effect is limited.

Cycling is not an expensive form of transport, and issues such as safety, convenience, confidence and reliability are greater barriers than cost. However, tax measures can partially help to address these core barriers.

Some further cycling tax concession could be introduced that address the crucial barriers to cycle use at little or no cost to the Treasury. These are that the following would be exempt from Income Tax and NICs:

- Bicycle insurance for commuting.
- Subscriptions to cycle rescue services for employees.
- Extending to cyclists the exemption on emergency 'get you home' services, currently available for car-sharers.
- Employer subsidised on-site maintenance of bicycles at reduced or no cost ('Bike Doctors').
- Employer subsidised off-site maintenance of bicycles at reduced or no cost
- Cycle training

This set of concessions would also make possible the development of a partnership between government and the bicycle industry to promote measures such as 'bike miles' schemes with employers and build confidence and familiarity with cycling to work.

For business travel, consideration should be given to a unified business mileage rate, which could be introduced on a fiscally-neutral basis providing an incentive to both cyclists and users of other 'green' modes.

The key weakness of a lack of incentive to employers to support cycle commuting could be addressed by the introduction of enhanced capital and building allowances on bicycles provided for employees, bicycle parking infrastructure and on site cyclepaths. Travel Plan tax

credits for specified Travel Plan expenditure could also be introduced, which would provide a stronger incentive for employers to offer staff Travel Plan measures.

A more comprehensive approach would be to counterbalance the cycle and other Travel Plan tax incentives by reducing capital allowances on employee commuter car parking.

In the context of the UK tax regime, a general cycle commuting allowance would be expensive and is fraught with definitional and enforcement problems. However, a short distance commuter allowance would address a wide range of transport policy objectives. Further work and consultation would be needed to develop and evaluate this concept.

There does not appear to be a transport policy case for reduced VAT on bicycles themselves, but a lower rate on safety training, bicycle rescue services, bicycle insurance and repairs would support policies to address the key barriers to bicycle use. The UK Treasury needs to be aware of current CEC discussion on VAT on bicycle-related services.

Overall these reforms would support policies to address the major barriers to increasing cycle commuting and permit the development of a more integrated approach to promoting cycle use. Many of them would also support or could be applied to Travel Plan measures for other 'greener' modes. Indeed several of the measures would be more appropriate and cost effective if introduced in this wider context.

1. Project Aims

The agreed aims of this project are to:

A) *Identify potential further taxation reforms* to support cycle commuting including:

- Further tax reforms to support increased cycling through Travel Plans.
- Enhanced capital allowances or tax credits to employers providing bicycles, cycle safety equipment and bicycle infrastructure.
- The provision of a cycle commuting allowance.
- The reduction of VAT on bicycle maintenance charges, bicycles and cycle accessories.

B) *Exploring the viability of potential further taxation reforms in terms of:*

- *Administrative robustness of auditing and enforcement*
Administratively complex concessions would be difficult to enforce and would increase the administrative burden of users. Reforms need to be straightforward to understand, claim and (ideally) be self-enforcing.
- *Tax cost to the Treasury*
Making an estimated of likely uptake and actual tax loss arising, using the method successfully adopted in the earlier DfT study.¹
- *Likely Modal shift impact, CO₂ reductions and health impacts*
Using best evidence available on modal shift and developing the method from the earlier DfT study.

C) *To consider whether any tax reforms could be applied to other employer Travel Plan measures*

Structure of this report

This report begins (section 2) by first exploring current transport taxation policy and the role of fiscal measures in promoting cycle use for commuting. Section 3 then details the current position of taxation and cycle commuting.

Section 4 covers the tricky issue of how much cycling taxation concessions actually cost in practice and section 5 considers what impact cycling taxation measures have. This sets up the framework for a possible assessment of costs and benefits of taxation policy actions.

Section 6 then identifies tax issues that need addressing. These are developed into proposals in the following sections on (7) Travel Plans, (8) Business Travel (9) Corporate Taxation (10) a general personal cycle allowance and (11) VAT.

The cost/benefit structure is used in these sections to assess each proposed taxation change and the overall recommendations are presented in the conclusions in section 12.

¹ **Potter, Stephen**, Enoch, Marcus, Rye, Tom and Black, Colin (2001): *The Potential for Further Changes to the Personal Taxation Regime to Encourage Modal Shift*, Final Report to the Department of the Environment, Transport and the Regions, June, <http://www.dft.gov.uk/itwp/modalshift/index.htm>.

2. Transport taxation policy

Government policy on transport taxation, post the September 2000 fuel duty protests, has essentially been to offer a series of tax concessions to cleaner modes of transport and, increasingly, to cleaner-fuel cars. This approach has come to replace the principle of fiscal neutrality in introducing transport taxation reform. Under fiscal neutrality, tax impact is shifted whereby higher polluters pay more and low polluters pay less. An example of fiscal neutrality was the original redistribution of Vehicle Excise Duty into four bands ('A' – 'D') according to CO₂ emissions. This was designed to produce the same tax yield, but with rates higher for cars emitting more CO₂ and less for those with low emissions. However, the 2003 change in the VED bands has added further tax concessions (the 'AA' and 'AAA' bands) without a counterbalancing higher rate (e.g. the creation of an 'E' band for high emission cars). Fiscal neutrality has not been maintained, instead there is an imbalance with existing transport taxes being held at historic rates and 'green' tax concessions given. Furthermore, the 'green' concessions have been heavily weighted to cleaner fuels and car technologies, with only small concessions to cleaner modes of travel.

Overall, in real terms the general effect has been to produce a cut in road transport taxation with higher cuts to cleaner fuels, technologies and cleaner transport modes. This overall strategy is set to reduce government revenue from the private car sector. At the moment low penetration of cleaner car technologies and traffic growth is counterbalancing the tax concessions, but within the next two years the car taxation concessions will start to have a major impact. Parkhurst² estimates that by 2010, the tax concessions will have cut VED and fuel duty revenues by at least £1.5 billion per annum.

With tax on car use generally declining, this neuters the effect of any tax incentives on cycling, particularly as the car tax incentives are large in cash terms, with cycle tax incentives being relatively small. The most important fiscal change would not be the introduction of further tax measures to favour cycling, but the counterbalancing introduction of tax disincentives to discourage less environmentally friendly modes of transport. For example, the impact of the London Congestion Charge has probably done more to promote cycle commuting in London than any national tax concession on bicycles and cycle use.

The role of taxation in promoting cycling

Even were there to be an equitable and efficient redistribution of road transport taxation that provided further tax incentives to cycling, there remains an important question. This is whether cost is a significant barrier to increasing cycle use for commuting. Cycling is already a very low cost form of transport, and issues such as safety, convenience, confidence, physical effort, image etc. are greater barriers than cost. For public transport promotion, cost is a big issue. For cycling, generally it is not. As Stephen Timms said in 2001³:

“Cycling abounds in environmental goods. It is a clean, efficient, sustainable, and non-polluting form of transport. More cyclists would mean less congestion and better air quality in our cities, fewer climate-changing emissions, and a healthier population as well. So of course, promoting cycling fits very well with the aims of environmental taxation.”

But he also added:

² Dr. Graham Parkhurst, University of the West of England. Presentation, *Future Revenues from Taxation on Car Use* to Seminar on ESRC project 'Taxation and Transport Futures', July 2003.

³ Speech by Stephen Timms MP, Financial Secretary to the Treasury, to the All Party Parliamentary Cycling Group 27th February 2001

“the real gains in encouraging people to cycle will not be made through the tax system, but by making cycling an easier and safer mode of transport. It is poor facilities and an unsafe environment that hold back the growth of cycling in Britain.”

It is important to have a realistic expectation of what the tax measures are capable of delivering. It is interesting to note that expenditure on bicycles and household cycle ownership has increased significantly over the past 30 years. The following table is taken from the Department for Transport’s 2002 report *Cycling in Great Britain*. It shows a strong rise in the proportion of households with bicycles and bicycle ownership. By 1999, cycle sales in the UK had grown to £426m per annum (despite a very competitive market driving prices down).

Table 2 Trends in cycle ownership and usage: 1972/73 to 1993/95

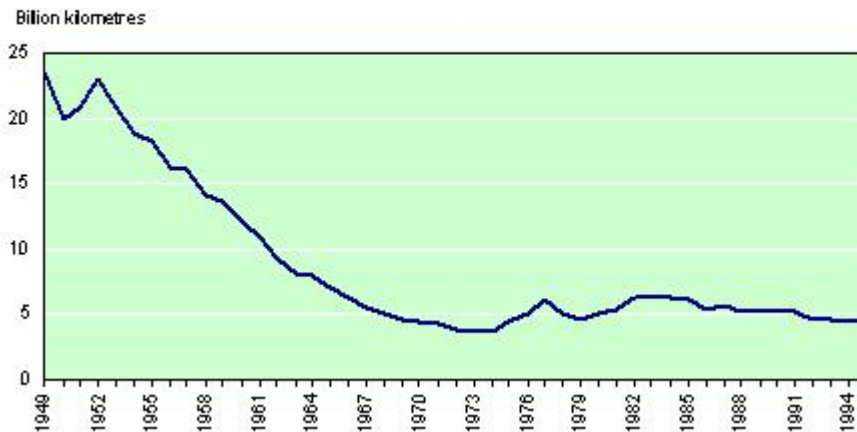
	Percentage of households with at least one cycle	Cycles owned per 100 persons	Stages per person per year	Miles per person per year	Miles per cycle per year
1975/76	24	14	30	51	361
1978/79	29	18	27	46	254
1985/86	36	25	25	44	176
1989/91	36	27	21	41	153
1993/95	38	30	17	37	123

1 A journey consists of one or more stages. A new car or bicycle stage when there is a change of mode of transport.

Source: National Travel Survey

Yet figures for bicycle use indicate the reverse trend, which is also illustrated in the above table and in the following chart (also taken from the Department for Transport’s 2002 report *Cycling in Great Britain*).

Chart 1: Cycle traffic in Great Britain



Source: National Traffic Census, DoT

So, with people buying more bicycles yet bicycle use dropping (or at best levelling out) it seems that, as Stephen Timm’s suggested, cost is not the crucial factor.

However, the role of price to other factors is explored in this report. It is suggested that price measures can be designed that support important issues such as confidence, convenience, reliability etc. Furthermore, the symbolism of tax concessions for cycle commuting could well be of greater importance than their direct cost impact. Tax concessions would show that

the government is actively supporting both cycling and employers who promote cycling (the latter being particularly important). In the current climate of cynicism towards transport policy, this can be crucial. A further key factor is that commuting accounts for nearly half of all cycle mileage. Tax changes to employees and their employers could have a beneficial effect on travel undertaken at times of high congestion.

The policy impact of cycle taxation measures

Tax measures can best play a role as part of a package of cycle promotion measures, particularly the development of employer Travel Plans. According to the National Travel Survey, currently an average of about 4% of work commuting trips are by bicycle. This amounts to an estimated 818,000 daily work trips in Great Britain. Table 1 is an analysis of the distribution of cycle commuter trips based upon the National Travel Survey and employment location data.⁴

Table 1: Number of People Employed in the UK Cycling to work by Firm Size and Location

	Bicycle		
	small firms	medium firms	large firms
Central London	13,927	3,852	11,853
Outer London	25,256	6,986	21,495
Other conurbations	9,757	2,699	8,304
Other urban areas	213,170	58,962	181,421
Not urban areas	80,463	22,256	68,479
All areas	384,445	106,336	327,187

The proportion of people cycling to work varies significantly across the UK. In Cambridge, over 28% of work trips are by bicycle, 19% in York, 15% in Gosport, 12% in Crewe and 9% in Cheltenham⁵. In many other places the proportion is under 1%. Information on Travel Plans that promote cycling⁶ suggest that, depending on circumstances, measures that address the key barriers to cycle use can increase commuting by bicycle from a previous 1 – 3% up to a 10% modal share.

There is no evaluation available of the impact of the recent tax measures upon bicycle use, and in the absence of this it is only possible to make estimates based upon reasonable informed assumptions. The Department for Transport’s 2002 research on the effectiveness of Travel Plans (Part 1: *Lessons from the Case Studies*, pp 64-65) notes which Travel Plan cycle promotion measures were the most effective. These included employers providing cycle parking, showers, changing facilities and lockers, cycle repair services and discounts for cycle equipment. The less effective measures were the provision of interest free loans to purchase bicycles, cycle rental or loan, pool bikes and cycle training.

This split between more and less effective measures from these research findings is significant. It supports the notion that the cost of buying a bicycle is not the major barrier to cycle commuting (hence the less effective measures are those that seek to provide or cut the cost of bicycles). All the successful measures are those that address the barriers of confidence,

⁴ from Potter et al 2001

⁵ Cited on cobr website, www.cobr.co.uk

⁶ Department for Transport (2002) *Making Travel Plans Work: Lessons from UK case studies*, and :Case Study Summaries DfT, The Stationery Office, London, July. Also available on www.local-transport.dft.gov.uk/travelplans/index.htm

safety, reliability, convenience etc. The inclusion of cycle training among the less effective measures is the exception to this trend.

Thus tax changes that are targeted to measures such as cycle parking, lockers, showers, changing facilities, cycle repair and maintenance and other factors that increase user confidence in cycle commuting are likely to produce the greatest impact.

There is therefore an emphasis in this report on developing tax measures that focus on these high impact factors.

3. The Current tax position of cycling and commuting

Unlike in some other countries, in Britain the cost of travelling between home and work is not an allowable deduction for the purposes of assessing Income Tax and National Insurance Contributions (NICs). The basic position is that commuting is viewed as a private cost and not a business expense. Thus an individual cannot claim expenditure on commuting by any form of transport against their tax and NICs liability.

Equally, any support given by an employer to its employees (be it in cash, as a reduced cost or in kind as a free service) is 'income' and is liable to income tax and NICs. Historically there have been a few clearly defined statutory exemptions to this general rule. The main examples are that car parking for commuters and the benefit of interest-free loans (up to £5,000 per tax year) for buying season tickets, bicycles, cars or any other personal item or service. There have also been a few other minor extra-statutory concessions⁷ of no particular significance to cycle commuting.

From 1999 onwards there have been a number of useful tax concessions on employer-provided benefits to 'greener' transport and other Travel Plan measures. The 1999 Budget contained wide-ranging exemptions for cycle commuting benefits. These were that employer-provided bicycles and cycling safety equipment (e.g. helmets and lights) were exempt from liability to income tax and NICs. In addition the provision of workplace parking for bicycles was also exempt. Although technically liable to taxation, the provision of cycle parking had never been taxed in practice – this was essentially a clarification exemption to reassure human resources departments and accountants.

In 2002 a tax concession on cyclists breakfasts was introduced. Again this was a 'reassuring' measure on a benefit that had never been taxed in practice. Initially the concession was restricted to only 6 breakfasts a year, but was made an unlimited concession in the 2003 Budget.

Overall the UK tax treatment of employer support to cycle commuting is good. Indeed, it could be viewed as world-class. In most respects it is better than places like the Netherlands, which has a cap on cycle benefits and a residual amount of tax. The tax concession is restricted to a bicycle worth less than £500, and on this the employee is liable to tax on a fixed value of £50. The employer may also provide the employee with accessories such as insurance, clothing, lighting etc, up to a maximum of £180 tax-free once every three years. Although the Dutch system does extend to some items not tax exempt in the UK (such as insurance and clothing) a residual tax liability remains and the system seems somewhat clumsy. Administering a tax charge on £50 must make it hardly be worth collecting.

⁷ Extra-statutory concessions are agreed relaxations under current legislation

Business use of bicycles

The business use of bicycles is one area where price could be a more important factor. The relative mileage rates paid for car and bicycle use can influence users. In the 1999 Budget, a cycling business mileage allowance of up to 12p per mile was introduced. This is the maximum cycle mileage rate that employers can pay, and anything in excess of this is treated as income and is taxable.

Following research (Potter et al 2001, op cit) showing that the 12p allowance was insufficient to seriously effect modal shift, the 2001 Budget raised the cycling business allowance to 20p from April 2002. This is one of the highest cycling mileage tax allowances anywhere in the world.

Importantly, if employers do not pay the full 20p rate for the use of bicycles on business, the individual employee can claim the allowance themselves on their tax return. The ability of employees to claim the full 20p rate is not widely known or publicised, thus although the UK has a world-class taxation measure, the potential of this concession is far from fully achieved.

Both the favourable tax position of employer-provided bicycle benefits and the high business mileage rate for bicycles seems not to be widely appreciated. At the very least, a more effective promotion of these tax concessions and rules is needed.

Value Added Tax

VAT was zero-rated for cycle helmets in 2002, but remains chargeable at the standard rate on the purchase of bicycles themselves, on cycle parts and on the service charge for maintenance

Employer taxation

There are no special concessions relating to corporate taxation. Employers can, as is normal practice, claim capital allowances on infrastructure to support cycle commuting, like cycle racks, sheds, cyclepaths, changing and shower facilities.

4. Evaluating the Cost of Tax Changes

An evaluation of the proposals in this report requires a careful consideration of how the tax cost of any tax concessions is calculated and how the transport benefits are assessed. As will be noted below, there are data problems involved in fully assessing the cost and benefit of cycle tax change proposals. One purpose of this section is to explore what form of assessment can be reasonably undertaken with available information.

Costing cycle tax measures

A number of the cycle tax proposals considered could be introduced in a fiscally-neutral way, following the government's principles of environmental taxation reform. Under these circumstances, any transport benefits will be a cost-effective net gain, so long as the costs of introducing and administering the changed system are not prohibitive. This particularly applies to the corporate taxation and business travel proposals. The VAT cost estimates are made in section 11 on this subject.

For the personal taxation regime, the cost of a measure such as a general tax allowance on short distance commuting (section 10), can be made. Survey data on the proportion of commuting trips under 2 miles can be obtained and the relief estimated for number of commuters involved.

For tax relief on Travel Plan measures, one of the key foci of this report, the situation requires careful consideration. Previous work for the DfT and Inland Revenue (Potter et al, 2001, op.cit.) contained a discussion on the distinction between tax *relief* and tax *cost*. The extent to which tax relief produces an actual tax loss to the Exchequer largely depends on two factors:

- 1) If the benefit is currently being provided to a sufficient extent that it represents a useful flow of tax and NIC income to the Treasury;
- 2) If the travel benefit can substitute for cash income (or any other form of taxable remuneration).

Regarding the first point, very few employers provide taxable cycling benefits to their staff. Any loss from providing further Travel Plan tax concessions would have a negligible effect on tax income.

The substitution of travel benefits for cash income can be an important source of tax loss. A clear example is the widespread substitution of company car benefits for cash income in the 1980s. However, if as a result of a tax relief being given, a company offers a travel benefit *in addition* to cash income, then the Treasury would continue to receive the same revenue as before from income tax and NICs. It is only if the employer *substitutes* a tax-free benefit for taxed cash income that a real tax loss is involved.

An example of a transport tax exemption that has little tax loss effect is the longstanding exemption of car parking. The value of employer-provided car parking to employees is over £3.5 billion per annum⁸, so taking an average employees' tax and NICs rate of 30%, plus employers' NICs at 12.8%, tax relief of £1.5 billion per annum is involved. However, to what extent is this an actual tax loss? Except in a few unusual circumstances, car parking is not part of the remuneration package and employers provide parking quite separately to cash income. Therefore this established commuting benefit exemption has not produced a significant tax loss to the Treasury.

Unlike in the case of company cars, it is difficult to substitute cycling benefits for cash income. Firstly, this is because bicycle benefits are not large enough to make much tax difference to individuals or their employers. Secondly, they cannot apply to as large a proportion of the workforce as company cars. Like it or not, most employees viewed company cars as an acceptable cash income substitute. Only a minority of employees could take advantage of cycling benefits and these certainly would not be widely accepted as a cash income substitute.

Thus for cycling benefits, the scope for general income substitution is limited and so there is likely to be a negligible tax loss associated with any bicycle Travel Plan tax concession.

Overall, the main cost implication of Travel Plan cycling tax measures is simply that involved in implementing the reform and administering the measure in practice. Administrative simplicity has been a key criterion in the development of the proposals in this paper.

⁸ This is an approximate estimate: the UK has 22.3 million workers of whom 65% commute by car (Source: *Transport Statistics Great Britain*). Of this total, it is assumed that half have an employer-provided parking. This produces just over 7 million parking spaces. At a nominal average value of £500 per space per year, this produces an estimate of £3.6 billion per year.

5. Modal Shift, Congestion and Health Benefits

In general, a greater use of cycling for commuting and business travel is associated with congestion, health and environmental benefits. It is, however, important to make a realistic estimate of any policy benefits that arise.

The first point is that any rise in cycle commuting will not of itself result in a reduction by the same amount in car driver trips (as sometimes is asserted). A rise in cycle use can result in modal transfer from, in particular, walking and also bus and car passenger trips. The NTS data used in Potter et al 2001 indicated a distribution of work commuting trips as in Table 2.

Table 2: Distribution of work commuter trips

Mode	Commuters (millions)
Car Driver	13.0
Car Passenger	2.6
Walk	2.6
Cycle	0.8
Other private	0.3
Bus	1.7
Train	0.8
London Underground	0.3
Other public transport ⁹	0.3

Source: National Travel Survey

The method used in this previous DfT study took into account research that showed where an increase in cycling (or another ‘greener mode’) would be likely to come from. Additional information is also contained in the DfT 2002 evaluation of the effectiveness of Travel Plans. This information suggests that, even with well-targeted measures to promote cycle commuting, only something like half of the increase in cycling comes from previous car drivers, with the other half being transfers from car passengers, walk and public transport. A likely redistribution of work commuting trips should cycling commuting double¹⁰ (from 4% to 8%) is shown in Table 3.

Table 3: Likely redistribution of commuter trips if bicycle use doubles

Mode	Commuters (millions)		
	Before	After	Change
Car Driver	13.0	12.6	-0.4
Car Passenger	2.6	2.5	-0.1
Walk	2.6	2.4	-0.2
Cycle	0.8	1.6	+0.8
Other private	0.3	0.3	-
Bus	1.7	1.6	-0.1
Train	0.8	0.8	-
London Underground	0.3	0.3	-
Other public transport ¹¹	0.3	0.3	-

⁹ Includes local tram and LRT systems, ferry etc.

¹⁰ This is the order of improvement achieved in Travel Plans and sought in the Government’s 10 Year Transport Plan.

¹¹ Includes local tram and LRT systems, ferry etc.

This redistribution is important when policy benefits of cycle promotion are considered. For example a cut in car mileage and congestion benefits will only apply to the proportion of cycle trips transferred from car driver.

The health benefits of cycling are widely cited. British Heart Foundation research indicates that the regular exercise like cycle commuting reduces the risk of heart disease. Using this data, the COBR estimate that if a third of short journeys were transferred to bicycle, then national heart disease rates would drop by 5 – 10%¹². However, such health improvements would not arise if the transfer to cycling were from existing walking trips (where that level of exercise is already present) and, to a lesser extent, public transport (which involves some, though a lesser degree, of walking).

The examination of health benefits raises the important issue that there are cross-sector benefits that need to be taken into account in evaluating the impact of cycle taxation measures. This has been emphasised in the recent joint reports on school travel by the Departments for Education and Transport¹³ and in studies for the Department for Health. **Cost reduction and policy benefits of cycle taxation measures would extend well beyond the boundaries of the Department for Transport.**

In terms of environmental impact, an estimate can also be made of the amount of CO₂ reduced by modal transfer to bicycle. For this an estimate has been made of the amount of CO₂ produced by car-driver commuting. According to the National Travel Survey¹⁴, the average car commuting by people employed full or part-time was 3,587 miles per year (or 5,933 kilometres) as a car driver. This equates to a home-work distance of about 7.5 miles. However, only shorter-distance commuting trips will be transferred to bicycle (although it is possible that cycle promotion measures might lead to some increase in cycle/train use). It might be reasonably assumed that any trips transferred to bicycle would be similar to the cycle commuting average of 2 miles each way – of around 1,000 miles (1,600km) a year.

A litre of petrol produces about 2.4 kilograms of CO₂ and a litre of diesel about 2.7 kilograms. A figure of 2.5 kilograms per litre would represent an average for all cars, allowing for the petrol/diesel mix in the car stock. The average UK fuel economy is 9 litres per 100km, although the driving conditions for short commuting trips will involve a poorer fuel economy than the average.

If the average fuel economy were taken, then each car driver commuting trip shifted to bicycle would save 144 litres of fuel and about 360kg of CO₂ (97kg of carbon¹⁵) emissions per annum. Modal shift from bus to bicycle would also produce a cut in CO₂ emissions. Assuming the same commuting journey length, this would produce a cut of about 220kg of CO₂ emissions per annum (the lower figure due to a better average fuel economy per passenger-kilometre for travel by bus)¹⁶.

¹² cobr website, www.cobr.co.uk

¹³ Travelling to School: an action plan and Travelling to School: a good practice guide, Department for Education and Skills and Department for Transport, September 2003.

¹⁴ Information provided by DETR

¹⁵ There are 3.66 tonnes of CO₂ to a tonne of carbon.

¹⁶ Source Potter, S (2000): Travelling Light, Open University Course T172, Theme 2, The Open University, Milton Keynes, p 44.

The Treasury report on the social cost of carbon emissions¹⁷ suggests a central valuation of £70 per tonne of carbon (with estimates ranging from a minimum of £35 per tonne to a maximum of £140). Using the central figure, the social value of each car driver commuting trip diverted to bicycle is therefore £6.80.

The above figures do not include congestion costs. Congestion costs could also be estimated separately, which vary according to place, type of road and time. Although it is not possible to specify in detail whether trips diverted to bicycle would be in particularly congested areas, commuting trips inherently take place at times of high congestion. An interesting congestion relief aspect would be trips diverted from public transport to bicycle, which would produce congestion relief benefits for the remaining public transport users travelling in more comfortable conditions.

With an estimate of social benefits of £6.80 per commuting trips diverted to bicycle, plus at least another £2 for congestion relief, then any tax measure that costs under this will produce a net policy gain.

6. Tax issues for consideration

This section seeks to highlight key areas for further tax reforms to promote cycle use.

In general, the tax treatment to employees of employer support for cycling in the UK is among the most favourable in the world. This situation has not been fully exploited in transport policy promotion and publicity and this lost opportunity needs addressing by the use of comprehensive publicity and marketing.

However, there remain some 'loose ends' from the reforms of the last four years. For example one suburban London employer¹⁸ offers a 'bike miles' incentive scheme as part of their Travel Plan. Under this, when employees arrive at the site by bicycle, this is registered by security staff in a 'bike miles' booklet. The employee can spend the accumulated bike miles on purchasing bicycles, spares and other equipment in local bike shops or pay for repairs when a 'bike doctor' visits the site.

The problem with this high-profile promotion is that, although much of the bicycle benefits are tax exempt, some of them are not and in consequence, *all* of the bicycle benefits are taxed. So, to provide their employees with £1 of benefit, the company needed to pay £1.43 pre tax (and £1.86 for higher rate taxpayers). When an employer seeks to offer such a comprehensive and integrated package to promote cycling, the tax benefits are lost. It is not surprising that few employers attempt such an integrated bicycle promotion scheme.

The current mix of cycling tax concessions needs to be reviewed in order to permit and encourage more comprehensive schemes of cycle promotion by employers.

A particularly weak area of using the tax system to promote cycle commuting appears to be corporate taxation. Although there are tax benefits to employees if their employer offers support to cycle commuting, there is little incentive for the employers to do this. If the employers do not offer the benefits in the first place, then nothing will happen.

With higher rates of National Insurance Contributions (12.8%) being introduced in April 2003, employers would benefit by not being liable to this when bicycle benefits are provided to their staff. However, this would only be realised (as noted below) if they substituted

¹⁷ Clarkson, R and Deyes, K (2002): *Estimating the Social Cost of Carbon Emissions*, Government Service Working Paper 140, HM Treasury.

¹⁸ Reported at ACT workshop, *Developing and Implementing an Effective Travel Plan*, June 2003

bicycle benefits for cash income, but cycle benefits are not easy to incorporate into a general remuneration package. There are no known examples of where they are. Thus the tax system provides no particular incentive for employers to promote cycling.

The absence of tax benefits to employers in providing cycling commuting benefits is a key weak link in the tax concession policy.

At a more general level, VAT is also an area where there is only one small cycling concession and where, as discussed below, further concessions are in progress within the CEC.

The UK needs to establish a clear view on its support for the CEC's proposals to reduce VAT on cycling.

Future directions

The Government's 10 year Transport Plan includes an ambitious target for the growth in cycle use. Could further taxation measures play a supporting role to enhance the attraction of cycling for commuting? Following an initial position paper and discussion with the project Steering Group, it was agreed that this project should explore the series of measures detailed in the following sections. The intention is to produce a range of measures, from minor reforms to more substantial taxation changes. It is suggested that more substantial measures are needed if there is to be any hope of transforming attitudes among employers towards cycle Travel Plan measures and to reverse the current decline in cycle commuting. However, the situation is not simply a choice between minor and substantial reforms. In some cases the potential of existing reforms has not been realised and these require attention before, or in conjunction with, more substantial taxation measures.

In exploring future directions, the following sections will look at a range of possible further taxation measures, starting with a consolidation and development of the tax concessions that support employer Travel Plans.

7. Travel Plan measures

Travel Plans are employer or organisation-led initiatives to reduce the transport impacts of their staff, customers and visitors. It is government policy to secure the widespread voluntary take-up of Travel Plans through partnership with business, local authorities and the wider community¹⁹. It should be noted that there have been a variety of names for what are now called *Travel Plans*, including *Commuter Plan*, *Green Commuter Plan*, *Mobility Plan* and *Green Transport Plan*. In the UK, *Travel Plan* is now the main term used, and this will be used in this report.

A key strength of tax concessions for Travel Plans is targeting and leverage. The measures can be targeted upon key factors (which, for example a more general cycling tax concession does not do). Leverage is a very important and related point. The tax concession only comes into effect if an employer puts in resources to promote cycle commuting. This automatically targets the tax concession on situations where transport issues are important to an employer and where they are willing to provide resources themselves to addressing that need.

However, leverage is also a weakness of Travel Plan measures, for if employers do not respond, then the potential of the personal tax concession will never be realised. This issue is explored throughout this report, particularly in the section considering corporate taxation.

¹⁹ Chapter 5 of the 1998 transport White Paper, *A New Deal for Transport: Better for Everyone*.

Even though the UK has a set of very good and appropriate exemptions to employer provided bicycle benefits, and also has a high cycle business mileage rate, all this appears to have had little actual impact. To a large extent the low impact is probably little to do with the design of the tax measures in place and more about a lack of awareness of cycling tax benefits by employers and employees with there being a need for better information and promotion. The recent tax reforms have not really worked their way into corporate awareness. Consequently, the effectiveness of current tax measures could be considerably enhanced by a co-ordinated package of promotion, which could be spearheaded with further low-cost tax measures agreed between the Department for Transport and the Treasury. The additional measures would be carefully designed to enhance and realise the potential of current concessions.

Such an approach would be particularly useful to support more advanced employer measures. The 'bike miles' problem could be addressed by further tax concessions on clearly defined employer provided benefits. These would need to be carefully specified to avoid any substantial 'leakage' (e.g. using the benefit to purchase bicycles for an employee's children or friends). The most useful concessions would be those which encourage employers to provide measures that address the crucial barriers to cycle use, such as confidence, personal security and reliability.

The following are a set of further tax exemptions that address important barriers to cycle use while fulfilling the need to be administratively simple, clearly defined, bounded and auditable. This would be to exempt from Income Tax and NICs the following employer-provided benefits:

- Bicycle insurance for commuting (as in the Netherlands).
- Subscriptions to cycle rescue services for employees (a personal security issue to women and other vulnerable cycle commuters).
- Extending to cyclists the exemption on emergency 'get you home' services, currently available for car-sharers.
- Employer subsidised on-site maintenance of bicycles and provision of spare parts at reduced or no cost ('Bike Doctors').
- Off-site maintenance of bicycles and provision of spare parts at reduced or no cost.
- Cycle training.

Cycle training is, in practice, not likely to be viewed as a taxable benefit, and if provided for business use of cycling would not be liable to tax at all. However (like cyclists' breakfasts) it would be a technically taxable benefit, and so a clarifying exemption would be welcome.

The other proposals are very clearly defined and bounded exemptions. The exemption to cover off-site maintenance needs to be carefully defined, but is important as only larger employers would be able to support an on-site 'Bike Doctor'. The off-site maintenance support could specify the use of vouchers (possibly cash limited to, say £80 per employee per annum) that can only be spent upon bicycle maintenance services and spare parts.

One possible way forward is to design a bicycle measure that parallels the 2002 Bus Contract Carriage exemption. Under this, if an employer enters into a contract agreement for bus services to their site, then subsidised or free fares are exempt from tax and NICs. Any other form of subsidy to bus fares remains liable to tax and NICs. A parallel concession could be for an employer enters into a contract agreement with a local bicycle shop to provide an on- or off-site maintenance service. This can include vouchers that are restricted to purchase maintenance services and bicycle spare parts. This linking of a tax concession to a contractual agreement between an employer and supplier means that this will only be triggered when an employers treats cycling seriously. Consequently, this tax concession will be strongly targeted.

Travel Plan measures recommendations

That the following employer-provided benefits be exempt from Income Tax and NICs:

- **Bicycle insurance for commuting.**
- **Subscriptions to cycle rescue services for employees.**
- **Extending to cyclists the exemption on emergency ‘get you home’ services, currently available for car-sharers.**
- **Employer subsidised on-site maintenance of bicycles and provision of spare parts at reduced or no cost (‘Bike Doctors’).**
- **Off-site maintenance of bicycles and provision of spare parts at reduced or no cost.**
- **Cycle training**

Overall, the concept developed here is that this set of concessions would be both useful in their own right, but they would also make possible more ambitious policy initiatives. In particular, the DfT, in partnership with the bicycle industry could promote the use of bike miles schemes with employers. This could be an integrated package of measures highly targeted to address key barriers to cycle use, helping people to build confidence and familiarity with cycling to work. The ‘Contract Supplier’ concession is highly targeted on employers who put into place measures to seriously support cycling.

The central idea is that any further tax concessions would not be isolated, ad hoc measures, but would facilitate a stronger partnership between the DfT, Treasury, the cycling industry and Travel Plan support organisations. Such a strategic public/private alliance could be very fruitful, particularly if it encouraged the bicycle industry and others to an active promotion role, selling to employers the benefits of tax-efficient cycling benefits. Bicycle shops might ‘buy into’ a company scheme, offering additional bike mile benefits. The private sector ‘leverage’ from relatively modest tax concessions could be important if introduced and managed well.

Applicability to other employer Travel Plan measures

A concession extending to cyclists the exemption on emergency ‘get you home’ services, could also be applied to public transport users. Many employment sites have no evening bus services and so extending this concession from being just a backup to car sharers across to all other ‘greener’ modes would generally reinforce confidence in alternative means of transport to the car. In practice, backup services are only used very infrequently. The tax cost of this measure is effectively nil as a rarely used ‘insurance’ measure cannot substitute for taxable income (see discussion below).

8. Business Travel by Bicycle

The UK bicycle mileage rate of a maximum of 20p a mile is among the highest in the world, and the provision whereby employees can claim the balance of the allowance themselves on their tax return means that the full tax concession is available whatever their employer offers. Rather than seeking further improvements to this situation, it would appear that the current situation merits extensive publicity. In the experience of the author at Travel Plan training events and meetings, company Travel Plan co-ordinators are largely ignorant of this situation.

A substantial reform, that would provide benefits across all business Travel Plan measures, would be to introduce a unified business travel mileage rate that would be paid regardless of mode. This would be an extension of the principle behind the unified car mileage rate, whereby users of fuel-efficient cars benefit at the expense of users of cars with a poor fuel economy. To be revenue neutral a new unified rate would be set between public transport costs and the current car rate. This might be at around 30p a mile. Thus users of ‘greener’ modes for business travel would benefit, and cyclists the most.

Business travel by bicycle recommendations

Consideration should be given to a unified business mileage rate could be introduced on a fiscally-neutral basis that would provide an incentive to both cyclists and users of other ‘green’ modes.

9. Corporate Taxation

As noted in sections 3 and 6 of this report, the issue of tax benefits to employers providing cycling commuting benefits is a key weak link in the tax concession policy. Currently there are no special tax incentives for employers who support cycle commuting. If the employers are not motivated to offer cycle benefits then all the personal tax concessions to employees will fail to materialise. This suggests that a concentration on corporate aspects of taxation is required.

However, there is an issue of how much of an incentive a tax credit mechanism would provide. This was a matter raised by the Inland Revenue when consulted as part of this research²⁰. In general, any expenditure by an employer to support cycle commuting by staff will be relatively small. Consequently, the amount they would gain from any tax credit mechanism would also be small and possibly produce only a small policy impact. The following section addresses this issue in the design of the corporate taxation measures. Firstly it is suggested that any cycling tax credits be part of wider Travel Plan tax credits. Secondly, that credits for expenditure on ‘greener’ commuting be counterbalanced by reduced tax allowances on ‘non-green’ commuting. Finally, there is the point raised earlier in this report, that in order to realise the potential impact of existing tax concessions, some further, relatively small, measures are needed so as to provide a more integrated fiscal package. The following specific proposals should therefore be viewed in this context of their role in a wider synergistic package.

Enhanced Capital Allowances

There are transport taxation precedents that can be followed. Other forms of transport do attract special corporate tax concessions. The 2002 Budget introduced enhanced capital allowances for the purchase by companies of low carbon cars (emitting up to 100gm/km CO₂ or electrically propelled) used in their business or by their employees. Also qualifying for enhanced capital allowances is equipment for refuelling vehicles with natural gas or hydrogen fuel. Under normal capital allowance rules, a company can only claim against corporation tax 25% of an investment in the first year and then 25% in subsequent years on the reducing balance. The enhanced capital allowance permits companies to claim the full 100% in the first year.

This is part of a wider programme to provide enhanced capital allowances for energy-saving plant and machinery.

Thus, under the current tax rules, if a company were to purchase a low carbon car for use by employees they would qualify for an enhanced capital allowance, but not if the company were to purchase a zero carbon bicycle! This inequitable situation could be remedied by extending the enhanced capital allowance to bicycles for use in a company’s business or by their employees

Because bicycle capital expenditure is small compared to a company buying and maintaining a company car fleet, the tax impact will be low. However, this would be a low cost measure that puts provides equal treatment for bicycles and other cleaner company vehicles. As noted

²⁰ Thanks are due to Carolyn Mason and her colleagues at the Inland Revenue for their comments on a this and other sections of a draft of this report.

earlier the symbolic impact, together with linking this to other measures would be more important than the effect of this measure alone.

Counterbalancing capital allowances

Bicycle parking infrastructure and on site cyclepaths currently qualify for Industrial Building Allowance (4% a year on a straightline basis). An enhancement to these, and other Travel Plan building allowances could be introduced. However, a more integrated approach returns us to the issue discussed in section 2 of this paper. This concerns the declining tax rate upon car commuting. Enhancing capital and building allowances on bicycles and bicycle-related infrastructure could be coupled with a counterbalancing measure on car-related infrastructure. This could be done in a number of ways:

- There could be a limit placed on the amount of car park expenditure eligible for capital and building allowances. This could be expressed as an amount per employee per annum. If this were set at about 65% of the annual capital cost of surface car parking per employee, then it would result in there being no capital allowance on employers accommodating more than 65% of employees commuting by car²¹. In places with higher car parking costs, the fixed allowance per employee would encompass a lower number of car parking spaces. This automatic adjustment is to be welcomed as in such places, larger towns, cities and conurbations, policy is for a lower proportion of commuting trips by car and alternatives to car travel are more available. The reduction from 100% to 65% could be phased in over a period of several years to allow employers to develop their Travel Plans.
- A simpler system would be that only a proportion of car park capital expenditure would qualify (e.g. only 50% of car park expenditure). This method has been applied in the personal tax regime where, for example, tax relief on mortgage payments only qualified for a proportion of expenditure (which was reduced to phase out the benefit).
- An extension of the time over which car parking expenditure is written off (for example 15% per annum for capital allowances rather than 25%).

Behind this more integrated proposal is a very important principle of environmental taxation design. Bike provision ‘carrots’ need counterbalancing measures that would enhance their effectiveness. They would also result in there being no tax cost involved, with the possibility of a net revenue gain to the Treasury. As the Chancellor is seeking to increase tax revenue, and is reluctant to directly raise motoring taxes, an increase of revenue from the corporate sector targeted to greening employer transport support could be very appropriate.

Such an approach need not be limited to cycle capital allowances alone, but to a range of capital items for Travel Plan measures. This would reinforce the policy impact and be important in justifying the measures to enhance travel choice, and not simply penalise motorists.

Revenue expenditure

Many important Travel Plan measures involve revenue rather than capital expenditure. The revenue cost of most Travel Plan measures would qualify to be set against Corporation Tax, and such expenditure would also be deductible against income tax for SMEs that are sole traders and partners. Qualifying expenditure includes cycle measures such as rental payments to providers of leased bicycles, and interest payments to a bank for the provision of a free loan and rental for bicycle parking from a third party, cyclists breakfasts. An important non-cycling Travel Plan measure are payments to public transport providers for reduced cost services and service enhancement and also for emergency travel costs to home.

²¹ The modal split target of the Royal Commission on Environmental Pollution’s transport report.

Travel Plan tax credit

Some mechanism to enhance the value of clearly specified cycle and other Travel Plan revenue expenditure could be valuable. This could be introduced by the provision of tax credits on defined Travel Plan expenditure. This measure is already used for the existing R&D tax credits scheme. Under this, companies are entitled to an additional deduction from their taxable income of 25 per cent of their current spending on qualifying Research and Development (R&D) expenditure (including staff costs) in addition to the normal 100 per cent deduction. For example, if a company spends £100,000 on qualifying R&D it will be able to deduct £100,000 from its taxable income under ordinary tax rules and an additional £25,000 under the R&D tax credit. For a company paying the main rate of Corporation Tax at 30 per cent the credit would therefore give a reduction in tax of £7,500.

The rationale for the R&D credit was that it addressed a market failure – inadequate R&D in the UK compared with other comparable economies. Interestingly there is somewhat of a parallel to this in Travel Plans. Previous research for the DfT²² has indicated that there often is a financial case for Travel Plan expenditure. Overseas companies recognise this more readily than those in the UK, where company culture and accounting procedures results in staff commuting being accommodated in a more costly way. Altering organisations to this through a tax mechanism could therefore aid, albeit in a small way, economic efficiency.

It would be possible to introduce a Travel Plan tax credit on its own. However the most effective measure would be a package balancing out a reduction in car park capital allowances with a combination of enhanced capital and tax credit allowances for specified Travel Plan measures, including those for promoting bicycle use.

Such an approach would provide a real incentive to employers to offer Travel Plan benefits and evaluate carefully their expenditure supporting car commuting.

Corporate taxation recommendations

It is recommended that:

- **Enhanced capital allowances be introduced for bicycles for use in a company's business or by their employees**
- **Enhanced buildings allowances be introduced for bicycle parking infrastructure and on site cyclepaths**

A more integrated approach would be to couple enhanced allowances and tax credits for cycling and other Travel Plan expenditure with a counterbalancing measure on workplace car parking. This could take a number of forms, but setting a limit of capital allowances on car parks at 65% of the annual capital cost of surface car parking per employee would be the most equitable and targeted measure. The amount of parking qualifying for relief would then drop as settlement size increases – and with this the viability of non-car commuting increases.

²² Taylor, Adrian, Black, Colin, Potter, Stephen and Rye, Tom (1999): *The Benefits of Green Transport Plans*, Department of the Environment, Transport and the Regions, June.

10. General Personal Tax Allowance

Cycle commuting allowance

Returning to the personal taxation regime, could some wider tax allowance be made to people who commute by bicycle? Such a concept is problematic in the context of the UK tax regime. In countries where commuting is a tax-deductible expense, there are a variety of rules as to the amount that can be claimed. For example this may vary by mode, and in some cases by distance. In the Netherlands, for example a tax deduction is disallowed if the employee lives within a radius of 10km from work, and limited to a maximum distance from home to work of 30 km. This is to the disadvantage of cycling as most cycle commuting trips are under 10km.

In Germany, commuters can choose between a basic lump-sum deduction in respect of commuting costs, regardless of actual commuting costs - or a distance or a kilometre rate, that varies with mode (less for bicycles, more for motorcycles and cars and the actual cost of public transport).

Enforcement is a major issue in all these systems. Commuters tend to claim whichever mode of transport or option that provides the highest allowance. It is very hard to check if a cyclist is claiming to travel by car to get a higher allowance. With the Netherlands phasing out car allowances, but retaining an allowance for public transport and bicycle, it is equally hard to detect when car commuters are claiming the bike allowance and driving to work!

Equally there is a definitional issue. Would a person need to commute all the way from home to work to qualify? What if they took their bicycle on a train? What if they cycled to a station? There is thus both a problematic definitional issue for a cyclist commuter allowance in the UK as well as a major problem of enforcement.

With about 800,000 people commuting by bicycle, a tax allowance of, say £500 per annum (probably the minimum to have any policy effect) would take £400m of income out of taxation. This would cost the Treasury about £120m in income tax and employee NICs²³ plus another £50m in employer NICs, producing a total loss of Treasury income of £170m. There would be a further loss from those shifting from other modes of transport, taking the total loss to around £200m.

A short distance commuter allowance

An alternative approach would be to have a distance-based allowance, not specific to cycling. This would be far more viable in the context of the UK tax regime and would overcome the issues of definition and enforcement. For example people who live within 2 miles of their workplace could qualify for a £500 short distance commuter tax allowance. This would be relatively easy to enforce, with the allowance being triggered by employers pay systems using postcode data. There are some definitional issues (e.g. people based at home and part-homeworkers), but these are by no means as great as for the cycle allowance proposal.

Such a tax allowance would provide a wide range of transport policy benefits. It would reward short commuting trips rather than long and would cover virtually all walk and a large proportion of cycle commuting trips. Such an allowance would also have longer-term land use and urban policy impacts, rewarding people for locating close to their workplace and providing a tax benefit to people living in accessible locations.

²³ Assuming an average of 30% Tax and NICs.

The identification of this potentially viable measure, which could make a contribution to transport economic efficiency and a wide range of transport and environmental policy goals, raises a number of questions that cannot be answered within this paper. It is suggested that further work be undertaken to evaluate this possibly valuable mechanism.

General personal tax allowances recommendations

In the context of the UK tax regime, a cycle commuting allowance would be expensive and is fraught with definitional and enforcement problems.

A short distance commuter allowance would address a wide range of transport policy objectives and appears to be a potentially viable measure that could justify the high tax losses associated with it.

11. Value Added Tax

At the moment, with the exception of cycle helmets, VAT is chargeable at the full UK rate on bicycles, bicycle products and services. Under the Sixth VAT Directive, from 2001 member states have been able to lower the standard rate of VAT for bicycle repairs. This was part of a more general trial of lower VAT on labour-intensive services. Four countries reduced the rate of VAT for repairs to bicycles to 6% in Belgium, 13.5% in Ireland and 6% in Luxembourg and the Netherlands. The 3-year trial will end on 31st December 2003 and the CEC is expected to shortly produce an evaluation report.

In the light of this experience, the EU Council of Ministers are considering whether to continue to permit member states to reduce VAT for bicycle repairs and they are expected to take a decision on this in the autumn of 2003. There is an evaluation of the role of VAT underway and the UK Government should exploit the opportunity that this presents.

With the issue of VAT being on the CEC agenda, COLIBI, the Association of the European Bicycle Industry, has been lobbying for reductions on the level of VAT on bicycles, bicycle products and services²⁴. In summary, they argue that VAT reduction would:

- Reduce motorised traffic following increased cycle use
- Improve traffic safety and reduce accident cost
- Increased turnover in the bicycle business would part compensate for the reduced VAT rate
- Increase employment in the bicycle business

In considering the role of reduced rates of VAT it is perhaps appropriate to separate issues relating to the bicycle industry and employment from those of transport policy - and the promotion of cycle commuting in particular. The CEC trial is an employment-led initiative, not a transport policy-led one, and the COLIBI lobbying, despite the use of transport policy arguments, is essentially an industry led issue.

The transport policy benefits of reduced VAT needs careful consideration. The value of bicycle sales in the UK is £426m²⁵, so some £63m of VAT would have been paid on this amount alone (with more on spares and services). Were the VAT rate to be cut to 6%, VAT income would drop by more than £41m. Even a lesser cut to 13.5% (as in Ireland) would produce a £15m drop in VAT income.

²⁴ COLBI, COLIPED and ETRA, Position Paper submitted to the European Commission on 24 March 2003, a.roetyneck@euronet.be

²⁵ 1999 sales.

It is argued in this report that price is not the main barrier to increasing cycle use. Consequently any increase in cycle sales resulting from up to a 10% price cut (assuming all the VAT cut were passed on to the customer) would be marginal. At best increased sales may reduce the loss in VAT a little. However, the cut in revenue would remain great. Were the government seeking to use £15 - £40m to support cycle commuting and other cycling trip purposes, then a blanket reduction in VAT would not seem the most appropriate action. It is just too blunt an instrument for transport policy. A more targeted approach would be needed.

As has been the case with the suggested Travel Plan measures above, a better use of reduced VAT would be if it were focused upon key barriers to cycles use, such as confidence, safety, reliability, convenience etc. This is, of course, what the targeted VAT reduction on cycle safety helmets has done, albeit in a limited way. In this respect, reduced VAT on bicycle repairs may be useful, in that low cost repairs would build confidence in the perceived and actual reliability of cycling. However, of possibly greater importance would be a reduced VAT rate on bicycle rescue services, insurance and safety training.

It is realised that the CEC review of the Sixth VAT Directive is an industry and employment-led process. Transport policy issues could be a supporting argument for the continuing to permit member states to reduce VAT on bicycle repairs, but it is probably not a primary argument. The primary argument must rest upon the employment and economic case for lower VAT.

With labour-intensive services being their focus, in addition to bicycle repairs, bicycle rescue services and safety training would appear suitable candidates for consideration. Insurance is not a labour-intensive service, but completes a synergistic package.

VAT Recommendations:

The UK Treasury should be briefed on the CEC discussion ready for their participation in the decision on whether bicycle-related services should be included in a list of services where member states will be permitted to charge a lower rate of VAT.

It is suggested that, in addition to supporting the inclusion of bicycle repairs, that bicycle rescue services, safety training and bicycle insurance be added, or that these services be the subject of an additional 3-year trial.

Quite aside from the CEC discussions, the government should prioritise a reduced rate of VAT (probably 6%) on (in order of priority):

- **Bicycle safety training**
- **Bicycle rescue services**
- **Bicycle insurance**
- **Bicycle repairs.**

The UK government should explore whether such a reduced rate can be introduced immediately or whether CEC action is first needed.

12. Conclusions

Cycling is already a very low cost form of transport, and issues such as safety, convenience, confidence, reliability, physical effort, image etc. are greater barriers than cost. However, tax measures can partially help to address these core barriers, and will support other policy initiatives to increase cycle commuting.

Since 1999 there have been a number of tax concessions on employer support to cycle commuting and the introduction of a generous cycling business mileage rate. Indeed, in this respect the UK has world-class tax treatment of employer support to cycling. However few employers provide serious support to cycle commuting or pay the maximum cycle business mileage rate. Simply introducing tax changes alone is insufficient. In particular there are no incentives to employers to promote cycling. A stronger linkage between taxation measures and other actions to support cycle commuting is crucial. At the moment, despite being good, the tax concessions we have appear to be rather isolated and, as a result, their effect is limited.

A careful examination of Travel Plan taxation suggests that some further cycling tax concession could be introduced that address the crucial barriers to cycle use, such as confidence, personal security and reliability. The cost to the Treasury of these measures would be very low (and probably negligible in the short term). These are that the following would be exempt from Income Tax and NICs:

- Bicycle insurance for commuting.
- Subscriptions to cycle rescue services for employees.
- Extending to cyclists the exemption on emergency 'get you home' services, currently available for car-sharers.
- Employer subsidised on-site maintenance of bicycles at reduced or no cost ('Bike Doctors').
- Employer subsidised off-site maintenance of bicycles at reduced or no cost
- Cycle training

This set of concessions would be both useful in their own right, but they would also make possible the development of a partnership between government and the bicycle industry to promote measures such as 'bike miles' schemes with employers. The tax concessions would support an integrated package of measures highly targeted to address key barriers to cycle use, helping people to try out and build confidence and familiarity with cycling to work.

For business travel, consideration should be given to a unified business mileage rate, which could be introduced on a fiscally-neutral basis providing an incentive to both cyclists and users of other 'green' modes.

The key weakness of a lack of incentive to employers to support cycle commuting could be addressed by the introduction of enhanced capital allowances on

- Bicycles for use in a company's business or by their employees
- Bicycle parking infrastructure
- On site cyclepaths

Travel Plan tax credits for specified Travel Plan expenditure could also be introduced, which would provide a stronger incentive for employers to offer staff Travel Plan measures.

However, this is an area where the government's design principles of environmental taxation reform could be applied to produce a much more effective measure. The cycle and other Travel Plan tax incentives could be combined with counterbalancing disincentives, which can be introduced in a fiscally neutral way. A suggested package is to provide additional Travel Plan tax allowances counterbalanced by reducing capital allowances on employee commuter car parking.

In the context of the UK tax regime, a general cycle commuting allowance would be expensive and is fraught with definitional and enforcement problems. However, a short distance commuter allowance would address a wide range of transport policy objectives and appears to be a potentially viable measure that may justify the high tax losses associated with it. Further work and consultation would be needed to develop and evaluate this concept.

Regarding VAT, there does not appear to be a transport policy case for reduced VAT on bicycles themselves, but a lower rate on some bicycle goods and services would support policies to address the key barriers to bicycle use. Lower VAT would be appropriate on

- Bicycle safety training
- Bicycle rescue services
- Bicycle insurance

A lower, but probably worthwhile, priority would be bicycle repairs.

Additionally, the UK Treasury should be briefed on the CEC discussion on whether bicycle-related services should be included in a list of services where member states will be permitted to charge a lower rate of VAT.

Overall these reforms would support policies to address the major barriers to increasing cycle commuting and permit the development of a more integrated approach to promoting cycle use. Many of them would also support or could be applied to Travel Plan measures for other 'greener' modes. Indeed several of the measures would be more appropriate and cost effective if introduced in this wider context.