

Mandatory Payrolling of Benefits: What Employers Need to Know Ahead of April 2027

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The payrolling of most benefits in kind (BiKs) is currently expected to become mandatory from 6 April 2027 (deferred from the start date originally announced of 6 April 2026).

Employers have been able to voluntarily payroll most BiKs since April 2016. Employers who are not currently voluntarily payrolling BiK will have a lot to think about ahead of April 2027. For employers already voluntarily payrolling, changes will be needed to make mandatory reporting work effectively.

What's changing from April 2027?

From April 2027, most BiKs will need to be reported and taxed in real time via Real Time Information (RTI) using the Full Payment Submission (FPS). This replaces the current system where BiK are reported annually on Form P11D for income tax purposes and Form P11D(b) for Class 1A (employer only) National Insurance contributions (NIC) for items subject to Class 1A NIC (note some items currently reportable on Form P11D for tax purposes are subject to Class 1 (employer and employee) NIC).

Key changes include:

- Real-time deduction of income tax spread across the pay periods in the relevant tax year.
- Expanded FPS fields to capture BiK data (similar to the fields in the current Form P11D).
- Removal of the need to register for payrolling most BiKs (except loans and accommodation).
- Voluntary payrolling of employer-provided loans and accommodation will be permitted but not mandated.

What is not changing is the general treatment of taxable expenses reimbursed to employees – these already need to be processed via the payroll for income tax and Class 1 (employer and employee) NIC purposes in the period in which they are reimbursed. This is an aspect many employers get wrong and preparing for mandatory payrolling presents an opportunity to review current expense processes to ensure taxable expenses are captured and appropriately reported.

What are the current rules for voluntary payrolling?

Employers can choose to payroll most BiK by registering with HMRC before the start of the first tax year the relevant benefit(s) is/are to be payrolled. However, interest-free and low-interest loans and employer-provided living accommodation are currently excluded.

Once registered, the relevant portion of the taxable value of the benefit is added to the employee's pay each period, such that PAYE is applied in real time. Employers must calculate the cash equivalent of each benefit selected, divide it across the number of pay periods (e.g. 1/12th of the taxable value for monthly paid employees), calculate and withhold income tax on the taxable value and report it via the FPS. Form P11D(b) is still required to account for any Class 1A NIC due.

Importantly, only payrolled benefits should be included in the FPS; non-payrolled benefits must still be reported on Form P11D. Employers must also ensure they maintain accurate records to support their audit trail and provide employees with year-end benefit statements. The current system allows flexibility, but it also introduces complexity, particularly where benefits are

provided mid-year, cease upon termination, or are partially “made good” by employees. The technical note published by HMRC in April 2025 makes it clear that even employers who are currently payrolling benefits in kind will have to make changes to their systems.

What is the penalty position in 2027/28?

To support the transition, HMRC has confirmed a “soft landing” for the first year:

- No penalties for BiK-related inaccurate reporting in 2027/28, unless there is evidence of deliberate non-compliance.
- Existing penalties for late FPS submissions and payments will still apply.
- Interest will still apply to any amounts paid late.

What are the likely problem areas post April 2027?

The HMRC technical note outlines how to manage less common situations, including:

- Mid-year changes: If a BiK is introduced or its value changes mid-year, employers must adjust the remaining pay periods accordingly.
- 50% overriding limit: Employers cannot deduct more than 50% in income tax from an employee’s pay. Excess income tax must be carried forward to future pay periods, with any balance either being collected by HMRC or via Self-Assessment.
- No earnings: If an employee has no income but receives BiKs, employers must still report the benefit and pay Class 1A NICs via RTI with any uncollected tax either being collected by HMRC or via Self-Assessment.
- Employee has left: If an employee has left, employers must still report the benefit and pay Class 1A NICs via RTI with any uncollected tax either being collected by HMRC or via Self-Assessment.

Items not yet fully addressed by HMRC include: items that do not accrue evenly across the tax year (e.g. qualifying relocation), items subject to Class 1 NIC, BiK provided in connection with a termination payment, notional payments where the income tax is not made good within 90 days of the end of the tax year, Tax Award Schemes and third party benefits and we await further guidance on these matters.

Is voluntary payrolling a strategic option for 2026/27?

Employers with robust systems and clear communication channels should consider voluntary payrolling in 2026/27. Starting with:

- Stable benefits like medical cover.
- Taxable expenses that are easy to quantify.
- Company cars and fuel, where employees do not opt to “make good.”

Does this mean the end Forms P11D/P11D(b)?

The shift to real-time payrolling effectively spells the end of Forms P11D/P11D(b) as a mainstream reporting tool. However, they will likely remain in use (albeit in a modified form) for:

- Loans and accommodation (if not voluntarily payrolled).
- Modified PAYE arrangements for globally mobile employees.
- Taxed Award Schemes and third-party benefits (pending further guidance).

The move to mandatory payrolling is part of a broader effort to modernise the UK's tax system. It aligns with the goals of Making Tax Digital and the Tax Administration Framework Review, which aim to reduce administrative burdens and improve compliance through real-time data. However, this is not just a technical change, it's a cultural shift. Employers must move from treating BiKs as an annual afterthought to integrating them into monthly, weekly, etc. payroll cycles. Payrolling needs to become business as usual - just like RTI did. But just like RTI, it won't be painless and will likely have cost implications for employers, particularly where some BiKs need to be payrolled and others reported via Forms P11D/P11D(b).

When will further information be available?

<i>Milestone</i>	<i>Expected Date</i>
Draft legislation & guidance	Autumn 2025
Technical specs for software	December 2025
Final legislation	July 2026
Voluntary registration for loans/accommodation	From November 2026 (but no later than 5 April 2027)
Mandatory payrolling begins	April 2027

What should employers do now?

Although the mandatory start date is currently expected to be 6 April 2027, employers are encouraged to use the extra time to:

- Review internal processes for capturing and reporting BiK data and map out the changes needed.
- Review current processes for identifying and reporting taxable expenses.
- Engage with benefit and payroll software providers to understand when and how systems are updated and consider how this will impact current processes.
- Pilot voluntary payrolling in 2026/27 where feasible.
- Train payroll, benefit and HR teams on the new requirements.
- Communicate with employees about the changes.

Employers should consider if voluntarily payrolling some BiKs some in 2026/27 to familiarise themselves with the process is an option. Registration for voluntary payrolling in that year must be completed on or before 10pm on 5 April 2026.

Further Reading and Resources

- [HMRC Technical Note \(April 2025\)](#)
- Our recent webinar [Monthly Benefits - the move to payrolling of benefits in kind - Susan Ball and Sarah Hewson, CIOT. on Vimeo](#)