

Payrolling of Benefits in Kind Employer Guide

Whitley Stimpson
CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Banbury 01295 270200 | Witney 01993 700010

whitleystimpson.co.uk

Mandatory payrolling of Benefits in Kind (BiKs) will now come into force from April 2027, deferred by 12 months from the original April 2026 start date. While the delay is welcome, it should not be seen as a reason to pause preparations — particularly given the wide-ranging impact and tight timeline for implementation.

Whitley Stimpson's payroll team is ready to help employers understand the new rules, prepare systems, and ensure compliance, as the shift from P11Ds to real-time payrolling of benefits becomes mandatory.

What's changing?

From the 2027/28 tax year:

- Most BiK must be taxed via payroll, in real time
- P11Ds and P11D(b)s will no longer be required for standard BiKs (some exceptions apply)
- Class 1A NICs will be calculated and paid monthly, not annually
- BiKs must be reported using Full Payment Submissions (FPS) via Real Time Information (RTI), which will be expanded to capture details currently shown on P11Ds.

Employers can still use P11Ds for 2025/26 and 2026/27, but planning for change should start now.

Changes from April 2027

From April 2027, employers will be required to report BiKs through the Full Payment Submissions (FPS), with additional fields to mirror current P11D and P11D(b) entries, such as cost, cash equivalent, and year-to-date figures. Final technical specifications are expected in the second half of 2026, leaving a short window to update and implement systems.

HMRC will review BiK data in real time to minimise manual intervention, meaning accuracy and timely reporting will be critical. Benefits must be spread across the tax year and updated when values change.



Mid-year and late BiK adjustments

If a BiK is identified during the tax year, it should be payrolled over the remaining months. A reasonable estimate should be used—zero is not acceptable if the benefit is known to be material. There is currently no HMRC guidance for BiKs identified after the end of the tax year, but the existing “BiKs update process” may be adapted, with deadlines of 6 July for reporting and 22 July for Class 1A NIC payment.

If it goes wrong

A “light-touch” approach will apply for errors in the first year (2027/28), unless deliberate. From 2028/29, interest and penalties will apply, in line with current voluntary PBIK rules.

Issues to consider and prepare for

1. Employee cash flow in year 1 Employees may pay tax in real time for current BiKs while also clearing previous years' BiK tax via their code. HMRC suggests employees facing hardship can ask to spread payments. Employers should anticipate this and support affected employees.
2. Employer class 1A NIC timing Currently paid in July after the tax year ends, Class 1A NIC will need to be paid monthly from April 2027. In Year 1, employers will pay both the final 2026/27 Class 1A NIC liability and start real-time payments for 2027/28.
3. 50% tax cap rule Employers cannot deduct more than 50% of an employee's pay in tax. Any uncollected tax will be handled through the P800 process, Simple Assessment, or Self Assessment.
4. BiKs after employment ends BiKs provided after employment must still be reported via FPS, with uncollected tax handled via the methods above.
5. Globally mobile employees For employees under modified PAYE arrangements (e.g., EP Appendix 6 and 7A), the P11D process will remain in place post-April 2027. HMRC is reviewing timelines for reporting in these cases.
6. Student loans No change is expected—payrolling of BiKs should not affect student loan deductions.
7. Payroll frequencies BiKs must be processed according to the employer's regular payroll frequency (weekly, monthly, etc.). Further guidance is expected.
8. Payslips and end-of-year statements By 1 June after the end of the tax year, employers must issue a statement to employees detailing which BiKs were provided, which were payrolled, and their values. HMRC will not prescribe a format—expect queries and prepare to clarify.
9. Tax code adjustments
In April 2027, HMRC will remove BiKs from employees' tax codes but will not remove any previous underpayments. Employers should prepare for employee queries.
10. Voluntary early registration Larger employers may benefit from registering to payroll BiKs in 2026/27 under current voluntary rules, which may ease the transition before the 2027 mandatory rollout. However, this would require hybrid reporting for one year and another system change the year after.
11. Loans and living accommodation
Payrolling will not be mandatory for these BiKs. Employers who wish to voluntarily payroll them must wait until late 2026 to register.

What this means for employers

There are several significant implications that employers must begin addressing:

System and software readiness

- Payroll software will need to accommodate the expanded FPS fields for BiKs
- Technical specs won't be published until the second half of 2026, leaving a narrow window for updates, testing, and training
- HMRC wants BiK reporting to be clear and automated to avoid manual intervention, so accuracy will be essential

Employer cash flow impact

- Employers currently pay Class 1A NICs in July following the end of the tax year.
- From 2027, this cost will be spread across the year, creating a double-payment situation in Year 1 (July 2027 + monthly from April 2027).

Employee cash flow impact

- Employees may face real-time tax deductions for current-year BiKs while still paying tax via their code for prior-year benefits.
- Employers should prepare to support employees in understanding and managing this transition, including communication with HMRC where necessary.

Payslip integration

- Benefits should appear on regular payslips in line with the payroll frequency (e.g. monthly, fortnightly).

Real-time benefit tracking

- If a benefit arises mid-year, employers must use a reasonable estimate — a zero value won't be accepted if the benefit is material.
- HMRC hasn't defined what qualifies as "material," so employers should be cautious and document their rationale.

End-of-year employee statements

- By 1 June following each tax year, employers must provide employees with a breakdown of their BiKs, including values and which benefits were payrolled.
- No set format will be provided by HMRC, which could lead to inconsistencies and questions from employees.

Coding notices and reconciliation

- Employees may question changes to their codes, and employers should be ready to help them understand these adjustments.
- HMRC will remove BiKs from tax codes in April 2027, but not any underpayments from previous years.

Handling special cases

- Leavers who receive BiKs after termination will still need to have these reported via FPS, with tax collected post-year-end.
- Modified PAYE arrangements (e.g. for globally mobile employees) may still require P11Ds post-April 2027.
- There is no change to student loan repayments.
- Beneficial loans and living accommodation won't be mandatory to payroll; P11Ds may still be used here.

Frequently Asked Questions (FAQs)

Q: Do I have to payroll all benefits in kind from 2027?

A: Most standard BiKs will need to be payrolled from April 2027. However, some exclusions remain, such as beneficial loans and employer-provided living accommodation, which can still be reported via P11Ds unless voluntarily payrolled.

Q: Will HMRC issue penalties immediately if mistakes are made?

A: No, HMRC has confirmed a “light-touch” approach for 2027/28 unless errors are found to be deliberate. From 2028/29, penalties and interest will apply under the same rules as current PBIK regulations.

Q: Can I use spreadsheets to manage BiKs?

A: While spreadsheets may still be used internally, your payroll system must be capable of processing BiKs through FPS submissions accurately. It's important to work with your provider to ensure your software meets HMRC requirements.

Q: What about benefits that vary month to month (e.g., fuel)?

A: These must be reported and updated in real time. Employers should implement processes to capture and report changes as they occur.

Q: What happens if an employee leaves mid-year with an unreported BiK?

A: You are still required to report BiKs post-termination via FPS, and the associated tax will be collected through HMRC's reconciliation processes (e.g., P800 or Self Assessment).

Q: What if my organisation has employees on different payroll frequencies?

A: You must payroll BiKs according to each employee's individual payroll frequency—whether weekly, fortnightly, monthly, etc. This means your payroll system must handle multiple frequencies accurately. HMRC is expected to provide further guidance on managing BiKs across varying payroll cycles, so it's essential to keep systems and processes flexible and well-documented in the meantime.

Action points for employers and advisers

1. Review all current benefits and how they are tracked
2. Identify any non-standard or complex BiKs
3. Liaise with your payroll software provider about FPS readiness
4. Communicate with employees about upcoming changes and potential impacts
5. Plan budgets for monthly Class 1A NICs
6. Consider early voluntary registration for 2026/27
7. Train internal payroll/admin teams
8. Schedule reviews to keep BiK data up to date throughout the year
9. Prepare templates for end-of-year BiK statements for employees
10. Engage with a payroll partner like Whitley Stimpson to ensure compliance and support

Key Dates

- Now – April 2026: Review BiK processes, plan system updates, consider early voluntary registration.
- Mid-Late 2026: HMRC publishes final technical specifications for expanded FPS.
- Early 2027: Test system updates, train staff, prepare employee communications.
- April 2027: Mandatory payrolling of BiKs begins.
- July 2027: Final Class 1A NIC payment for 2026/27 due alongside new monthly payments.
- June 1, 2028: Deadline for issuing 2027/28 BiK statements to employees.

Outsource your payroll to us

Our experienced payroll team already supports a wide range of employers with P11Ds, benefit in kind processing, and full payroll outsourcing. As BiK payrolling becomes the new standard, we can help you:

- Stay ahead of the changes
- Minimise compliance risk
- Reduce administrative burden
- Ensure smooth, accurate reporting from day one

To find out how our payroll experts can help you prepare for mandatory BiK payrolling, get in touch with the Whitley Stimpson payroll team today.