



CHAVEREYS

CHARTERED ACCOUNTANTS & FINANCIAL ALCHEMISTS



Payrolling Benefits in Kind

May 2026

Payrolling Benefits in Kind

From 6 April 2027 the way in which benefits in kind and expenses payments are reported to HMRC will change.

Current System

Benefits in kind and expenses payments have for a long time been reported to HMRC on forms P11D which are completed after the end of each tax year and submitted to HMRC by the following 6 July.

Some benefits and expenses payments give rise to a Class 1A National Insurance Contributions (NIC) charge for the employer.

For the employee, Income Tax is payable on the benefits typically by an estimated adjustment to their PAYE code in the first instance. Any balance due or repayable is either dealt with by HMRC issuing a calculation after the end of the tax year or under the Self Assessment system if the employee is registered.

Where the employer has met a private expense of an employee, it may be that it should be subject to PAYE and Class 1 NIC via the employer's payroll.

New System

From 6 April 2027, forms P11D will no longer be required for most benefits and expenses payments, and instead employers will need to process these via their payroll based on the employer's usual pay periods. The option to do this was previously available on a voluntary basis, however it will now be made compulsory from 6 April 2027. There is no requirement to register for the new system (subject to those benefits mentioned below).

The result of this change is that Class 1A NIC payable by the employer and Income Tax by the employee will be paid in real time throughout a tax year.

Currently, accommodation and employment-related loans are excluded from the changes and will continue to be reported on forms P11D, unless the employer wishes to voluntarily payroll these benefits too. Employers will need to register to do this and the process for doing so should be live in November 2026. Registration will need to be made by 5 April 2027.

For employers that currently payroll benefits in kind and expenses payments on a voluntary basis, they will need to make some changes in due course to align their reporting with the new system.

From 6 April 2027, where payrolling of benefits is not already in place, employees' PAYE codes will be adjusted so that estimated benefit in kind adjustments are removed, so that benefits and expenses payments are not taxed twice.

Employers will need to provide employees with an annual information statement by 1 June after the end of each tax year detailing the benefits and expenses payments that have been payrolled.

As with most aspects of the tax system, there will be a penalty regime for late or inaccurate submissions. However, there will be some relaxation for the initial tax year, 2027/28, under the new system.

Cashflow

These changes will mean that tax is paid sooner rather than later. Particularly for employers with large payrolls and significant benefits in kind, the change will need to be factored in for budgeting purposes.

During the first year under the new system, employers will not only have to pay the amount due via the payroll, but they will also need to make the usual annual payment for the previous tax year, 2026/27, which is payable by 19 July 2027 if paid by cheque, or 22 July 2027 if paid online.

For employees, the current system can lead to issues depending upon how accurate PAYE code adjustments are, and problems may not be identified until well after the end of a tax year. In theory, the new system should result in the more timely and accurate collection of Income Tax on benefits in kind and expenses payments.

Some detail

Where a benefit in kind is based on an annual figure for a tax year, the process will involve dividing this figure by the number of pay periods in the year. The resulting figure (rounded down to the nearest 2 decimal places) will then be included on an employee's payslip for each pay period.

If a benefit value changes part way through a tax year, the employer will need to establish the revised value and adjust this for the amounts that have already been taxed in the tax year concerned.

Where a value is not known, employers can use a reasonable estimate in the first instance, with adjustment made once the actual value is confirmed.

There will be rules in place to deal with the more unusual situations, such as:

- Employees who have a taxable benefit in kind but receive no income and employees who receive benefits in kind after leaving their employment.

The benefits in these scenarios will need to be reported under the new system and the tax due will be collected by HMRC by issuing a tax calculation after the end of the tax year or via Self Assessment if the employee is registered.

- Where the tax due for a pay period is more than 50% of the employee's income, which is known as the overriding limit.

Where the tax due cannot be collected in a pay period due to this limit, the uncollected amount is carried forward to the next pay period. Any tax not recovered via the payroll will again be collected by HMRC by issuing a tax calculation after the end of the tax year or via Self Assessment.

- Where employees make good some or all of the benefit in kind, they will have until 6 July after the end of the tax year to make good any amounts that they have not done so within the tax year.
- Where an employer pays expenses for which an employee can in part claim a deduction, these will need to be payrolled in full. However, the employee will be able to submit an expense claim as they can under the existing system to claim the appropriate deduction.

Planning Ahead

It is important that employers start planning ahead. In particular thought needs to be given to the process for identifying and valuing benefits within shorter timeframes. The process for dealing with new employees and leavers may require particular attention.

Thought is also needed as to whether accommodation and employment-related loans, where provided, will be voluntarily payrolled.

Enquires should be made as to whether payroll software will be able to deal with the new system.

The change should be communicated to employees in good time.

It is important that employees understand how the rules will affect their personal tax positions. The benefits in kind will have an immediate impact on the employee's take home pay, so it could be argued that the tax implications of receiving a benefit will be more visible to them.

There may be some employees who still owe tax on benefits in kind for a previous tax year before 6 April 2027 where matters have not run smoothly in the past. These liabilities will still be collected via PAYE code adjustments or through Self Assessment.

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