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Chartered Accountants & Registered Auditors

A GUIDE TO PAYROLLING BENEFITS IN KIND

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ARE YOU PREPARED FOR THE CHANGES TO PAYROLLING BENEFITS IN KIND?

With the changes to payrolling Benefits in Kind (BIK) being delayed to 2027, it may be tempting to not worry about it for another year.

However, time has a habit of slipping away from us before we know it, and you cannot afford to be caught out by the changes.

There is currently an opportunity to get ahead of the payrolling BIK changes by voluntarily moving to the new system before it becomes mandatory.

We have compiled this helpful guide to talk you through what has changed with payrolling BIK and how to stay compliant with the new system.



WHAT HAS CHANGED WITH THE REPORTING PROCESS?

If you have come to dread the filing of the P11D forms, then 2027 will be a joyous year for you.

The P11D forms were used to track the benefits ascribed to individuals within the business so that HM Revenue and Customs could ensure that they remained compliant with regulations.

In particular, this was the primary way in which National Insurance contributions (NICs) were determined as a result of the assigning of benefits.

The P11D forms needed to be submitted by 6 July and detail the benefits ascribed throughout the previous tax year.

In contrast to this, the new system of payrollling BIK requires a more ongoing process of tracking BIK.

BIK will need to be documented alongside salary payments and thus will be part of the monthly calculations of tax and NICs.

This is designed to keep BIK within sight for an employer and ensure that they do not lose track of which employees acquire which benefits.

HMRC is working to improve compliance across the board and clamping down on accidental misfiling is a major part of that initiative.

Employers must send a notification to employees by 1 June after the end of each tax year.

The notification should include details of the benefits you have payrollled, the amount and any benefits not payrollled.

During the first year, employers should also tell employees about their tax code changing, the new process and provide them with how much their taxable benefit was in the tax year.

It may be necessary to invest in software solutions to keep on top of the changes to payrollling BIK.

Seek professional advice before adopting a software solution to ensure that it will be compatible with HMRC's system and can remain compliant with future changes.

More details about the preferred types of software are set to be revealed later in the year.

WHAT ARE THE KEY DATES FOR THE CHANGES?

The changes to payrolling BIK will take place from 6 April 2027.

Originally, it was stated that the changes would occur in 2026, but an extra year has been granted to give businesses time to adapt to the changes.

That is why it is imperative that you make the most of the time given.

It is unlikely that a further delay will be implemented, and full compliance will be expected from 2027.

Further guidance and details are expected to be solidified by the end of the year, and any software specifications will be published in December 2025.



DO I NEED TO DO ANYTHING IF I HAVE ALREADY OPTED IN TO PAYROLLING BENEFITS IN KIND?

If you have been proactive in opting into the voluntary payrolling of BIK, then it is important that you register again with HMRC's digital service.

This needs to be done before 5 April 2027 and serves to remind businesses of the new and expanding obligations they have.

As voluntary payrolling of BIK has been an option since 2016, it is imperative that you check the latest guidance surrounding payrolling BIK to familiarise yourself with the latest requirements.

Seeking professional guidance can help you to stay compliant by identifying any misunderstandings or any policies and procedures that risk being noncompliant in the future.

WHAT DATA DO I NEED TO GATHER WHEN PAYROLLING BENEFITS IN KIND?

With the new changes to payrolling BIK, it is important to implement software that can create Full Payment Submission (FPS) to be sent to HMRC.

This involves detailing the types of benefits that employees receive, as well as the financial value of the benefits.

This is particularly pressing when the monetary value may not be immediately apparent such as in the case of compensated mileage or when documenting the value of company vehicles.

By ascribing a monetary value to the benefit, it becomes easier to calculate the tax value of each benefit and ensure that all taxes and NICs are adjusted accordingly.

WHAT CHANGES CAN BE MADE TO COMMUNICATING WITH EMPLOYEES?

Rather than waiting for an annual roundup of benefits, though one will still be necessary, it will soon be important to communicate details about BIK every month.

As well as the necessary reporting for HMRC, it will be best practice to include any information about BIK on an employee's payslip.

This will be in addition to the year-end summary that should be issued on 1 June detailing all payrolled BIK values.

This will ensure transparency with employees who can understand that their benefits have been appropriately recorded and that any tax or NICs have been correctly determined.

HOW DOES THIS IMPACT CASH FLOW?

Strategic planning may be necessary to avoid employers suffering a hit to their cash flow.

The previous system of handling benefits resulted in a single, one-off payment after the completion of the P11D form.

The new system will see monthly payments in the form of tax and NICs, and it is necessary to prepare for this.

While the total amount paid across the year should not change significantly, the shift from an annual payment to a monthly one could be disruptive.

However, there is enough time to make the necessary financial preparations that will enable the business to handle the additional monthly expenses.

It could be seen as a positive for cash flow as the payments should be more manageable if they are more regular.

WHAT DOES THE FUTURE HOLD FOR PAYROLLING BENEFITS IN KIND?

As with many compliance changes being enforced by HMRC, the changes to payrolling BIK will eventually result in penalties for noncompliance.

The exact nature of these penalties is yet to be revealed, but it is worth making the effort early to ensure compliance before the changes come into force.

Seeking professional guidance is the best way to stay compliant with all the changes to HMRC guidelines.

Take advantage of the current voluntary nature of payroll for BIK and sign up ahead of it being mandatory.

This will allow you to figure out the best practices for staying compliant while HMRC are not overrun with businesses making the change at the eleventh hour.

**Stay ahead of the changes to payroll for BIK.
Speak to our team today!**



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