



Mandatory
payrolling of
benefits in
kind (BiK)

In the Autumn 2024 Budget, the Chancellor confirmed that the mandatory payrolling of benefits in kind (BiK) announced by the previous Government in January 2024 will proceed as planned, coming into effect from the start of the 2026/27 tax year. This move is expected to have a significant impact on payroll departments nationwide.

What's driving this change?

HMRC aims to modernise taxation and reduce administrative burdens on employers. The new process eliminates the one-year delay in BiK tax payments, ensuring a more efficient tax collection aligned with income receipts. Employees will receive clearer, more accurate information about their taxable benefits, helping them better understand their tax obligations.

From P11Ds to real-time reporting

Currently, BiKs are assessed for tax and National Insurance contributions (NICs) liability through the P11D process. This assessment usually occurs after each tax year ends, with employers required to submit the form to HMRC for each employee who receives certain taxable benefits by 6 July annually, creating a substantial administrative burden.

After receiving the P11D submission, HMRC calculates the tax and NICs owed and adjusts each employee's tax code to recover any unpaid tax over the remainder of that tax year. As a result, employees pay taxes and NICs for these benefits in arrears.

In contrast, from 6 April 2026, employers will be required to report BiKs in real time using the Full Payment Submission (FPS), which is submitted to HMRC every time employers pay their employees.

Which benefits are affected?

Mandatory payrolling will apply to most BiKs, including, but not limited to, company cars, gym memberships, mobile phones, and private medical insurance. Employment-related loans and accommodation will continue to be exempt from mandatory payroll reporting. However, employers can voluntarily payroll these benefits starting from April 2026.

What should employers consider now?

To prepare for the transition, employers should consider the following key steps:

- Identify benefits subject to BiK: thoroughly review your current P11D reports to identify all benefits subject to BiK taxation. Creating a comprehensive

inventory now prevents complications closer to the implementation date.

- Information collection: plan how you will gather the necessary information each month.
- Payroll provider support: assess the level of support you will require from your payroll service provider.
- Payslip adjustments: establish what changes need to be made to your payslips.
- Salary exchange benefits: consider how it will affect any salary exchange benefits you currently offer.
- Employee education: develop a strategy to educate employees about the potential for 'double' tax on their benefits during the 2026/27 tax year.

How can our benefits platform help?

Trying to manage this process manually could be overwhelming, akin to handling a P11D project every pay period. However, there are options to help. Using our MyWay benefits platform can dramatically streamline the process:

- Automate BiK calculations: completely automate the calculation of BiKs.
- Real-time reporting: streamline reporting to your payroll system in real time.
- Employee insights: allow employees to understand their tax position before making benefit selections.
- Audit breakdown: provide a complete audit breakdown to ensure the accuracy of BiK figures.

Conclusion

This move will undoubtedly pose challenges for many employers. It is essential to understand the impact on your business, consider necessary changes to current processes, and explore options to help manage the transition effectively.

Take action now

Don't wait until the last minute. [Contact us today](#) to learn how our MyWay benefits platform can simplify your BiK reporting and ensure compliance with the new process.

Get in touch

For more information, or to arrange a meeting to discuss your employee benefits strategy and employee communication options, please email us at **info@mattioliwoods.com**, or contact your Mattioli Woods consultant.

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