

Mandatory Payrolling for Benefits in Kind (BiKs)



After a delay of a year, HM Revenue & Customs (HMRC) has now confirmed that mandatory payrolling of most benefits in kind (BiKs) will apply from 6 April 2027. This means that employers must process these benefits through payroll in real time instead of submitting P11Ds.

It is important that employers start preparing now for the operational changes and cash-flow impact.

From April 2027, BiKs and expenses will be reported through the Full Payment Submission (FPS). This is the same process employers currently use to report employee pay and other details to HMRC when payments are made.

Who is impacted?

From 6 April 2027, all employers providing taxable benefits will be affected by the new mandatory payrolling rules.

Mandatory from 6 April 2027: 2027-28 tax year

- + Employers must include the taxable value of benefits in payroll, instead of reporting them annually via P11Ds;
- + Employees' payslips will show the cash equivalent of each benefit, and employers will report the details via the Full Payment Submission (FPS);
- + Employees will pay tax on benefits in real time during each pay period, rather than through a future tax code adjustment; and
- + Employers will also pay Class 1A National Insurance in real time, rather than in the July following the end of the tax year.

Benefit value to be payrolled

Employers will generally be required to apportion the annual cash equivalent of BiKs across the employee's pay periods. The resulting amount will be subject to Income Tax and Class 1A National Insurance in each pay period and reported through payroll alongside earnings.

Where the annual value is not known at the start of the tax year, employers must estimate the taxable value and apportion it across the relevant pay periods.

If a BiK is identified partway through the tax year, it should be reported as soon as possible and included in the remaining pay periods.

Benefits that are excluded from mandatory payrolling

Two benefit categories are currently excluded from the mandatory regime:

1. Employer provided living accommodation; and
2. Employment related loans (e.g. overdrawn director loan accounts below the official interest rate).

A timeline for mandatory payrolling of these BiKs will be set out in due course.

Voluntary payrolling of excluded benefits

From November 2026 to 5 April 2027, employers will be able to voluntarily register to payroll benefits that are excluded from the mandatory regime.

These benefits can then be included in payroll from April 2027. This may help employers simplify year-end reporting and ensure tax is collected on all benefits in real time.

What do employers need to do?

- + Registration is not required for those mandated to payroll benefits for 2027-28;
- + Employees who wish to voluntarily register to payroll loans and living accommodation can do so from November 2026;
- + Communicate the changes clearly to all employees well in advance of April 2027, including potential impacts on net pay; and
- + Update cash flows to reflect that Class 1A National Insurance will be paid in real time from 2027-28.

As with voluntary payrolling, employers must provide employees with details of BiKs received during the tax year, including which benefits were payrolled and their value, by 1 June following the tax year end.

There are no plans to add specific BiK information to the mandatory detail that must be provided on a payslip.

Impact on employees

- + HMRC will automatically remove the BiKs from employees' tax codes ready for the start of mandatory payrolling on 6 April 2027;
- + Employees will see tax on benefits deducted through payroll in real time rather than via later tax code adjustments; and
- + Employees may experience changes in net pay depending on the timing and value of benefits provided.

Penalties and interest

To support the introduction of mandatory payrolling, no inaccuracy penalties will be charged for Real Time Information (RTI) errors relating to payrolling in 2027-28, unless there is evidence of deliberate non-compliance. However, existing late filing and late payment penalties, as well as statutory interest, will continue to apply.

From 2028-29 onwards, the penalty and interest regime will broadly align with the existing approach for voluntarily payrolled benefits. Further detail will be published by HMRC in draft guidance later this year.

Recommended actions for 2026-27

- + Compile a list of all BiKs currently offered and reported to HMRC;
- + Check that your payroll software is compliant with HMRC requirements, particularly if operating payroll in-house;
- + Ensure processes are updated so that changes to benefits can be captured and reflected during the year; and
- + **Seek early support from a payroll specialist, such as M+A Partners.**



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How M+A Partners can help

We are experienced in the process of taxing employees' benefits and expenses through payroll. For any queries on registering for payrolling benefits and expenses with HMRC or the impact that the mandating of payrolling might have on your organisation, please get in touch with your usual M+A Partners' contact.

M+A Partners LLP

7 The Close Norwich Norfolk NR1 4DJ

2 Cyprus Court Queens Square Attleborough Norfolk NR17 2AE

12 Church Street Cromer Norfolk NR27 9ER

01603 227600 | enquiries@mapartners.co.uk | mapartners.co.uk

Norwich | Attleborough | Cromer

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