Mandatory payrolling of benefits-in-kind to be phased in

Briefings

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CIOT and ATT have welcomed the announcement that the introduction of mandatory payrolling of benefits-in-kind will be phased over two tax years from 6 April 2027.

The ATT says the decision to phase in the mandatory payrolling of benefits in kind is a ‘welcome step’ to allow employers and payroll software providers more time to prepare for significant changes to how benefits are taxed. The CIOT has called it ‘a significant simplification’.

The government announcement, made on 15 June, follows discussions with CIOT, ATT, other professional bodies and the software industry. It reflects concerns raised about the scale of the change and timing, system unreadiness, excessive complexity and insufficient co-design.

Acting on these concerns, the minister agreed that it is not practical to introduce this change in one go. As a result, mandation will be introduced in two phases. From April 2027, only the most common, usually straightforward benefits – company cars and fuel, vans and fuel, and private medical insurance – will now have to be payrolled. Most other benefits, other than loans and living accommodation, will follow from April 2028, although employers can choose to payroll them in the 2027/28 tax year voluntarily if they wish.

Jon Stride, chair of the ATT's Technical Steering Group, said: 'This is a sensible and welcome step by HMRC. Moving to real-time taxation of benefits should ultimately improve accuracy for employees, but the original timetable based on full implementation in one go was overly ambitious. A phased approach gives employers, software providers and HMRC the time needed to get the systems right and avoid unnecessary disruption.'

Matthew Brown, CIOT Technical Officer, commented: 'This is a welcome move and represents a significant simplification. It reduces the data fields employers will be required to complete from 126 to 32, and significantly reduces the number of new data fields software developers will have to incorporate in their software. Payrolling cars, vans, fuel and medical benefits-in-kind in April 2027 represents over 90% of taxable benefits-in-kind provided by employers, whilst providing breathing space to simplify reporting of the remaining benefits-in-kind.'

The ATT says the revised timetable strikes a better balance between improving the system and allowing sufficient time to address practical and technical challenges in relation to the less commonly provided benefits, including the risk of payroll errors affecting employees' wider finances. In the worst case scenario, a failed payroll submission might affect an employee's Universal Credit claim, so it is important for employers to get the details right.

Matthew added that CIOT is looking forward to continuing to work with HMRC and other stakeholders on gaps in the technical detail and guidance. 'The phasing of mandation also provides an opportunity to review benefits-in-kind rules more generally to make them simpler and easier to payroll in real time,' he noted.