HMRC announce phased implementation of mandatory payrolling of benefits in kind

Employment Tax

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Following dialogue with the ATT, CIOT and LITRG and other stakeholders, HMRC have taken on board feedback about the practical challenges of the proposed April 2027 implementation of mandatory payrolling of benefits in kind.

Payrolling benefits in kind has several advantages, including enabling employers to collect any tax due in real time via the payroll. However, HMRC’s original plan for the mandatory payrolling of all benefits in kind from April 2027 (a year later than the previously announced date of April 2026) presented several practical challenges for employers.

These include the need to meet HMRC’s previously announced Real Time Information (RTI) technical specifications and the ability of employers to obtain

information from benefit providers ahead of each payroll run, rather than once per year for Forms P11D. Getting the technical details wrong could result in RTI submissions being rejected, which in a worst case scenario could affect an employee's entitlement to universal credit.

The ATT, CIOT and LITRG made representations to HMRC as part of the cross-body working group on payrolling benefits in kind. Taking account of the concerns raised, HMRC have announced that there will instead be a phased implementation of mandatory payrolling (see tinyurl.com/mrxe4vjk).

How phased implementation will impact employers

Instead of requiring all benefits in kind to be payrolled from April 2027, mandatory payrolling will now only be necessary from this date for company cars and fuel, vans and van fuel, private medical insurance and other employer-provided medical benefits. These are believed to be the most popular benefits provided in the UK.

Other benefits in kind will follow in April 2028, except for loans and living accommodation which will be at a later date still to be announced by the government.

Employers will also benefit from a more relaxed approach to penalties during the phasing period, which should mean they are not penalised if they make a mistake as they change their internal systems to reflect the change to mandatory payrolling.

The phased implementation will also see fewer data fields required from April 2027, as employers will only need to submit 32 of the original 126 data fields in RTI submissions. According to the government, 14 of those data fields are already in place for RTI (in respect of cars) so software developers will only need to build 18 new fields ahead of April 2027.

A balanced approach

The ATT, CIOT and LITRG support the phased approach, which will allow HMRC to make progress on mandatory payrolling for the potentially more straightforward and popular items, whilst allowing time for further dialogue with the software industry and other key stakeholders about the RTI technical specifications on the remaining,

more complicated items.

Employers who are ready to payroll all benefits can do so on a voluntary basis, although the information required in the 2027/28 tax year may be more limited than the full requirements from April 2028.

The ATT, CIOT and LITRG will continue to engage with HMRC in the coming months on all aspects of mandatory payrolling of benefits, including the mechanics of the reporting and payment of Class 1A National Insurance contributions, and guidance for employers and employees. Any feedback you may wish to share will be appreciated – please contact atttechnical@att.org.uk or technical@ciot.org.uk

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