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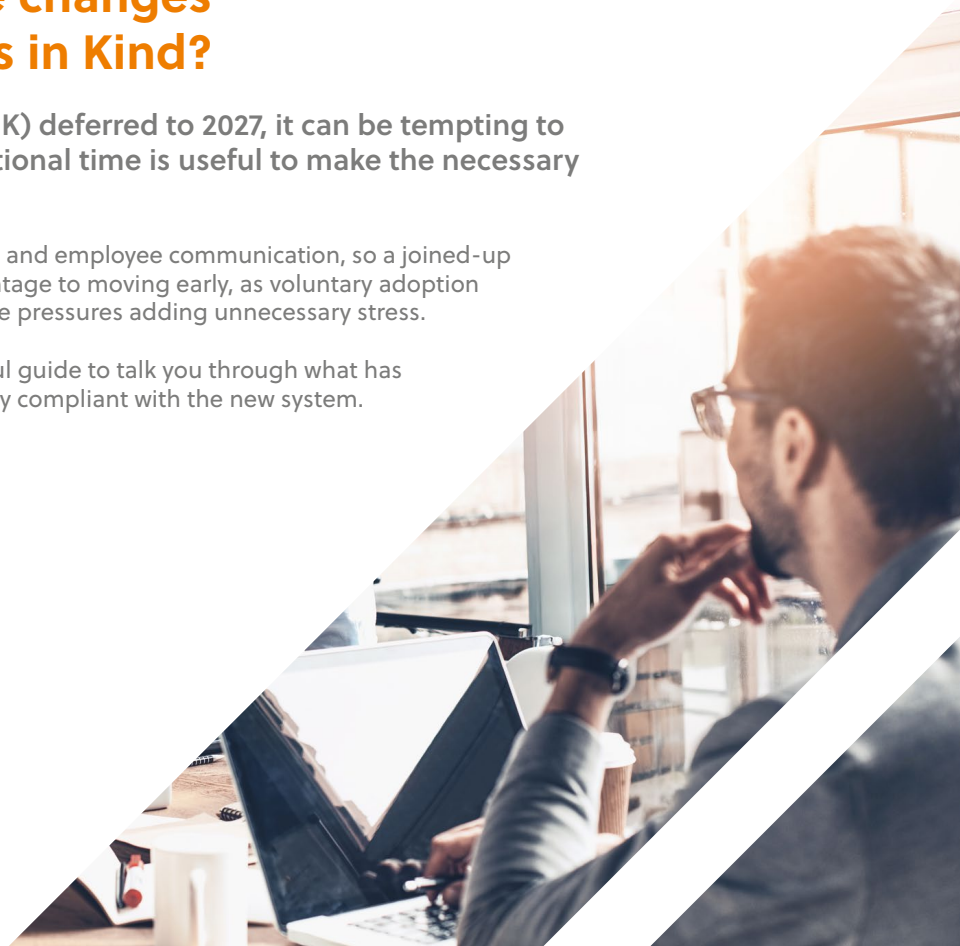
A guide to
**Payrolling Benefits
in Kind**

Are you ready for the changes to payrolling Benefits in Kind?

With payrolling Benefits in Kind (BIK) deferred to 2027, it can be tempting to delay planning. However, the additional time is useful to make the necessary preparations to stay compliant.

The changes will impact payroll, HR, finance and employee communication, so a joined-up approach is essential. There's also an advantage to moving early, as voluntary adoption lets you trial the new processes without time pressures adding unnecessary stress.

At Monahans, 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?

Historically, employers recorded benefits on P11D forms once a year, with tax and National Insurance ultimately reconciled after the year-end.

Under the new approach, BIK becomes a recurring payroll item. From 6 April 2027, employers must include the taxable value of benefits in monthly payroll runs, calculate and remit tax and NICs on a monthly basis, and ensure payroll outputs, including FPS submissions, capture the necessary information.

Practically, that means moving from an annual filing mindset to an ongoing process. Benefits must be valued at the point they are provided or used, recorded in payroll alongside salary, and displayed on employees' payslips.

Employers will also have to produce a consolidated summary of payrolled benefits for each employee by 1 June following the tax year. This summary acts as the new annual reconciliation and helps employees reconcile what has been recorded against their own records.

As the shift affects both timing and record-keeping, employers that rely on complex benefit arrangements, such as company cars, mileage schemes, accommodation, loans or flexible benefits, will need to rethink how they capture and calculate taxable values.

The changes are intended to increase transparency and reduce accidental misfiling, which historically has been a common source of HMRC enquiries. Getting this right early reduces the risk of queries, corrections and potential penalties later.

Practical preparation for adapting systems and software

Payrolling BIK requires digital, auditable workflows. Not every payroll or HR system will be able to produce the Full Payment Submission (FPS) information and payslip detail that HMRC will require without configuration or upgrades.

That means you should take the extra year to map your current systems and identify gaps.

Start by running a benefits inventory where you list every benefit you provide, how it is delivered and where its value is currently recorded.

For each benefit, identify the data points you need to capture, such as monetary value, dates of provision, evidence of use, and test whether your payroll software can accept and report those fields.

If not, speak to your payroll provider about possible upgrades, custom fields, or integration options with HR or expense systems.

You'll also need to retain supporting evidence, including digitised receipts, mileage logs, usage reports, in a way that ties back to payroll entries.

For some benefits, like company cars, determining the taxable value can be complex.

Systems that automate valuation and produce audit trails will materially reduce manual effort and error.

We recommend involving payroll, HR, finance and IT early so data flows are designed once and work across teams.

HMRC has indicated that further technical details and preferred software types will be published ahead of implementation, with technical specifications due in December 2025.

Use that timetable to pilot solutions now, but leave time to align with HMRC's final specifications so you don't rework systems later.

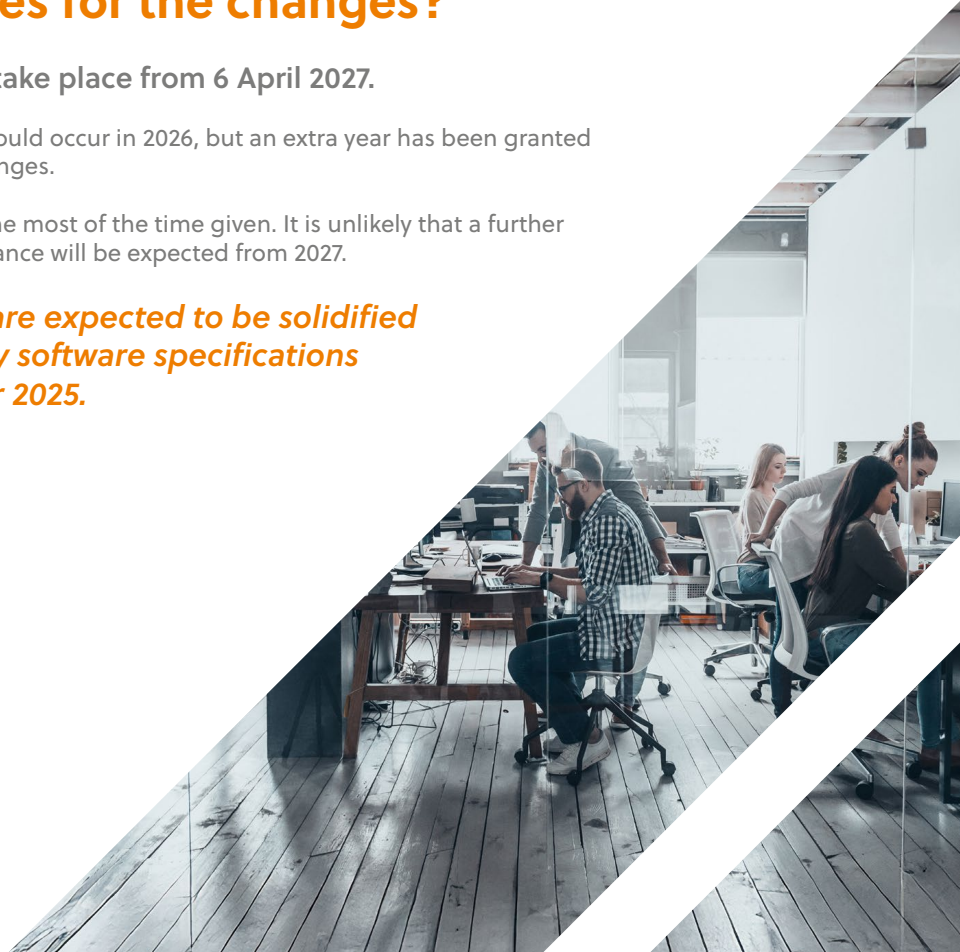
What are the key dates for the changes?

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.



Already opted in? Here's what's next.

If you voluntarily adopted payrolling BIK, don't assume you're finished.

HMRC requires re-registration to ensure a consistent approach across employers, with the deadline for this being 5 April 2027.

Practices have varied since voluntary payrolling began in 2016, so re-registration ensures HMRC and employers start from the same baseline.

Use re-registration as an opportunity to confirm your current setup and to review your historic payslip reporting, FPS content, and the evidence you hold.

We can run a short health check on your current arrangements and confirm whether any procedural or technical adjustments are needed before re-registration.

What data will you need to gather?

Robust data capture is central to compliant payrolling. At minimum, you should be prepared to record:

- The monetary value of each benefit, including where the value is not obvious.
- Dates when benefits are provided or used.
- Supporting evidence such as digital logs, receipts, mileage trackers or fuel cards.
- Clear classifications so the FPS indicates the correct taxable amounts and NIC treatment.

Where benefits are provided intermittently or vary in value, design a consistent approach to valuation and documentation.

This will simplify monthly tax/NIC calculations and ensure the year-end summary reconciles with monthly payroll entries.

Cashflow and treasury planning

Replacing a single annual payment with monthly tax and NIC remittances can change cashflow dynamics.

The overall annual tax charge is unlikely to be materially different, but the timing will be.

Employers should model the monthly impact across scenarios and consider working capital implications.

For some employers, the more regular payments may smooth cash flow, but only if budgets and treasury arrangements are adjusted in advance.

We recommend scenario modelling and a contingency plan for the first 12 months of live payrolling.

If cash flow is tight, early voluntary adoption gives you the chance to test and smooth the monthly outflows before the change becomes mandatory.

Communicating with employees

Moving to payrolled BIK increases the need for regular, clear employee communications.

Best practice will be to include BIK details on each payslip so staff can see the value applied and any tax/NIC implications.

You should continue to provide the consolidated year-end statement by 1 June as required, but monthly transparency reduces confusion and year-end queries.

Consider drafting template payslip wording, FAQs for employees and a communications plan explaining why payslips will look different and how values are calculated.

Clear communication helps to reduce HR queries and lets employees understand any cash flow effect on their net pay.

What does the future hold for payrolling BIK?

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

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!

Bath

01225 472800

Cirencester

01285 652128

Glastonbury

01458 836810

Taunton

01823 462400

Bristol

0117 923 9352

Fairford

01285 711582

Malmesbury

01666 823201

Trowbridge

01225 785520

Chippenham

01249 766966

Frome

01373 830955

Swindon

01793 818300



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