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Staying *BIK* and *ERA* compliant in 2027: what HR and payroll *needs* to know



Citation ISO Certification
Environmental management ISO 14001:2015 REGISTERED

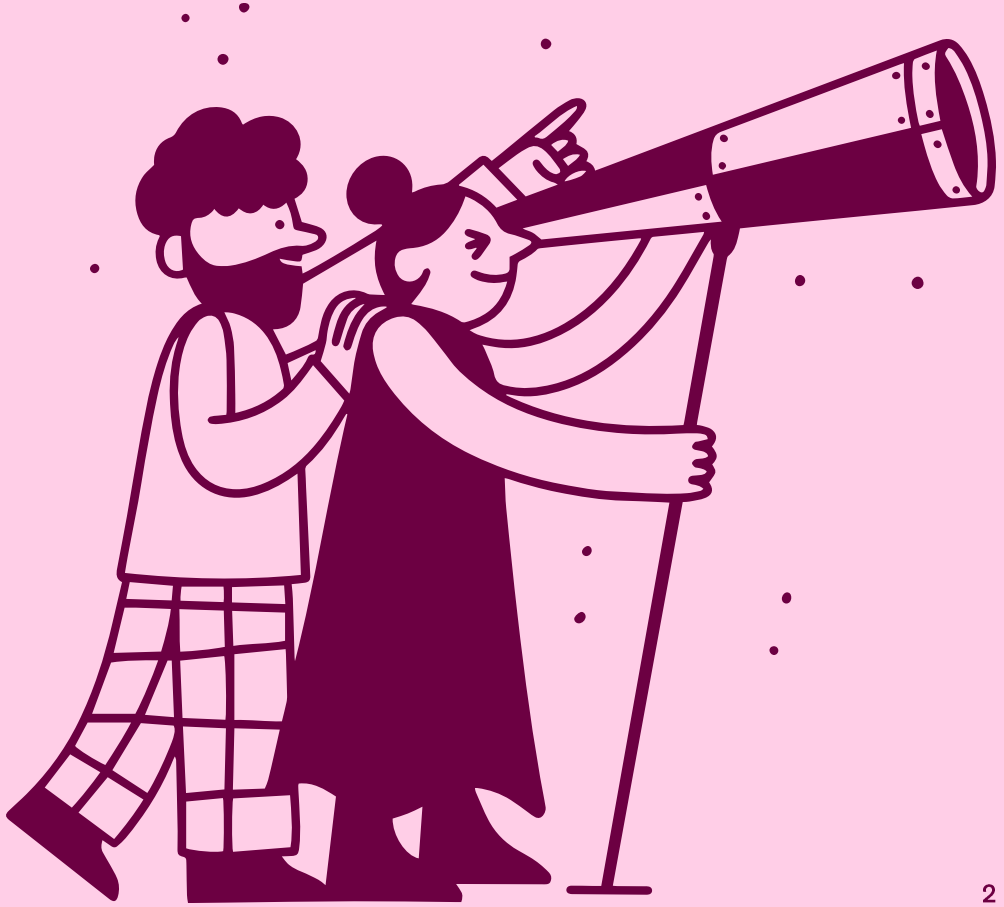
Citation ISO Certification
Quality management ISO 9001:2015 REGISTERED

bsi ISO/IEC 27001 Information Security Management CERTIFIED
IS 754156

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Employment Rights *Act*

01



Employment Rights Act 2025: *delivery timeline*

What's happened so far

Feb 2026 – repeal of most of the Trade Union Act 2016

Apr 2026 – day-one paternity and unpaid parental leave; SSP for all eligible employees; protective award doubled

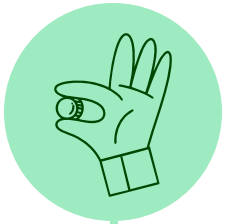
Apr 2026 – Fair Work Agency set up

Aug 2026 – electronic and workplace balloting for union ballots

Oct 2026 – tribunal claim time limits extended, and all reasonable steps duty on sexual harassment and third-party harassment protection



The compliance *horizon*



Rights and duties

- Tribunal claim limit three → six months
- Sexual harassment responsibility to take ALL reasonable steps
- Third-party harassment protections
- Trade union access rights

October 2026



Dismissal changes

- Unfair dismissal rights after six months
- Tribunal compensation cap removed
- Union rights statement to workers

January 2027



Fire and rehire restrictions

- Come into force

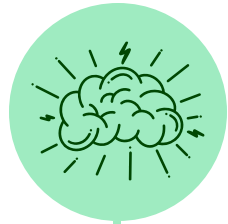
March 2027



Payroll go-lives

- Mandatory BIK payrolling – Phase 1
- FWA holiday pay enforcement (expected)
- Bereavement leave changes
- NLW rise (est. £13.21)

April 2027



Still to come

- Guaranteed hours offers
- Pay for short-notice shift cancellations
- Flexible working by default
- Mandatory BIK payrolling – Phase 2

2027 and beyond

The Fair Work Agency is *here*

Since 7 April 2026, a single body has been responsible for enforcing workers' rights – and payroll records are the first place it will look

Who they are

- Bring together HMRC's National Minimum Wage enforcement, the Employment Agency Standards Inspectorate and the Gangmasters and Labour Abuse Authority
- Can be contacted on **0345 161 6000**
- Online reporting via **gov.uk/government/publications/pay-and-work-rights-complaints**

What they can do

- Request records
- Inspect
- Interview workers
- Recover arrears
- Issue civil penalties
- Name employers
- Enforce holiday pay (expected from April 2027)
- Give penalties of up to 200% of arrears
- Recover costs of successful claims

What they'll look for

- Accurate working time, holiday pay (no earlier than April 2027) and statutory payment records are now kept for six years
- Higher scrutiny for variable hours, agency workers and misaligned HR and payroll systems

Results

- To date FWA has recovered and paid workers over £300,000
- The Employment Tribunal Penalties Team (ETP) have assisted in securing payment in 80 cases – worth more than £665,000

The FWA's *results* so far

NMW stays with HMRC through 2026/27. The main shift comes in 2027, with holiday-pay timing and penalties still TBC, depending on public consultation

Results

- **Recovered:**
  - More than £300,000 paid to workers who have earned it
  - More than £107,000 in underpayments for business mileage
- **Prevents operating model** – "proportionate, risk-based, digital-first". Supporting compliant employers
- **Serious cases** – exploitation and modern slavery handled with the police and the NCA
- **Powers** – Fraud Act powers from day one

Payroll transition and holiday pay

- **2026/27** – HMRC continues NMW enforcement
- **April 2027** – enforcement moves to FWA with 500 NMW staff transfer, access to "real-time relevant HMRC systems"
- **Holiday pay** – enforcement starts no earlier than April 2027, consultation closed in September
- **Reported proposals** – 200% penalty, capped at £20k per worker, 50% if paid within 14 days, naming underpaying employers, six-year holiday records
- **Tools** – online holiday-pay calculator and payslip explainer for workers and the FWA to use to test. A NMW calculator was on display at CIPP's recent conference

What's *new*

Zero hours reach agency staff

Guaranteed-hours rules will cover agency workers too

Bereavement leave widens

April 2027 leave will cover pregnancy loss before 24 weeks, starting from day one

Redundancy threshold takes shape

A company-wide count (likely 250-1,000) joins the test from 2027

NDAs pinned to 2027

Gagging clauses on harassment or discrimination will be void

Fire and rehire defined

Covers pay, pension, hours, shifts and holidays – not place or duties. Live March 2027

Enhanced dismissal protection for to-be and new parents

From Oct 27 – once they've informed you of pregnancy and for six months after maternity leave

Three changes to plan for *now*

They will reshape how you hire, manage and exit people. The impact shouldn't be limited to one part of the lifecycle

Tribunal time limits – we're living this now!

- Deadline to claim has doubled from three to six months
- Claims can surface later
- This means someone can claim something that happened in October, in April
- Freezing decisions in time is going be crucial for being prepared for this

Unfair dismissal

- Qualifying period cut from two years to six months
- From 1 January 2027
- More people can claim

Compensation cap

- Cap on unfair dismissal awards removed
- From 1 January 2027
- Each claim can cost more

Consultations to *watch*

Zero and low hours contracts, unpaid carers and parents of seriously ill children, and time off for public duties are closed. Watch for the government responses

Fire and rehire code

Closes 17 December

Acas Flexible Working Code

Closes 17 December

Employment Status (a Make Work Pay item)

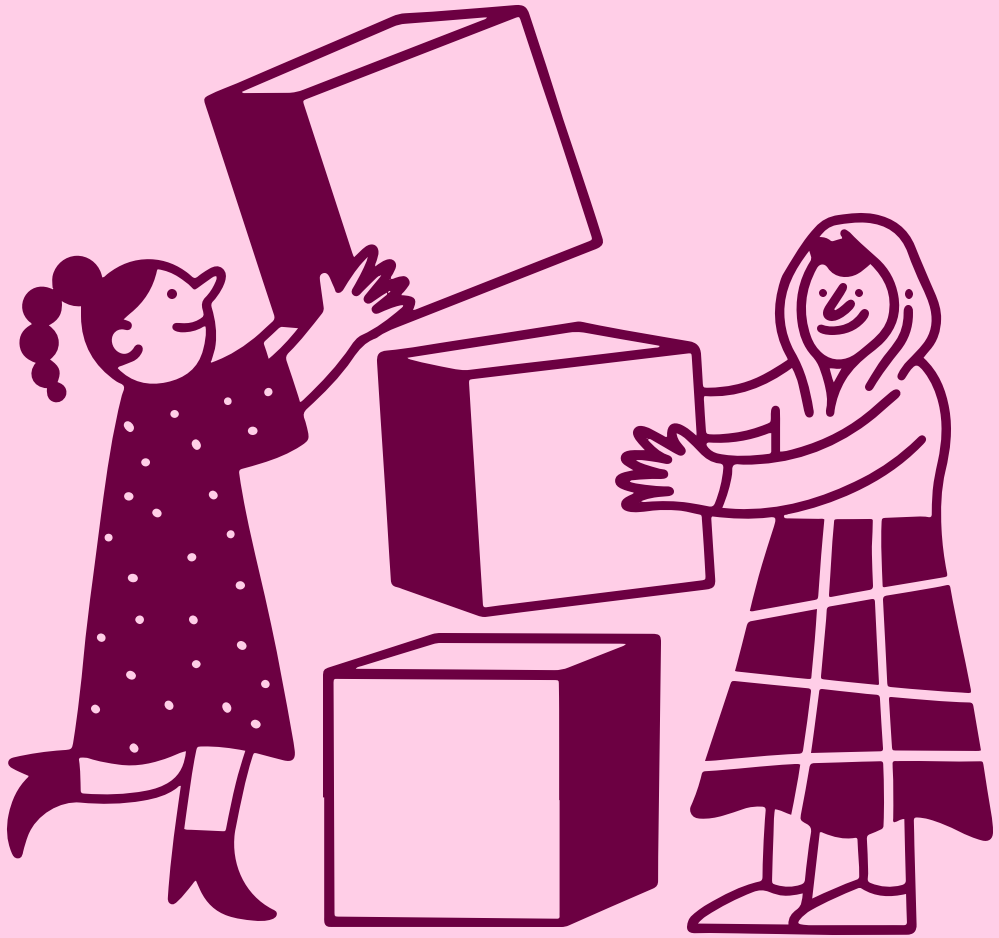
Closes 8 January 2027

We're still waiting on updates from 2025's consultation on parental leave, so keep an eye out for that too!

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Payrolling Benefits In Kind *(PBIKs)*

02



Introduction



What's changing

- Phased introduction for BIK: from April 2027, mandation is limited to:
  - Company cars
  - Car fuel
  - Vans
  - Van fuel
  - Employer-provided medical benefits
- Only around 30+ data fields to report via RTI
- P11D and P11D(b) submissions will live to fight another year or maybe more

Decisions to make

- What will you payroll: all benefits, only mandatory, or mandatory plus some voluntary?
- Will you keep some P11D and P11D(b) submissions?

Registration

- Required for voluntary payrolling: open 5 November 2026 to 5 April 2027. You can register online
- Already registered? It rolls over to 2027/28 automatically
- De-register from 5 November if you currently payroll but want to avoid real-time Class 1A NIC on payrolled BIKs

HMRC's own *numbers*

280,000
employers affected by the change

3.5m
P11D forms removed by mandation

£8m
estimated one-off cost to businesses

£10m
estimated cost to HMRC's IT systems

£467.3bn
tax and NIC receipts, April to September 2026: up £29.5bn on 2025 (HMRC, October 2026)

Phase 1 employer guidance published by HMRC on 9 November 2026

Just making what we do now *mandatory?*

No, not at all

The changes from 2027/28 aren't just mandating what we do now. They're expanding it

Today

All payrolled BIKs are reported in minimal detail via RTI, consolidated into a single value (except cars)

From April 2027

Reporting is expanded, but only for Phase 1 benefits. Phase 2 benefits are still consolidated for reporting

Phased, not lighter

The phased approach spreads the load, but all the changes are still coming

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Data *fields* and *flow*

03



Required RTI fields – *cars* and *car fuel*

The car

- Make and model
- Date first registered
- CO2 emissions
- Zero emissions mileage
- Fuel type
- Engine size (CC)
- Car identifier (registration number)
- Calculated price
- Amendment indicator

Availability and value

- Date car was available from
- Date car was available to
- Cash equivalent of car

New fields

- Price of accessories not included in the price of the car
- Capital contribution by employee towards accessories
- Amount paid by employee for private use

Car fuel

- Date free fuel provided
- Date free fuel withdrawn
- Cash equivalent of fuel

Totals: 4 fields

- All cars: pay period
- All cars: year to date
- All fuel for all cars: pay period
- All fuel for all cars: year to date

Each is the total cash equivalent or relevant amount

P46 (car) form



From 6 April 2027

- You no longer send company car details to HMRC on the P46 (Car) form
- The postal and digital P46 (Car) forms will not be available
- Report company car benefit data through payroll software in real time

Non-payrolled cars (globally mobile employees)

- Employees update their car benefit details in-year through their personal tax account, eg when the value changes
- HMRC helplines stay open to employers, agents and individuals for in-year updates
- The year-end P11D shows the final benefit value for the full tax year

Required RTI fields – *vans* and *medical*

Vans and van fuel: 4 fields

1. Total cash equivalent or relevant amount of all vans in pay period
2. Total cash equivalent or relevant amount of all vans year to date
3. Total cash equivalent or relevant amount of all fuel for all vans in pay period
4. Total cash equivalent or relevant amount of all fuel for all vans year to date

Employer-provided medical benefits: 3 fields

1. Cost to employer of amount forgone
2. Total cash equivalent or relevant amount in pay period
3. Total cash equivalent or relevant amount year to date

What counts as a *medical* benefit

Employer-provided benefits that cover, reimburse or insure the cost of medical or dental treatment and some other healthcare services



Medical benefits can include

- Private medical insurance
- Dental insurance
- Cash plans and health plans that reimburse medical or dental costs
- Employer-funded medical treatment or healthcare services

Medical benefits don't include

- Exempt health screening and medical check-ups
- Exempt welfare counselling
- Workplace adjustments provided to enable an employee to do their job
- Non-medical wellbeing benefits, such as gym memberships, unless separately taxable as a medical benefit
- Benefits that are fully exempt under existing legislation

Required RTI fields – *other benefits* and *Class 1A NIC*

Other payrolled benefits (non-mandatory): 2 fields

1. Total cash equivalent or relevant amount in pay period
2. Total cash equivalent or relevant amount year to date

From 2028/29

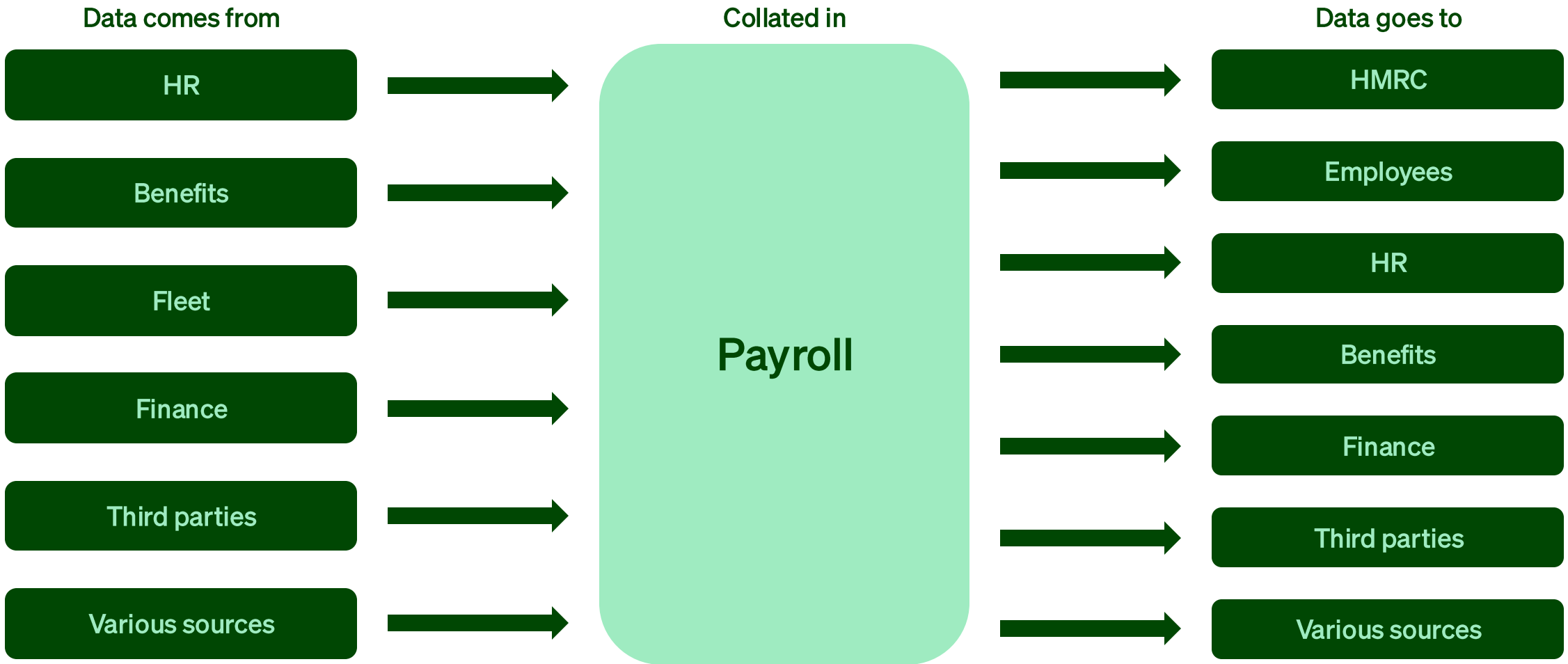
- All benefits will have their own RTI data fields, eg. total cost and amount made good
- Consider how these fields will be populated
- Many software providers will take the additional fields this year and report consolidated values

Class 1A NIC on payrolled benefits: 4 fields

1. Total real time Class 1A NIC due in pay period
2. Total real time Class 1A NIC amount year to date
3. Total real time Class 1A NIC adjustment amount due in pay period
4. Total real time Class 1A NIC adjustment amount year to date

Reported for all payrolled benefits, mandatory and voluntary

How BIK data *flows* through payroll



Benefit *providers*



Be prepared

- Employers will need information earlier
- Data will need to be structured
- Clear process for changes, corrections, starters, leavers, benefit end dates
- Consider values shared – monthly is no good for a weekly payroll

HMRC indicates that data should be

- Complete – all required data fields populated
- Timely – available before payroll cut-off
- Consistent – identifiers match employer records
- Accurate – values and dates are reliable
- Traceable – source and update history are clear
- Correctable – errors can be fixed quickly
- Machine-readable – at least in an .xlsx or .csv format instead of PDF or paper

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Class 1A *National Insurance*

04



Class 1A NIC on BIK – real time

Current rules

- Class 1A NICs are employer-only annual payments due on most employee BIKs and certain termination/testimonial payments
- Currently due to be paid by 22 July, calculated at 15% (current rate) of the taxable value of BIKs and reported via P11D(b)
- **Note:** Class 1A on termination payments over £30,000 is already reported on the FPS and paid in real time (since April 2020)

The 2027 changes

- For mandatory payrolled items they will become real-time payments, paid monthly – at 15% of the BIK value for tax month
  - Calculated at employee level each period
  - Paid over with Class 1 NIC and PAYE monthly
  - Not calculated on the annual values as previously
- Voluntarily payrolled BIKs will also have real-time Class 1A NICs paid through payroll from 6 April 2027, with no separate year-end reporting
- Budget planning will need to change from annual to monthly costs for mandatory items as a minimum

Class 1A NIC: *category letters* and *rounding*



Category letters

- Class 1A has no interaction with employee NIC category letters
- It is reported in a separate RTI field
- The category letter used on earnings has no bearing on the Class 1A rate or liability

RTI data items

- 350: Class 1A NICs on payrolled benefits in the pay period
- 351: Class 1A NICs on payrolled benefits year to date

Rounding rules

- Same as Class 1: round to the nearest penny, disregarding amounts under £0.005
- Calculate and report Class 1A per employee, per pay period
- Apply one rounding point to the employee's total Class 1A for the period
- Don't round each benefit separately before adding them up

Class 1A rounding *examples*



Rounding up: weekly paid

Company car: £200.00
Medical benefit: £38.71
Total: £238.71
£238.71 × 15% = £35.8065
Third decimal place is 6, so round up
Report £35.81

Rounding down: monthly paid

Company car: £400.00
Medical benefit: £62.63
Total: £462.63
£462.63 × 15% = £69.3945
Third decimal place is 4, so round down
Report £69.39

What to *consider*



Budgeting

The monthly cost of employment might become harder to predict

Work with finance to ensure budgets can accommodate this



Late changes

If a benefit change is reported late, the tax is paid late, but the catch-up payment affects the employee's tax **and** the NIC cost



Termination packages

Benefits provided as part of a termination package are out of scope of mandatory payrolling and stay on the existing termination payment reporting process



Cash flow overlap

Plan for a one-off overlap: some people may be paying the annual bill for 2026/27 alongside new real-time payments

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Employee *communications* and *support*

05



Supporting *employees*

What changes

- Tax on mandatory benefits will be collected through normal pay each period, in the same period the benefit is received, rather than via tax code adjustment or year-end reconciliation
- Tax codes will no longer include adjustments for payrolled benefits, and HMRC confirms employees will not pay more tax because of the change

What employees may notice

- Mixed experiences: some benefits are taxed in real time, Others are still annually in arrears via P11D. Explain this clearly so it doesn't look like an error
- Take-home pay isn't increasing or decreasing overall – only the timing pattern of taxation changes
- Some employees, particularly lower earners or those with essential-use benefits, may see a temporary dip during the transition year

How to support them

- Give employees a clear query route via HR/payroll
- Point them to their personal tax account and the HMRC app
- Provide employer BIK statements, since no standard format is mandated for either

Communicating with employees



Why communicate early

- Employees need to know how the tax on their benefits in kind changes from April 2027
- Early communication helps them understand how this might affect their tax codes and take-home pay

What to explain

- Tax on benefits will be paid through payroll, using information you report, instead of on estimated values in their tax code
- For payrolled benefits, HMRC will remove the estimated benefit adjustment from their tax code from April 2027
- Tax on benefits will be paid in real time, in the year they are received

Explaining previous-year *underpayments*



Two amounts in the same year

- Some employees will still be paying off an underpayment on a benefit from a previous year
- Tell them they are paying tax in real time on this year's benefits, while also catching up on tax for benefits from previous years

Avoid confusing terms

- Don't use phrases like “double taxation”: one amount is for the current year, the other is a previous-year underpayment

If it causes hardship

- Tell the employee to contact HMRC to discuss options based on their circumstances

Find out more

- See HMRC's section ‘What happens when the full amount of tax cannot be collected either within a pay period or tax year’

Payrolled benefits statement: the *rules*



Legal requirement

- Give a written statement by 1 June after the tax year ends to every employee with payrolled benefits
- It must detail all the benefits that went through payroll
- No set format, and HMRC has no plans to introduce one: a letter, an email or clearly itemised on the final payslip

It must include

- Details of each payrolled benefit (eg car fuel): what it is, its value and cash equivalent, and which were subject to PAYE
- Any amount payrolled under an optional remuneration arrangement

Why it matters to employees

- A clear record of the payrolled benefits they received and their taxable value, matching what was reported to HMRC
- The right information to complete the employment pages of their Self Assessment
- A way to compare benefits reported with tax deducted through payroll and spot any errors

Tax *documents* and BIK *statements*

P11Ds and P45s/P60s

- P11Ds get a reprieve, then only used in very limited cases
- No separate breakdown of payrolled benefits on P60s or P45s: they stay in total taxable pay and total tax
- The benefits statement gives the breakdown; it doesn't replace the P60 or P45

BIK statements: what HR should consider

- Already required; continues under mandation
- P60s include payrolled benefits, so employees proving income (eg mortgages) may need a letter; a good statement can pre-empt this
- Timeing – the total reward statements deadline is 1 June
- No HMRC template: can your HR system produce them?

Suggested content

- Tax year
- Employer reference and name
- Employee name, payroll ID and NI number
- Amount of each payrolled benefit: cars, car fuel, vans, van fuel, medical and other benefits

Non-payrolled benefits

- Where P11Ds are still used deadlines remain unchanged – 6 July
- Employees with both payrolled and non-payrolled – BIKs statement covers only payrolled benefits
- Late adjustments – tell the employee in writing, with the updated values

Payslips

- Only limited fields are legally required, and HMRC has no plans to add BIK data
- No legal requirement to show BIKs
- Space may be limited
- Employees can see BIK details in their personal tax account via HMRC app

Globally mobile employees



An optional exception

- From 6 April 2027, employers can choose to exclude eligible globally mobile employees from mandatory payrolling
- Intended where global working arrangements make it genuinely difficult to calculate or report BIKs through payroll in real time

How to apply

- Submit HMRC's online G-Form, available from November 2026
- Apply by 5 April 2027

Once the G-Form is accepted

- Leave these employees' BIKs out of payroll from 6 April 2027
- Keep reporting them at year end on P11D and P11D(b)

What to do now

- Identify employees who may be eligible
- Plan how you will tell affected employees
- Watch for HMRC's updated guidance on the exception and G-Form

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How to *report* a Benefit in Kind in *real time*



06

Working out the *amount* to payroll

1

Find the value

Identify the cash equivalent or relevant amount of the benefit for the tax year

2

Divide it

Divide by the number of pay periods the employee has in the tax year

3

Round down

Round the result down to 2 decimal places, eg £433.333 becomes £433.33, never rounded up

4

Add to earnings

Include it with earnings each pay period, so income tax is deducted and shown on the payslip

Example

Monthly paid employee with a benefit worth £2,100 in 2027 to 2028: £2,100 ÷ 12 = £175 added to earnings each month to work out income tax and Class 1A NIC

Pay frequency *examples*



The rule

Divide the cash equivalent by the number of pay periods in the tax year (53 in a week 53 year)

Annual payrolls take the full amount in one payment

Weekly: medical benefit

£1,248 ÷ 52 = £24 added to taxable pay each payday

Monthly: company car

£5,200 ÷ 12 = £433.33 (rounded down) added to taxable pay each payday

Irregular: gym membership

Paid on 31 May, day 56 of the tax year

£2,000 ÷ 365 × 56 = £306.84 for that period

The next payday counts days from the last payday

When the value *changes* in year



What to do

- Work out the revised taxable amount for the whole tax year
- Deduct what has already been payrolled for that benefit
- Divide the balance equally across the remaining pay periods
- Add it to the employee's earnings for the rest of the year

Example: 4-weekly pay, 13 periods

Original cash equivalent: £2,600 (£200 a period)

Value changes in September 2027, after 6 periods

Revised cash equivalent: £2,800

Already payrolled: £1,200

Balance: £1,600 over 7 periods, about £228.57 each

If you don’t know the value *yet*



Estimate, then adjust

- If the value isn’t known at the start of the year, payroll a reasonable estimate and adjust it once the exact value is known
- Previous years’ values for similar benefits can be used if accurate information isn’t available
- If information arrives too late for this payroll run, submit an updated FPS in the next pay period
- Values can be updated at any time during the tax year

What HMRC expects

- Report the benefit as soon as you know it and its value, or can estimate it
- Take reasonable care when estimating values
- Report as close to the relevant pay period as possible, not at year end
- Make sure employees pay as close to the correct tax as possible, so they don’t build up a large debt

Record keeping



Every benefit

Record the date and details of every expense or benefit you provide



Calculations

Keep the information needed to work out the amounts you report



Contributions

Record any payment the employee makes towards a benefit



HMRC letters

Keep any correspondence you have with HMRC



Three years

Keep records for three years after the end of the tax year they cover

HMRC may ask for evidence of how you accounted for each expense or benefit at the end of the tax year

Making *good*



What it is

- The employee pays for a benefit they receive, which can reduce its taxable value, often to zero

How to payroll it

- Payroll the cash equivalent less what the employee is reasonably expected to make good
- Example: £1,000 benefit, £400 expected in March, so payroll £600 across the year

If it doesn't go to plan

- If making good doesn't happen, is overpaid or is made early, correct it in later pay periods

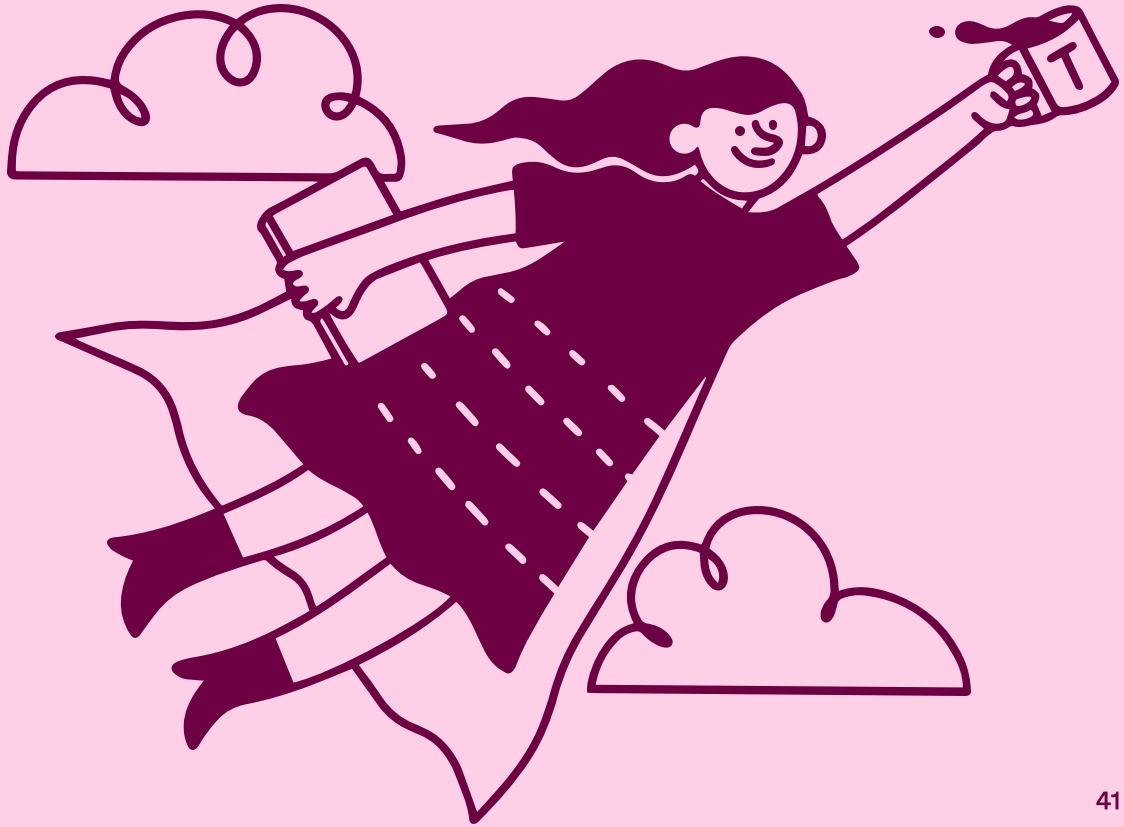
Key dates after the tax year

- 6 July: last date for employees to make good
- Revise the final FPS to adjust values: deadline not yet confirmed, but expected before 19 July
- 22 July (19 July by post): pay any extra due

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If the full amount of tax can't be *collected*

07



When tax can’t be collected in *full*



Common scenarios

- The employee has left or is on long-term sick leave, so pay doesn’t cover the tax
- Directors with low or no earnings
- Tax due is over 50% of pay for the period, risking hardship
- The employee leaves mid-period after payroll has run
- The employee is on statutory pay instead of salary

The overriding limit

- You must not deduct more than 50% of an employee’s pay in tax
- Pay for this test excludes the value of payrolled benefits
- Deduct up to 50% each period and carry any remaining amount forward to the next period where possible

What happens to the *shortfall*



What employers must do

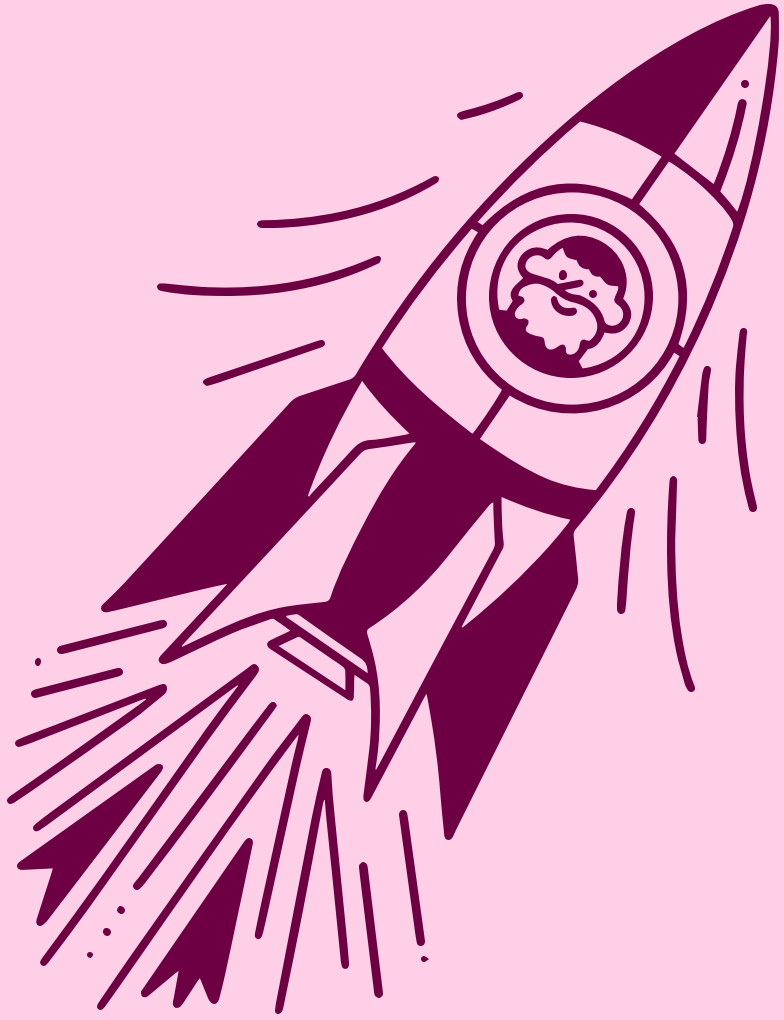
- Always report the full benefit value, even if the tax can't all be collected
- Keep inputting benefit amounts even when there is a backlog of tax due
- Tax may be carried forward to later months or left uncollected at year end

How HMRC collects it after year end

- P800: HMRC adjusts the employee's tax code in a future year
- Simple Assessment (PA302): if a future tax code can't collect it
- Self Assessment: if the employee is already registered

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Employees who *leave* during the tax year



08

Reporting benefits for *leavers*



Corrections after an employee leaves

- Amend what was previously reported, using the standard process for correcting an FPS or EPS

Benefits that continue after leaving

- Keep reporting the benefit on the FPS until the benefit ends

Termination payments and awards

- Cash termination payments: keep reporting them on the FPS – no change
- Non-cash termination awards, such as assets transferred on leaving: keep using the process in EIM13844
- Neither process changes when mandatory payrolling starts in April 2027

Benefits for leavers with *no pay*



Today

- Benefits in the leaving year that aren't termination awards, such as continued use of a company car, go on the P11D and P11D(b)

From April 2027

- Report these benefits on the FPS instead

When there's no pay to deduct from

- If you no longer pay the employee but still provide a benefit, there are no earnings to deduct the tax from

How HMRC collects it

- After year end, through P800 or Simple Assessment
- Through Self Assessment, if the employee is already registered

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Corrections and *adjustments*

09



In-year corrections



The rules

- Correct in a future FPS within the tax year
- If you can't (eg no new reasonable estimate), use the end-of-year benefits update process
- Report a benefit when you learn of it or its value, or when circumstances change, then recalculate for the rest of the year
- Updates received after 19 April of the following year count as end-of-year corrections
- Work with benefit providers so you know values as early as possible

Example: Neil's medical benefit

- Last year's value was £1,200, so the employer payrolls £100 a month
- In August the provider confirms £1,500 for this year
- £500 payrolled so far; £1,000 left over 7 periods = £142.85 a month from September
- HMRC collects the earlier tax shortfall from Neil's September to March pay; Class 1A shortfall goes through the PAYE bill
- The employer isn't late, because it used a reasonable estimate and payrolled the full amount by year end

End-of-year corrections



The rules

- Correct estimated benefits after year end by revising the final FPS
- Deadline not confirmed, but expected before 19 July
- Pay any extra due by 22 July (19 July by post) to avoid late payment penalties or interest
- No reason needed for the changes
- If a P60 was already issued, issue a revised P60 (or alternative)
- Report errors as soon as you find them; there will be no carry-forward to fix a previous year

Example: Paul's new car

- Paul gets a new car in March; the value isn't confirmed in year
- The employer payrolls £1,000 a month, based on his old car's £12,000 value
- In May the following year, the true value is confirmed as £15,000
- The employer revises the final FPS for the extra £3,000
- HMRC collects Paul's tax via P800, PA302 or Self Assessment, and adds the Class 1A to the employer's PAYE bill, due by 22 July

Benefits *missed* during the year



Benefits update process

- Use it after year end to record any under- or over-reporting of benefits
- Report all such benefits by a date still to be confirmed, likely before 19 July
- Extra tax due or repayable goes through P800, Simple Assessment or Self Assessment
- Extra Class 1A is payable by 22 July (19 July by post)

Example: Sam's car

- Sam gets a car from February, but payroll only learns of it after year end
- Last year's value was £667, so the employer revises the final FPS for that year
- HMRC collects Sam's tax via P800, PA302 or Self Assessment; the Class 1A goes on the employer's PAYE bill
- For the current year, the employer estimates £4,002 and payrolls £333.50 a month, revising later if needed

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Common payrolling *scenarios*

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No *earnings*, *retirement* and late *notifications*

Employees and directors with no earnings

- From April 2027, still report the benefit on an FPS, showing no earnings or tax
- Pay the Class 1A due
- HMRC recovers uncollected tax after year end via P800 or Simple Assessment
- Directors paid annually can keep an annual payroll and report benefits on that FPS

Benefits after retirement

- These count as benefits under an employer-financed retirement benefits scheme; report them under EIM15200
- By 31 January after the first year: scheme name, responsible person's address, start date
- By 7 July each year: recipient's name, address and NI number, and the nature and amount of the benefit
- Amount is the higher of the cash value or the cash equivalent

Late notifications: benefit starts March 2027, payroll told April 2027

- It belongs to 2026 to 2027, so use that year's process (P11D and P11D(b), or the voluntary payrolling correction process)
- If it continues and is mandated, payroll it from the next available pay period
- Report the 2026 to 2027 amount separately

Student *loans* and salary *sacrifice*



Student loans

- Student loan deductions are based on earnings subject to Class 1 secondary NIC
- Payroll software already excludes Class 1A benefits, so payroll calculations stay correct
- A new Self Assessment box captures Class 1A-only benefits so they aren't counted for student loans

Optional remuneration arrangements (OpRA)

- Taxable value is the higher of the salary given up or the benefit's normal taxable value
- Payroll that higher value each period; employees pay tax and NIC through pay
- Cars, fuel, vans, van fuel and medical under OpRA: payrolled from 6 April 2027
- Other OpRA benefits: voluntary from April 2027, mandatory from April 2028
- Current OpRA rules apply if you don't payroll them

OpRA rules apply when an employee gives up salary for a benefit (salary sacrifice) or picks a benefit over a cash alternative; the taxable value, and the Class 1A NICs value, is then the higher of the cash given up or the normal Benefit in Kind value

What we don't know *yet*

Employment Rights Act

- Benefits in Kind phased mandation: still waiting for final guidance and legislation
- Guidance for some implemented changes: EHRC on sexual harassment is out, but UK Government guidance isn't expected until late 2027 to early 2028
- Content of the union statement: depends on secondary legislation expected this month (November 2026)

Benefits in Kind

Globally mobile employees

- Updated guidance on the exception process and G-Form applications
- Further guidance on EP Appendix 8

Guidance

- Phase 1 employer guidance published 9 Nov 2026; the detailed manual is still interim

EOY process

- Confirmed deadline for revising the final FPS (expected before 19 July)

Penalties and interest

- Detail for payrolled benefits from 2028 to 2029

What this means for us

- We don't know what we don't know
- Everything in the ERA 2025 is already legislated for; it's the delivery timeframe that is flexible
- Some dates have already moved: the duty to tell workers about union rights slipped to January 2027, and fire and rehire restrictions to March 2027
- Mandatory gender equality and menopause action plans for public authorities have been brought forward
- Still waiting on final BIK guidance
- EOY processes for BIKs for 2027/28 still unknown

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HMRC calculation *examples*

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Payrolling benefits for different pay frequencies



The general rule

- Divide the cash equivalent of benefits and expenses by the number of paydays in the tax year for each employee
- Allow for extra pay periods: with 53 paydays, divide by 53
- Work out the number of paydays for weekly, fortnightly, 4-weekly and quarterly payrolls
- Annual payrolls: payroll the full cash equivalent without dividing it
- Specific payroll intervals: follow the guidance for irregular pay periods

Accounting after the tax year ends

- Send an FPS showing the correct year-to-date amounts
- Pay additional Income Tax by 19 April (22 April if paying electronically)
- Pay additional Class 1A NICs by 19 July (22 July if paying electronically)

All HMRC examples

- You can find them here: **https://www.gov.uk/guidance/draft-guidance-and-legislation-to-aid-preparation-for-reporting-benefits-in-kind-in-real-time/annex-1-payrolling-examples-for-different-scenarios**

Weekly paid employees



The scenario

Jonathan is provided with medical benefit where the cash equivalent for the year is £1,248

There are 52 weeks in the tax year and so there are 52 pay days

The cash equivalent of the medical benefit in kind is divided by 52 and the value added to Jonathan's taxable pay at each pay day

The calculation

Jonathan is paid weekly and there are 52 pay days in the tax year

The medical benefit cash equivalent is £1,248

The taxable amount of the benefit is £1,248 ÷ 52 = £24

Each pay day

Add £24 to Jonathan's taxable pay at each pay day

Monthly paid employees



The scenario

Cathleen is provided with a company car where the cash equivalent for the year is £5,200

There are 12 months in the tax year and therefore 12 pay days

The cash equivalent of the company car is divided by 12 and the value added to Cathleen's taxable pay at each pay day

The calculation

Cathleen is paid monthly and there are 12 pay days

The company car cash equivalent is £5,200

The taxable value of the company car benefit is £5,200 ÷ 12 = £433

Each pay day

Add £433 to Cathleen's taxable pay at each pay day

Irregular pay periods



The rule

Irregular pay periods are payments of employment income which have no set pattern. To work out the taxable amount of the benefit, you should:

- Divide the cash equivalent by the number of days in the tax year
- Multiply that by the number of days to the pay period date from the start of the tax year
- Multiply by the number of days between subsequent pay days

The example

Imran is paid on 31 May, which is 56 days into the tax year, and is provided with gym membership with a cash equivalent of £2,000

£2,000 ÷ 365 × 56 days = £306.84, which will be added to his taxable pay in that period

The next pay day

His employer works out the period the benefit was provided from the last pay day, rather than from the start of the tax year

The 50% rule



The rule

- Protects employees from hardship if benefits in kind create a large amount of extra tax
- Up to 50% of pay can be deducted in any pay period; any remaining amount is carried forward to the next pay period
- If not all Income Tax can be collected in real time. Tax not deducted is carried forward if the code is cumulative, or collected after year end through usual HMRC processes

The example

- Employee is paid monthly and has a company car all year; the taxable value is reported through payroll each month
- Unpaid leave means no pay in June and July

June and July

- Keep reporting the company car's taxable value for both months
- No Income Tax can be deducted: the 50% overriding limit means no deduction where there is no pay

Back at work

- Operate HMRC's tax code; some or all of the June and July tax may be collected from future pay, still subject to the 50% limit
- Keep reporting full benefit values and correct year-to-date figures; HMRC uses these to collect any tax still due at year-end reconciliation

Multiple benefits: Class 1A NICs



Reporting through RTI

In all the mandated examples, the Class 1A National Insurance contributions liability is assessed on the taxable value to payroll per pay period and reported through real time information (RTI)

Employers should complete both:

- **Data item 350:** Class 1A NICs PBiKs in Pay Period
- **Data item 351:** Class 1A NICs PBiKs YTD

More than one Class 1A benefit

Where an employee receives more than one benefit in kind that is subject to Class 1A National Insurance contributions, the employer or payroll software can:

- Add together the taxable values for those benefits for that employee for the pay period
- Calculate the Class 1A National Insurance contributions liability on the total amount

Then

Report the total Class 1A National Insurance contributions due for payrolled benefits in kind through RTI

Medical benefit example



The scenario

Employer provides medical cover from April 2027 at a cost of £600 a year

Employee is a basic rate (20%) taxpayer, paid monthly

Each month

Taxable amount: £600 ÷ 12 = £50, added to taxable pay (not to NIC or pension pay)

Income Tax: £50 × 20% = £10, deducted via PAYE

Class 1A NIC: £50 × 15% = £7.50, paid by the employer

Weekly paid

£600 ÷ 52 = £11.53 a week (rounded down), so Class 1A NIC is £1.73 a week

If the cost changes

Adjust the value for the remaining pay periods once the change is known

If the actual cost is only known after the final FPS, amend the final FPS

In-year medical premium change



The scenario

Employer provides private medical insurance in the 2027 to 2028 tax year; employee is paid monthly

Policy cost: £500 a year from January 2027 to December 2027, rising to £600 a year from January 2028

April 2027 to December 2027

Report each month: £500 ÷ 12 = £41.66

From January 2028

Report each month: £600 ÷ 12 = £50

Use the new amount from the January 2028 pay period

Total for 2027 to 2028

9 × £41.66 + 3 × £50 = £524.94

Medical benefit through salary sacrifice



The scenario

Employer provides medical benefit under a salary sacrifice agreement

Taxable value is £500 for the tax year; employee is paid monthly

Each month

Payroll £500 ÷ 12 = £41.66

What salary sacrifice changes

Nothing in how the taxable value is reported via payroll

Payroll the taxable value each period in the same way as any other benefit

Replacing a company car during the year



The scenario

Employee is paid monthly

6 April 2027: Car A provided, annual cash equivalent £6,000

1 July 2027: Car B replaces Car A, annual cash equivalent £12,000; employer told before the July payroll

April to June

Payroll £6,000 ÷ 12 = £500 a month

£1,500 reported by the end of June

Expected cash equivalent for 2027 to 2028

Car A: £6,000 × 86/366 = £1,410

Car B: £12,000 × 280/366 = £9,180

Total: £10,590 (366 days, as 2027 to 2028 is a leap year)

July to March

Remaining £9,090 spread over 9 pay periods: £1,010 a month

Total payrolled for the year equals the expected cash equivalent of both cars

Replacing a company car with private use payments



The scenario

Employee is paid monthly

6 April 2027: Car A, cash equivalent £6,000; private use payments of £1,000, due before 6 July 2028

1 July 2027: Car B replaces Car A, cash equivalent £12,000; private use payments of £2,000 for a full year

April to June

Expected: £6,000 – £1,000 = £5,000

Payroll £5,000 ÷ 12 = £416.67 a month; £1,250.01 by the end of June

Recalculated for 2027 to 2028 (366 days)

Cash equivalent: £1,410 (Car A, 86 days) + £9,180 (Car B, 280 days) = £10,590

Private use payments: £235 (Car A) + £1,530 (Car B) = £1,765

To payroll: £10,590 – £1,765 = £8,825

July to March

Remaining £7,574.99 over 9 pay periods: £841.67 a month

For detailed guidance on car and fuel benefits, including capital contributions and making good of fuel, see HMRC's Employment Income Manual from EIM23000

Company car fuel benefit for the full tax year



The scenario

An employee is paid monthly

On 6 April 2027 the employee is provided with a company car and free fuel for private use

The employee's expected cash equivalent of the fuel benefit for 2027 to 2028 is £8,000

Each month

The expected cash equivalent is spread evenly across the 12 monthly pay periods

The employer reports £666.67 (£8,000 ÷ 12) each month from April 2027 to March 2028

Total for the tax year

£8,000 is reported through payroll, which equals the employee's expected cash equivalent of the fuel benefit for the year

Company van fuel benefit for the full tax year



The scenario

An employee is paid monthly

On 6 April 2027 the employee is provided with a company van and free fuel for private use throughout the tax year

The employee's expected cash equivalent of the van fuel benefit for 2027 to 2028 is £800

The employer payrolls the van fuel benefit for the 2027 to 2028 tax year

Each month

The expected cash equivalent is spread evenly across the 12 monthly pay periods: £800 ÷ 12 = £66.67

The employer therefore reports £66.67 per month through payroll from April 2027 to March 2028

Total for the tax year

£800 is reported through payroll, which equals the employee's expected cash equivalent of the van fuel benefit for the year

Classic car example



What changes from April 2027

The market value of a classic car is set at the start of the tax year, or the date it is first made available if later, not at year end

The car

Bought on 1 May 2027 for £15,000

First registered in 1981 with a list price of £2,800

Which market value applies

Current rules: value as at 5 April 2028 (£17,500)

New rules, available from purchase: value on 1 May 2027 (£15,000), even if renovation adds value later

New rules, renovated first and available from 1 December 2027: value on that date (£25,000)

More details can be found https://www.gov.uk/guidance/draft-guidance-and-legislation-to-aid-preparation-for-reporting-benefits-in-kind-in-real-time/annex-1-payrolling-examples-for-different-scenarios

Beneficial loan example (voluntary)



The loan

£15,300 lent on 1 July, in place for 9 months of the tax year

Repaid at £135 a month plus 4% interest; £14,085 outstanding at year end

Official rate of interest: 6%

Scope

Loans are outside mandatory payrolling; this applies only if you payroll them voluntarily

Expected cash equivalent

Average balance: (£15,300 + £14,085) ÷ 2 = £14,692.50

At 6% for 9 months: £661.16

Less £362.44 interest paid by the employee = £298.72

Payrolled

£298.72 ÷ 9 pay periods = £33.19 a month, with Class 1A NIC each period

Smaller loan repayments (voluntary)



The change

Same £15,300 loan, payrolled at £33.19 a month

From 31 October, repayments drop from £135 to £90

Year-end balance: £14,355 instead of £14,085; interest paid £364.28

Revised cash equivalent

Average balance £14,827.50 at 6% for 9 months = £667.24

Less £364.28 interest paid = £302.96, up £4.24

Two ways to correct

In year: £99.57 already payrolled over 3 months; payroll the remaining £203.39 at £33.90 a month for 6 months

After year end: report the £4.24 difference; HMRC collects it via P800, Simple Assessment or Self Assessment

Larger loan repayments (voluntary)



The change

Same £15,300 loan, payrolled at £33.19 a month

The employee decides to clear the loan: 4 repayments of £135, then 5 of £2,952

Year-end balance: £0 instead of £14,085; interest paid £285.58

Revised cash equivalent

Average balance £7,650 at 6% for 9 months = £344.25

Less £285.58 interest paid = £58.67, down £240.05

Correcting in year

£132.76 already payrolled over 4 months, more than the £58.67 now due

Payroll –£74.09 on the next FPS so the employee gets the tax back quickly, then £0 for the rest of the year

Tax code

Assumes the employee's tax code is operated on a cumulative basis