

# CHANGES TO HOW EMPLOYEE BENEFITS ARE REPORTED AND TAXED

If your business provides employees or directors with benefits such as a company car, private medical insurance, a gym membership, or a low-interest loan, the way you report and pay tax on those benefits is changing. HMRC is replacing the longstanding P11D process with a new system called payrolling of benefits in kind — and preparation is needed now.

## WHAT IS CHANGING AND WHEN

Currently, employers report taxable benefits annually to HMRC on a P11D form, submitted by 6 July each year. From April 2027, this changes. HMRC is introducing mandatory payrolling of benefits in kind in two phases, requiring employers to report the taxable value of benefits through payroll in real time and account for income tax and Class 1A National Insurance Contributions via PAYE.

## THE 2025/26 P11D — ACT NOW IF YOU HAVEN'T FILED

The P11D and P11D(b) for the 2025/26 tax year should have been filed with HMRC by 6 July 2026, with each employee receiving a copy of the information reported about them. Class 1A National Insurance — charged at 15% of the taxable value of benefits provided — was due by 22 July 2026. If you have missed either of these deadlines, you should act as soon as possible. Automatic penalties apply for late filing, and interest will accrue on any outstanding Class 1A payment. Getting this resolved promptly can help limit the financial impact.

## THE TWO-PHASE ROLLOUT

From 6 April 2027, the first phase of mandatory payrolling will apply to company cars, car fuel, vans, van fuel, and employer-provided medical benefits. From 6 April 2028, the requirement extends to most other benefits in kind. Two categories — employer-provided living accommodation and beneficial loans — are excluded from mandatory payrolling for the time being and will continue to be reported via P11D until HMRC extends the requirement to cover them.

## THE “DOUBLE TAX” ISSUE FOR EMPLOYEES

One consequence of the transition that business owners should be aware of is the potential for employees to face a temporary tax overlap. When an employer moves to payrolling benefits, employees may find themselves paying tax on the previous year's benefits through a reduced tax code at the same time as paying tax in real time on the current year's benefits through payroll. In a transitional year, this can effectively double the monthly tax deduction on benefits, reducing take-home pay significantly — before returning to normal in year two. Communicating this to affected employees well in advance will avoid confusion and payroll queries when it takes effect.



## WHAT YOU NEED TO DO

Not all payroll software currently handles the full scope of mandatory payrolling of benefits in kind. Software providers have been updating their systems, but functionality for calculating benefit values each pay period, displaying benefit information on payslips, and including the correct data in submissions to HMRC needs to be confirmed and tested before April 2027. Employers should also begin compiling complete records of all benefits provided, by employee, to support both the immediate P11D filing and the transition to real-time reporting. Further technical guidance from HMRC is expected by July 2026.

## WE CAN HELP

Whether you need support filing your 2025/26 P11D, assessing your readiness for mandatory payrolling, or communicating these changes to your team, we are here to help. Get in touch on **01753 888211** or email **[info@nhllp.com](mailto:info@nhllp.com)**.