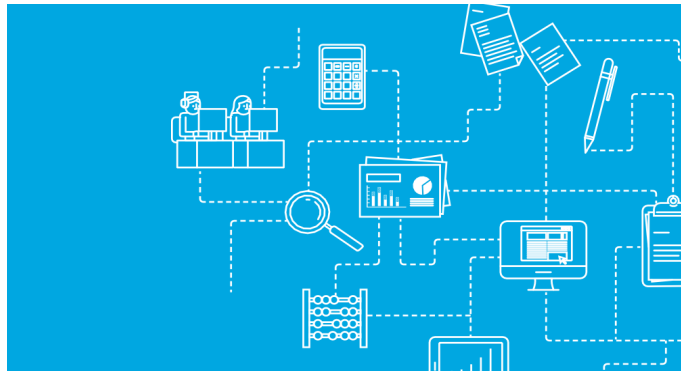


# Payrolling of benefits in kind – what you should know



Payrolling of benefits in kind was introduced in April 2016 as a simplification measure for employers and employees. Payrolling allows employers, once registered with HMRC, to report employee benefits via the payroll, avoiding the requirement to complete P11Ds after the end of the tax year and therefore potentially reducing the compliance burden associated with reporting and paying tax on employee benefits.

Registration is voluntary but must be made online before the start of the tax year in which the employer wants to start payrolling benefits. If the registration deadline is missed, employers cannot formally payroll benefits until the beginning of the following tax year.

**Please note that HMRC are no longer accepting informal payrolling arrangements (ie payrolling benefits without registering with HMRC [here](#)) from 6 April 2021.**

## What can be payrolled?

All taxable benefits can potentially be payrolled, with the exception of employer provided living accommodation and low or interest free employer provided loans.

## Is payrolling benefits right for my organisation?

While payrolling benefits can be advantageous it is not right for everyone. Employers should therefore consider how payrolling benefits will affect them and their employees, and what both parties could gain from doing this. For example before registering, employers should consider what benefits they can and cannot payroll, the processes and procedures which will invariably be required to payroll benefits efficiently and correctly, and whether staff involved in the operation of the payroll will require training.

## Common pitfalls associated with payrolling benefits

Payrolling without formally registering with HMRC. Forms P11D are still required where benefits are payrolled informally

Overlooking the payment of Class 1A NIC and the submission of the P11D(b) after the end of the tax year

Incorrectly subjecting the payrolled benefit to Class 1 NIC via the payroll

Missing changes to benefit values and pay dates during the tax year

Dealing with situations where gross pay temporarily decreases (ie during long term sickness and maternity leave).

A lack of employee communication and not providing details to employees about payrolled benefits by 1 June each year

Not considering the Optional Remuneration Arrangement rules for payrolled benefits provided under salary sacrifice or with a cash alternative

## Potential advantages of formal payrolling



- There is flexibility over what benefits and employees can be included.
- The requirement to complete annual forms P11D for formally payrolled benefits is removed, reducing end of tax year administration.
- Employees are more likely to pay the correct tax due on their benefits during the tax year. PAYE tax code errors and underpaid tax liabilities associated with benefits are less likely to occur if payrolling of benefits is done correctly.

## Potential disadvantages of formal payrolling



- Benefit values must be accurately determined and taxed in-year. Changes to benefit values must therefore be tracked, and taxable values amended in real time. HMRC penalties can apply where payrolled benefits are not payrolled correctly.
- Employers must (with some exceptions) wait until the end of the tax year to stop payrolling if it is not right for them.
- An annual P11D(b) is still due, mitigating the impact of reduced P11D administration.

## How can RSM help?

If you are not already payrolling benefits, we can assist in a number of ways, including:

- reviewing the tax and NIC treatment of your staff benefits;
- helping you determine whether payrolling benefits is right for you and which benefits can be payrolled;
- providing staff training and helping you develop processes and procedures to payroll benefits compliantly;
- helping you to register with HMRC and calculate the benefit values to be included within payroll each month;

- drafting employee communications and providing summaries of payrolled benefits, to share with employees securely, before the 1 June deadline; and
- preparing annual forms P11D(b), notifying you of your Class 1A NIC liability and how to pay this to HMRC.

If you are already payrolling benefits we can review how you are doing this to identify problem areas, and help you optimise compliance and administration.

## For more information please contact:

**Lee Knight**  
**Director**

T +44 (0) 20 3201 8508  
lee.knight@rsmuk.com

**Susan Ball**  
**Partner**

T +44 (0) 20 3201 8085  
susan.ball@rsmuk.com

**Steve Sweetlove**  
**Partner**

T +44 (0) 7887 791358  
steve.sweetlove@rsmuk.com

rsmuk.com

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