



MANDATORY PAYROLLING OF EMPLOYER-PROVIDED BENEFITS-IN-KIND

Issued 19 February 2025

Questions for HMRC submitted by ICAEW Tax Faculty on 19 February 2025

Key point summary:

- We are not convinced that mandatory payrolling of employer-provided benefits-in-kind is the most cost-effective approach for businesses, when compared to making fit for purpose form P11D and the processing of data thereon. Imposing additional compliance costs on businesses is likely to inhibit economic growth, contrary to government policy.
- We remain concerned about the timetable for implementation. We recommend a phased approach, and a soft landing of at least two years.
- Detailed guidance needs to be available well before the current target of Summer 2025.
- We suggest HMRC publishes and keeps updated a list of issues and how resolved.

Further to our discussions in March and November 2024, we have collated and summarised outstanding issues and questions regarding mandatory payrolling of employer-provided benefits-in-kind.

We have split the contents into four separate sections as below to allow these to be considered as separate items:

- A Rationale
- B Operational Considerations
- C End of Year Process/Month 13 Reconciliation and Class 1A NIC
- D Globally Mobile/Expatriate Employees

We would welcome the opportunity to discuss these items with you further and shall be happy to participate in face-to-face co-creation workshops with you to facilitate this.

Appendix 1 contains our *Ten Tenets for a Better Tax System*, by which we benchmark the tax system and changes to it. In the context of mandatory PBIK, we would highlight in particular Tenet 2: Certain, Tenet 3: Simple, and Tenet 3: Easy to collect and to calculate.

This submission of 19 February 2025 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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KEY POINTS

As we have explained before (please see Section A: Rationale, below), we are not convinced that mandatory payrolling of benefits-in-kind (PBIK) is the most beneficial approach when the additional cost to business, and by extension cost to HMRC, is considered.

We are also very concerned by the timetable for implementation. The proposed start date of 6 April 2026 does not allow enough time for software to be fully developed and tested, and for employers, payroll bureaux/agents and third parties, such as fuel card providers, to change their procedures to ensure that BiK data can be processed in payroll at the right time. We believe that there needs to be a phased approach to the introduction of mandatory PBIK, similar to RTI and workplace pensions. At the very least there should be a ‘soft landing’ period of at least two years.

In addition, detailed guidance for software developers, employers, payroll bureaux and agents and employees needs to be issued well before the current target date of late Summer 2025.

We also recommend that HMRC publishes and keeps updated a list of issues under consideration so that everyone – HMRC, software developers, agents and taxpayers – can see which issues have been raised and whether and how they have been resolved. This would avoid duplication of effort and help to prevent new valid points from being overlooked.

SECTION A: RATIONALE

In our letter dated 24 March 2024 to HMRC we said:

“The proposed changes will require taxpayers to change policies and processes to obtain the necessary information in a timely manner. In addition to the internal resource and costs there are likely to be external adviser fees for many employers. HMRC should take account of the cost of the extra burden on employers of mandating payrolling compared to the cost of improving the form P11D and its processing (eg of one-off and ceasing payments and BIK) to improve the automation of PAYE coding.

During this informal consultation we have discussed many issues. While mandating the payrolling of certain BIK seems appealing, the general mandation of all BIK will be extremely burdensome and therefore expensive for HMRC, employers and employees. A particular cost will be arranging the data flows from third party BIK providers (eg, car fleet providers) in real time. Having listened to many issues being raised, we wonder whether payrolling of BIK is the most cost-efficient answer. Has HMRC undertaken a cost/ benefit analysis of these options that takes into account additional contact by employers, especially while the payrolling of BIK is bedding in?

We believe a properly designed P11D with the use of AI to improve processing may well be a far more efficient process. It appears to us that the cost saving to HMRC of mandating payrolling of all BIK will be far outweighed by the extra costs being imposed on employers, employees and third-party providers. HMRC/ government should undertake a full cost/ benefit analysis of the different approaches before proceeding with any mandation. The best solution is probably a mixture of voluntary payrolling together with a properly designed P11D with bespoke automated processing”

We remain of this view.

If the cost to business outweighs the cost saving to HMRC, mandatory payrolling of benefits-in-kind (PBIK) will not fulfil the Government’s policy of encouraging growth in the economy.

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SECTION B: OPERATIONAL CONSIDERATIONS

1. PAYSLEIPS AND REPORTING

HMRC's [budget day policy paper](#) dated 30 October 2024 states that there will be the requirement to report more information to HMRC about the benefits and expenses that have been payrolled, both to reflect the introduction of Class 1A NIC on BiK reporting in the payroll system and to provide a more granular breakdown of the BiK being reported through payroll. However, further detail will not be available until mid to late 2025.

We are concerned about the timing of publishing these requirements:

- Software developers will need this information as soon as possible to facilitate this reporting.
- Employers will also need these details as soon as possible so that they can identify the notional and reporting elements that need to be set up to be processed via the payroll.
- Employers will need to start communication exercises with employees which would be more effective if they were aware of the reporting requirements.

We are aware of the following concerns:

- Some payroll products have limits on the number of elements that can be shown on a payslip. This is especially true if the employer wants to show the employee year-to-date values.
- Will there be a requirement to show the notional element as a payment or as a deduction on payslips? Or will there be a requirement for a separate column on payslips?
- Will employers satisfy the reporting of benefits information to the employee if they display the benefit value on a payslip each time the employees are paid? If this is satisfied for regularly paid employees such as monthly or more frequently, what will be the position for quarterly or annually paid employees? Will they be required to produce a benefit statement document at the end of the year as part of form P60?
- Responsibility for BiK reporting may currently sit outside of the payroll team; consequently, the introduction of new processes will need time for implementation and training.

2. BASIC PAYE TOOLS

- Please confirm that HMRC's own payroll software product will be updated to deal with the payrolling of benefits from April 2026.

3. REGISTRATION

We understand that registration for payrolling of benefits-in-kind (voluntarily) for the tax year 2025/26 must be completed by 10pm on 5 April 2025.

- Will there be any option to commence in-year during 2025/26 for employers who wish to commence payrolling of benefits mid-year before it becomes mandatory but are not in a position to do so prior to 5 April 2025?
- For 2026/27 will registration be automatic or will employers/agents need to take any action?

4. MID-YEAR STARTS

- From 5 April 2026, if a new employer starts up in the middle of a tax year, will they be allowed to payroll benefits from day one without having to wait until the start of the next tax year as is currently the case?
- For 2025/26 why shouldn't new employers be able to payroll BiK from day one where there are no prior benefits provided by that employer or group?

- If an employer starts to provide a new benefit during the tax year post mandate, will they be able to payroll from day one from 2026/27?

5. LEAVERS

- What will be the process when a benefit is provided to an employee but they have left the employment by the time payroll is notified? Will this need to be rectified as part of the end of year process?
- How will the unpaid tax be collected on partially taxed benefits? For example, employees leaving mid-year but still receiving a benefit, such as gym membership, after leaving. Will the employer be required to include the balance in the next FPS & will HMRC collect the tax directly, and, if so, from whom?
- How will the cost of a benefit refunded to the employer be dealt with? For example, how would a refund (of, for example, a partial medical insurance premium) be reported for a payroll leaver? The refunded value is often reported to the payroll team after the leaver/ P45 has been processed and reported to HMRC.

6. ANNUAL, QUARTERLY AND NIC-ONLY PAYROLLS

There are many payrolls that operate on an annual or quarterly basis.

- Will the annual/quarterly value of the benefit will go through only when the payroll is processed rather than the employer having to process the benefit say monthly for tax and Class 1A purposes?
- Will any tax that is not collected be picked up by the P800 process?

7. WEEKLY, FORTNIGHTLY AND FOUR-WEEKLY PAYROLLS

We have previously written to HMRC about the issues around such payrolls. Because the law does not provide for annual allowances etc to be spread over the actual number of pay periods in the year, but instead works on the basis of 52 weeks, underpayments of tax arise, which need subsequently to be collected, creating extra work for HMRC.

We published as [ICAEW REP 119/19](#) our paper "*How to eliminate tax underpayments for employees paid weekly, fortnightly or four weekly*" submitted on 20 November 2019 to HMRC and the former Office of Tax Simplification (OTS).

- We believe that such payrolls will have particular problems with the payrolling of benefits. As part of facilitating the introduction of the payrolling of benefits it would be sensible to address the Week 53/54/56 issue.

For more information on this see ['Week 53' tax year could mean unexpected tax bills, warns LITRG | Low Incomes Tax Reform Group](#).

8. BENEFIT-ONLY PAYROLLS

There are some payrolls where the individuals are not paid any cash sums but receive benefits that currently are declared on the P11D.

- Examples of such scenarios include directors who receive only BIK, employees of charities, and those on extended unpaid sick or maternity etc leave. How will these BIK be reported and taxed?
- Where a PAYE reference exists, we assume that these taxpayers will just have the benefit / expenses processed as if a new starter.
- We assume that there will be a reporting requirement, but how will the tax be accounted for and from whom will the tax be collected?
- At what frequency will Class 1A NIC be payable? See the section below on Class 1A considerations.
- Where there is no PAYE scheme, we assume that the employer / agent will need to ask HMRC to create one.

9. THIRD PARTY BENEFITS

Similar considerations as for BIK-only employees above apply where BIK are provided by a third party directly to the employee. Where non-cash awards are provided, recipients will not necessarily currently be on the third party's payroll.

- As there will be no cash earnings from which to collect any tax due, how will the tax be accounted for?

10. TAXED AWARD SCHEMES

- Please confirm that employer and third-party taxed award schemes (TAS) are not in scope for mandatory payroll and that the TAS P11D equivalent will continue as at present.

11. 50% OVERRIDING RULE

The 50% overriding rule limits the tax that can be collected via the payroll. This rule may mean that BIK cannot be fully payrolled during the year, even with a Month 13 reconciliation. Currently it is possible to exclude an individual and/ or a BIK from payroll. We assume that this will not be available after mandation.

- Where there is insufficient cash earnings from which to collect any tax due, how will the tax be accounted for?

12. CODING ADJUSTMENTS

When an employer / agent registers to payroll benefits and expenses, HMRC will assume that the any annual value that is in the tax code can be removed, thereby increasing the value of their allowances. This is understandable. However:

- Consider the scenario where an employee has started to receive a benefit mid-year 2025/26. The employer will payroll the BIK for 2026/27 under the mandation. The 2025/26 P11D will be submitted in, say, May 2026. An underpayment for 2025/26 will be included in the code number for 2026/27 or even 2027/28.

Will HMRC's systems know not to remove such adjustments due to the mandation of payroll but also not to carry it forward further?

Employees need to be reassured that there will be no double taxation. We have heard of some employees calling HMRC to get their benefits restated in their tax codes when employers have started payroll benefits in kind. It is therefore imperative that there is sufficient time for employers to be able to communicate changes in their payroll reporting to employees to aid understanding.

13. BENEFIT VALUE

This concerns the taxable value to process on a per-pay-period basis. Please clarify the following:

- Where there is a value in the pay period, for example an asset transferred or a service provided, but the payroll department becomes aware of it after that pay period's RTI submission has been made, does the employer have to amend the earlier submission, or just the year to date figures, or can the employer prorate the value of the benefit over the course of the remainder of the tax year, just as the tax liability would be prorated if it was included in the tax code?
- If the annual value is known at the start of the tax year, is the value just the annual value divided by the pay frequency that is payrolled as a notional value?
- Where the annual value is not known, should an estimate be made and then corrected in the tax year (or via the end of year process)?
- Where the annual value changes in the tax year, as is common with medical and dental insurance premiums, can we assume that the correction is made in the tax year?

- Where the employer pays for a benefit that covers more than one tax year, please clarify whether this is taxed in the period / tax year in which paid or should be spread out on an accruals basis over the number of years covered by the benefit?

For the sake of clarity to the payroll profession:

- Will benefits need to be pro-rated in accordance with the period they relate to rather than the period when the payment is made?
- Is the liability to income tax calculated at the time the benefit is provided / available OR at the time the employer makes the payment to the provider?

14. SELF-ASSESSMENT TAX RETURNS

Clear and complete guidance on what employees should report on their tax return is required.

- Please confirm that the SA tax return will be amended to distinguish cash earnings from payrolled BIK.
- If not we would suggest adding a box to tick to indicate when the amount entered in the employment earnings per P60 field on the SA return includes BIK and, therefore, does not match the P60 cash earnings figure reported to HMRC under RTI. This tick box could then be used to stop the automatic issue of enquiry and nudge letters and save HMRC, agents and taxpayers a lot of unnecessary administration.

The addition of such a tick box would save HMRC, agents and taxpayers a lot for time due to the number of unnecessary enquiries that HMRC issues. The tick box could not only stop the issue of the letters but alert HMRC to the explanation of the discrepancy in the white space note.

We also believe that HMRC should improve the recording of the type of PAYE scheme to facilitate the introduction of payrolling of benefits in kind. We are happy to discuss this further with you.

- Will HMRC auto-populate SA returns with the pay and BiK information that has been provided to them via RTI?
- How will employees get the benefits information to complete their own returns if the P60 does not include this information? Will form P60 be amended to distinguish between cash and payrolled BIK and other payments (Reg 67(2)(f) PAYE Regs 2003) or will there be an obligation on employers to produce a separate benefit statement showing BiK liable to Class 1 or Class 1A NIC respectively?
- Where further adjustments or claims are required on the tax return post the end of year process (eg temporary workplace relief for accommodation), it would be sensible to allow adjustments to the claim to be made via the taxpayer's SA tax return rather than requiring amended FPSs in all cases. However, consideration needs to be given to how any Class 1 NIC figures could be adjusted.

15. INTERACTION WITH STUDENT LOANS

HMRC has advised that its systems will be fixed in April 2025 for tax year 2024/25 so it will calculate an expected Student Loan liability based on NI'able pay rather than taxable pay.

- Guidance is required for taxpayers as to whether the BIK should be taken into account for student loan deductions and for universal credit claims.
- If benefits liable to Class 1A will still need to be removed from the calculation, how will this be achieved?

The benefit statements that will be required to be given to employees should be designed to cover this requirement.

16. CAR BENEFITS AND FUEL CARDS

Employees who use their own car and are provided with a fuel card may see the level of benefit change from month to month depending on the fuel spend each month. Capturing each month's fuel spend and payrolling it will be much more burdensome than collating an annual spend after

the year end. The employer may not receive monthly reports from the fuel card company until several weeks post month-end.

- How does HMRC expect the fuel benefit to be payrolled?

If employees are obliged by their employers to make good for private use, the current deadline of 6 July which applies to BIK accounted for via forms P11D is normally able to be met. However, for payrolled car BIK the deadline is 1 June. The rationale for this discrepancy is unclear, but a 1 June deadline is impractical for most employers.

- We recommend that the 1 June making good deadline is changed to align with a new extended deadline for the new end of year process.

17. PSA

- Where an employer finds a particular BIK difficult to payroll, could an employer decide to pay the tax and NIC due on behalf of the employer through a PAYE Settlement Agreement?

To facilitate this, we recommend that the terms of the PSA be widened to include such cases.

18. FUTURE PAYROLLING: LOANS AND ACCOMMODATION

- What are the plans/changes envisaged to enable payrolling of loan and accommodation benefits in the future, and when will this be implemented?

19. IMPLEMENTATION DATE INCLUDING TESTING

In our letter dated 24 March 2024 to HMRC we also said that:

“The proposed implementation date of 6 April 2026 does not allow for:

- proper consideration of issues;
- consulting on solutions to those problems;
- making any necessary legislative changes;
- full testing of software by developers before release;
- testing by employers and their agents before implementation;
- training;
- the development of links with third party benefit providers; and
- the full end-to-end testing of data flows from third parties to the employer and onto any payroll bureau before filing with HMRC.

As recommended in the Carter report of March 2006 [Review of HMRC online services](#) recommendation 23, we strongly advocate running a capacity test pilot a year before implementation and deferring mandation if not successful.”

We continue to be of the view that there is not enough time for software developers to develop and fully test software with a sufficient period for employers not only to test the new software but also implement the new software and then build the links with third party benefit suppliers etc.

At the very least there needs to be a considerable period of soft landing before mandation is enforced.

Many employers will be already setting budgets for any software that has to be implemented for April 2026 and they cannot budget when they do not know the requirements.

We suggest a soft-landing of at least two years.

20. FORMS P11D

It appears that forms P11D in some form will be necessary after the mandation date for the following reasons:

- Employees impacted by the 50% rule
- Accommodation and loans

- Employees who receive only benefits-in-kind.
- We assume that forms P11D will not be required for modified schemes but also require clarity on this point.

As we have previously mentioned (e.g. our letter dated 19 December 2022 to HMRC published as [ICAEW REP 1/23](#)), the current form P11D and associated data processes is not fit for purpose .

If it is more acceptable, we would be happy with a new form – say P12D – if it fixes the issues with the current P11D and facilitated better coding adjustments. For example, it should be possible to declare non-recurring benefits, such as relocation expenses, as one-off payments so they are not carried forward in PAYE codes.

SECTION C: END OF YEAR PROCESS AND CLASS 1A NIC

1. END OF YEAR PROCESS

It has been confirmed that an end of year process/Month 13 reconciliation will be introduced. This is a welcome introduction as, amongst other factors, it will enable employers to amend the taxable values of any BiK that cannot be determined during the tax year. There are a number of open questions regarding how this process should work:

- What will the deadline be for the end of year process and what will this process look like?
- Is an adjustment via the payroll sufficient?
- What level of additional reporting to both HMRC and employees will be required? Changes made in a Month 13 reconciliation should be reported not only to HMRC but also to employees in form P60/ Benefit Statement. Both will need to be consistent so that employees will have the correct information to complete their SA returns. Shouldn't the time limits for completing the end of year adjustment, the P60/ Benefit statement be aligned? i.e the P60 and benefit statement deadline should be after the end of year deadline. See below.
- Will there be circumstances for which a balance of expenses (e.g. relocation expenses) should be carried forward to the next tax year?
- Will there be a new reference for the post end of year payment of tax and NIC in order to differentiate them from in-year payments made on the same day, to simplify accounting for liabilities and payments on HMRC's ETMP?
- Is it intended that the legislation should prevent employers using the end-of-year process as a 'P11D by payroll' option and encourage accuracy during the tax year, and if so how?

Clarity will be needed in respect of residual underpayments that are still unable to be collected from employees in the payroll in which the reconciliation is processed because of the 50% rule.

- How will the tax be collected in such cases?
- Will the tax need to be carried forward in payroll for collection in subsequent pay periods until exhausted, or collected in a subsequent year (in which case, in which year?) by way of a coding adjustment, or alternatively collected direct from the employee via self-assessment (if applicable) or the P800 process or via a simple assessment?

We envisage the following options which are not mutually exclusive:

- *Option 1: No further PAYE adjustments.*

Where the tax due is because of the 50% limit (for example), it is likely that the limit would equally apply in the following year and consequently, the tax cannot be collected via payroll. Therefore, the tax would need to be collected via self-assessment or a P800 calculation.

- *Option 2: Collection via PAYE without any change to the basis of assessment of the benefit.*

If, for example, the tax on, say, 10% of the benefit has not been collected in year, the tax is collected in the following year by the employer payroll that 10% of the benefit in the following year. This is straightforward provided that the tax and NIC rates paid by the individual remain the same. Under this option, 100% of the benefit should be reported on the SA return for the first year together with the tax collected in year 2. This is how the current legislation works in respect of claiming a credit on an SA return. Where, for example, the tax rate in year 2 has increased, currently it is only the tax that was expected to be collected that is claimed because it is usually collected by a coding adjustment. A decision would

need to be made as to whether this approach should continue or whether the taxpayer could claim more tax in year 1 if the tax rate has increased.

- *Option 3: Collection via PAYE with a change to the basis of assessment of the benefit (alternative 1).*

Taking the same example from Option 2, under this option the 10% of the benefit would become assessable in year 2. This is in some ways similar to how we tax bonuses on receipts basis currently, i.e. the cash equivalent of the benefit is for year 1 but is deemed to be assessable in year 2. This deals with, for example, cases where either the residence status changes, the workday apportionment changes and/or OWR ceases between year 1 and 2. The employee then just reports the details (both the amount of the benefit and the tax withheld) from the payroll on the SA return.

- *Option 4: Collection via PAYE with a change to the basis of assessment of the benefit (alternative 2).*

As in Option 3 but the 10% of the benefit is deemed to be income of year 2. The disadvantage of this example is that not collecting the correct amount of tax has an impact on the final tax collected because the basis of assessment of the 10% moves from year 1 to year 2. We would not recommend this approach but have included it to highlight why Option 3 has to refer to the basis of assessment of the benefit in year 1.

2. MAKING GOOD

We recommend that where it is expected that the employee will make good the payroll is operated on that basis.

The “making good” deadline, presently 6 July for BIK reported via P11D and 1 June for payrolled BIK, needs to allow sufficient time for the payroll to be amended when:

- the employee has not made good by the statutory deadline, and
- the in-year estimate assumed that the employee would have made good at least in part.

The deadline for payrolled BIK making good needs to allow for all information to be received and should be considered as part of the design of the End of Year/ Month 13 reconciliation process.

We previously recommended in our informal discussions that the deadline for closing off the year in payroll with a Month 13 reconciliation should be 6 August. This is because of delays in obtaining data which cannot be ascertained until the tax year has ended from employees and third-party BIK providers/ fuel card. This was with a view to Month 13 reconciliations being completed in July/August payrolls, with employers being obliged to provide forms P60 reflecting the Month 13 figures to employees by 6 September. However, this deadline will be too early to accommodate making good payments.

We consider therefore that the making good deadline for PBIK should be aligned with that for BIK reported via P11D, i.e. moved to 6 July. To enable employers to process all making good payments in payroll, we recommend that the Month 13 payroll should be in August/September, with employers being obliged to provide end of year data on pay and BIK to employees by 6 October.

3. CLASS 1A NIC

The legislation (and guidance and software specifications) will need to be changed to make it clear that the calculation is moving from an annual calculation based on total BIK to a per pay period calculation per employee/ BIK.

- Some employers may experience cash flow issues in year 1 whilst being required to settle the annual payment for 2045/25 and commence monthly Class 1A payments for 2026/27. HMRC will need to consider any time to pay arrangements sympathetically.
- Some employees may also experience this cash flow issue if paying tax on payrolled BIK on a monthly basis and on the balance of tax on BIKs from prior years being

collected by coding adjustments. Communication is key so that employees understand they are not being taxed on the same value twice.

- Will the Class 1A monthly payments require a separate reference number for each month in-year and for payment after the year end? A separate reference number would make the end of year reconciliation process easier.
- Will there be any form of separate end of year reporting for Class 1A? An adjustment may be required in various circumstances (e.g. change in taxable amount of a benefit).

Reporting Class 1A on a monthly basis will exacerbate the reconciliation issues employers are currently facing when using HMRC's liabilities & payments database on its enterprise tax management platform (ETMP). See ICAEW letters dated 1 March 2023 (published as [ICAEW REP 21/23](#)) and 25 November 2024 for further details.

4. END OF YEAR INDICATOR

The February 2025 Employer Bulletin contain an article entitled: "End of year reporting" which contained the following reminder:

"It is time to prepare for making your last Full Payment Submission (FPS) or Employer Payment Summary (EPS) of the year. Your last FPS or EPS of the year, up to and including 5 April 2025, needs to include an indicator that you are making the final submission. This tells us you have sent us everything you expected to send, and we can finalise our records for you and your employees. Some commercial payroll software will not let you put the indicator on an FPS. If that is the case, send your last FPS and then send an EPS with the indicator ticked. You can also send an EPS with the indicator ticked if you forgot to put the indicator on your last FPS submission for the tax year. "

We are not aware of the background to this, but it must have implications for the payrolling of benefits.

- We recommend that consideration is given to how the end of year indicator will interact with the Month 13 adjustment.

SECTION D: GLOBALLY MOBILE/ EXPATRIATE EMPLOYEES**GENERAL COMMENT**

Owing to practical issues relating to operating expat payrolls, we recommend that they are treated separately from domestic payrolls and that, at least initially, they are excluded from mandatory PBIK.

1. MODIFIED PAYROLLS**i. Appendix 5**

Appendix 5 allows a credit for foreign taxes to be claimed against PAYE. This was not fully specified at the time RTI was introduced. In view of the changes that are going to be required to the FPS specification, HMRC should take the opportunity to improve the foreign tax credit (FTC) specification.

HMRC could simplify the procedure by removing the requirement to separately report under Appendix 5 after the year end.

ii. Appendix 6

Under an Appendix 6 agreement, BIKs are already mandatorily payrolled. Changes to the agreement will be needed to cover Class 1A NIC on a real time basis.

- Will there be any other changes to the current process?

Currently, the deadline for submitting forms P11D is 31 January following the end of the tax year. We believe that there should also be a review of the provision that end of year adjustments should not be made. Ideally the modified payroll on this point should be consistent with normal payrolls. We do not see the rationale for not allowing the payroll to be amended when an individual has been discovered to be working in the UK after the year end for example.

- A March arrival for example may not be notified to payroll until say May. The employer would then correct in year the missing April payroll but why can they not amend the March payroll at the same time?

iii. Appendix 7A and 7B

HMRC recognises the difficulty of collecting the remuneration details of expatriates and therefore allows for NIC adjustments and for forms P11D(b) for these cases to be filed by 31 January following the end of the tax year and NIC Settlement Returns by 31 March.

- Such easements should continue.

iv. P11Ds

Why are P11Ds required for modified payrolls?

It seems unnecessary when as part of the agreement a tax return is required from the employee. Not requiring P11Ds would be consistent with the new approach on payrolling benefits in kind.

v. Appendix 8

Under an Appendix 8 agreement (as for Appendix 6) benefits are mandatorily payrolled and this scheme cannot be used if there is a liability to NIC.

- Are there any changes envisaged to the agreement?

2. END OF YEAR/MONTH 13 RECONCILIATION

For many globally mobile employees, the final tax liability depends on the proportion of UK workdays to total workdays, which is not known for certain until the end of the tax year.

- We would suggest that the end of year process is used in the following scenarios where apportionment applies:
 - Overseas workday relief
 - Non-residents' liabilities
 - Treaty relief calculations
 - Foreign tax credit relief

3. SECTION 690 ITEPA 2003 DETERMINATIONS

As above, a reconciliation process is required to confirm the final liability in line with the s690 direction process which allows an estimate to be processed via the payroll during the year.

Typically, Class 1 NIC is due on 100% of the income or none (i.e. if the employee is not liable to NIC) and the S690 applies to PAYE only. Class 1A NIC would only be due on the taxable amount and the Class 1A NIC due (where applicable) has previously been calculated at the end of the tax year when completing the SA return and adjusted on the P11D(b).

- Will the S690 be extended to Class 1A NIC as this will be collected on a real time basis?
- Will the end of year/month 13 reconciliation process allow for adjustment of Class 1A NIC in such cases?
- Will there be scope for a further Class 1A NIC adjustment? E.g. on completion of the SA tax return which may not be finalised until the following 31 January

4. HOST EMPLOYER RULES (S689 ITEPA 2003)

The "host employer" rules impose an obligation on an entity with a UK PAYE presence when an employee works for that entity. Presumably the obligation to payroll benefits will be imposed in a similar way to that for normal UK employers. Similarly, some non-UK employers are required to operate a payroll for NIC purposes only – again where benefits are provided, will payrolling be mandatory for such employers to deal with the Class 1A liability?

- In summary will payrolling be mandatory for:
 - Host employers?
 - NIC only payrolls?

In some cases, it may be particularly difficult to obtain details of the benefits provided overseas in time for the payroll run.

- Will there be any easements for such employers?

We would suggest that such benefits need only be reported by way of the end of year/ Month 13 adjustment.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).