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FREE GUIDE · 2026/27 · UPDATED OCTOBER 2026

# Benefits in Kind & P11Ds Explained

What counts as a benefit, how it's taxed and how to report it, for employers and company directors

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When employees or directors receive something of value from their employer on top of their salary, such as a company car, health insurance or a cheap loan, it is usually a taxable “benefit in kind”. This guide explains what counts, which benefits are tax-free, how the tax works, and what employers must report to HMRC each year, including the big change coming in April 2027.

> *“I started Zen to make finance feel calm and clear for business owners. I hope this guide answers your questions, and if anything doesn’t quite fit your situation, I’m always happy to talk it through with you.”*
>
> **Ann Williams**
> Founder, Zen Bookkeeping & Advisory

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## 01 What is a benefit in kind?

A benefit in kind (BIK) is any non-cash benefit an employee or director receives because of their job, that isn’t included in their salary. Common examples include:

### Usually taxable

- Company cars and fuel for private use
- Vans available for private use
- Private medical or dental insurance
- Interest-free or cheap loans over £10,000
- Accommodation provided by the employer
- Gym memberships and non-trivial gifts
- Personal bills paid by the company

### Usually tax-free (if the conditions are met)

- Employer pension contributions
- One mobile phone per employee
- Workplace parking
- Cycle-to-work schemes
- Eye tests and glasses for screen use
- Annual staff party up to £150 a head
- Trivial benefits up to £50 (see section 3)

The employee pays Income Tax on the value of the benefit, and the employer pays **Class 1A National Insurance** at **15%** on it.

## 02 How benefits are valued

Most benefits are valued at the cost to the employer. Some have special rules:

### Company cars

The taxable value is the car's list price multiplied by a percentage based on its $CO_2$ emissions (and, for plug-in hybrids, its electric range):

| Car type (2026/27) | BIK percentage |
|---|---|
| Fully electric (0g/km) | 4% |
| Plug-in hybrid, 1–50g/km, electric range 130+ miles | 4% |
| Plug-in hybrid, electric range 70–129 miles | 7% |
| Plug-in hybrid, electric range 40–69 miles | 10% |
| Plug-in hybrid, electric range 30–39 miles | 14% |
| Plug-in hybrid, electric range under 30 miles | 16% |
| Petrol and diesel, 51g/km upwards | 17% rising to a maximum of 37% |
| Diesel not meeting the RDE2 standard | Add 4% (still capped at 37%) |

**5%**
BIK rate for electric cars in 2027/28

**7%**
BIK rate for electric cars in 2028/29

**£29,200**
car fuel benefit multiplier for 2026/27

**Example:** an electric car with a list price of £40,000 has a taxable benefit of £1,600 (4%). A basic-rate taxpayer pays £320 in tax a year, and the employer pays £240 in Class 1A National Insurance.

### Vans

A van available for private use has a flat taxable value of **£4,170**, plus **£798** if fuel is provided for private use. Zero-emission vans have a nil van benefit. Travel between home and work isn't treated as private use if other private use is insignificant.

### Beneficial loans

If loans to an employee or director total more than **£10,000** at any point in the tax year and the interest charged is below HMRC's official rate, the difference is a taxable benefit.

**✦ Why electric cars are popular**

With a 4% BIK rate in 2026/27, an electric company car can be one of the most tax-efficient benefits available, especially through a salary sacrifice scheme. Rates rise gradually from April 2027, so it's worth planning ahead.

## 03 Trivial benefits and other exemptions

Small gifts to staff can be tax-free if **all** of these conditions are met:

- It costs **£50 or less** per employee (including VAT).
- It isn't cash or a cash voucher.
- It isn't a reward for work or performance.
- It isn't in the employee's contract.

For directors of close companies (most small owner-managed companies) and their families, trivial benefits are capped at **£300** a year in total.

Other common exemptions include the annual staff party (up to £150 a head, including VAT), homeworking expenses of up to £6 a week, and paying for health screening once a year.

**! Watch out**

If a gift costs £51, the whole amount becomes taxable, not just the £1 over the limit. And vouchers that can be exchanged for cash never qualify.

## 04 A to Z of common benefits and expenses

| Item | Usual treatment |
|---|---|
| Business mileage in your own car | Tax-free up to HMRC's approved rates (55p a mile for the first 10,000 business miles from 5 June 2026, then 25p). No P11D needed. |
| Business travel and subsistence | Tax-free when it's genuine business travel, such as a trip to a temporary workplace. |
| Christmas party or annual event | Tax-free up to £150 a head (including VAT) if open to all staff. |
| Company car | Taxable: list price × BIK percentage. |
| Company van | Taxable: £4,170 flat rate (nil for zero-emission vans), plus £798 if private fuel is provided. |
| Eye tests and glasses for screen use | Tax-free. |
| Gym membership | Taxable: cost to the employer. |
| Home broadband or phone bills paid for an employee | Usually taxable if the contract is in the employee's name. |
| Homeworking costs | Tax-free up to £6 a week without evidence. |
| Loans over £10,000 | Taxable: interest below the official rate. |
| Long-service awards | Tax-free up to £50 per year of service, for 20 years' service or more. |
| Mobile phone (one per employee) | Tax-free if the contract is with the employer. |
| Pension contributions by the employer | Tax-free (within the annual allowance). |
| Private medical insurance | Taxable: cost to the employer. |
| Relocation expenses | Tax-free up to £8,000 if the conditions are met. |
| Trivial benefits | Tax-free up to £50 each if the conditions are met. |

Since 2016, most genuine business expenses you reimburse or pay at approved rates don't need to be reported at all.

## 05 Reporting benefits: P11D and P11D(b)

Unless benefits are processed through payroll, employers must report them to HMRC after the end of each tax year:

| Form or payment | What it is | Deadline |
|---|---|---|
| P11D | A form for each employee or director showing the benefits and expenses they received | 6 July |
| P11D(b) | The employer's declaration of the total Class 1A National Insurance due | 6 July |
| Class 1A National Insurance | Payment of 15% on the total taxable benefits | 22 July (electronic) or 19 July (cheque) |
| Copies to employees | Give each employee a copy of their P11D information | 6 July |

For the 2025/26 tax year, the deadlines are 6 July 2026 and 22 July 2026. You must also file a P11D(b) if you have payrolled benefits, as Class 1A is still due on them.

### PAYE Settlement Agreements

For minor, irregular benefits you'd rather pay the tax on for your staff, such as some staff entertaining, you can agree a PAYE Settlement Agreement (PSA) with HMRC, so the items don't go on P11Ds.

**! Penalties**

HMRC can charge penalties for late or incorrect P11Ds, and interest on late Class 1A payments.

## 06 The big change: payrolling benefits from April 2027

From **6 April 2027**, employers will have to report and tax most benefits in kind through payroll in real time, instead of on P11Ds. This is known as **payrolling benefits**.

- The taxable value of each benefit is added to the employee's pay each pay period, so they pay the tax as they go.
- Most P11D forms will no longer be needed.
- Class 1A National Insurance will be reported and paid through payroll too.
- Beneficial loans and living accommodation can continue to be reported separately for now.
- You can choose to payroll most benefits now, voluntarily, by registering with HMRC before the start of the tax year.

**✦ Get ready now**

Payrolling voluntarily from April 2026 or earlier gives you time to iron out any problems before it becomes compulsory. We can set it up, check your payroll software and explain the change to your staff.

## 07 Worked example: completing a P11D

Jack is a director of his own company. During 2025/26, the company provided:

| Benefit | How it's valued | Taxable value |
|---|---|---|
| Electric company car, list price £42,000 (3% BIK rate in 2025/26) | £42,000 × 3% | £1,260 |
| Private medical insurance | Cost to the company | £1,100 |
| Gym membership | Cost to the company | £480 |
| Total taxable benefits | | £2,840 |

Jack's P11D shows these items and their values. As a higher-rate taxpayer he pays **£1,136** in Income Tax (40%), usually collected through his tax code. The company reports the total on its P11D(b) and pays Class 1A National Insurance of **£426** (15%) by 22 July 2026.

**✦ Remember**

From April 2027 these benefits will be payrolled instead, so Jack will pay the tax through his monthly salary rather than through his tax code.

## 08 Your benefits checklist

- [ ] List every benefit and expense provided to employees and directors during the tax year.
- [ ] Check which are exempt (trivial benefits, pensions, phones, cycle to work and so on).
- [ ] Value each taxable benefit correctly, especially company cars, fuel and loans.
- [ ] Decide whether to payroll benefits now or file P11Ds by 6 July.
- [ ] File P11D(b) and pay Class 1A National Insurance by 22 July.
- [ ] Give employees copies of their P11D information.
- [ ] Plan for compulsory payrolling of benefits from 6 April 2027.

**✦ Zen tip**

Directors often overlook benefits like personal expenses paid by the company or an overdrawn loan account. We review these as part of your year end, so nothing is missed.

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# How Zen can help

We value your benefits correctly, prepare and file your P11Ds and help you move to payrolling benefits ahead of April 2027.

- P11D and P11D(b) preparation and filing
- Class 1A National Insurance calculations
- Payrolling benefits set-up
- Company car and EV advice
- Director's loan account reviews
- Payroll for employers of all sizes

## Book a free, no-obligation call

Tell us about your business and we'll explain how we can help, with a tailored fixed-fee quote for just the services you need.


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