

PBIK Series: Medical Benefits

UK Knowledge Centre & UK PALS

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sdworx UK PALS

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Disclaimer: This guide does not constitute formal tax or legal advice and is not intended or considered to be a substitute for professional advice. It is based on signposted HMRC information and the application by a user within the SD Worx pay solution. The examples are illustrative only. It is not intended to be relied upon in any specific context or as a substitute for seeking tax or legal advice on a specific circumstance, as each case may be different.

*This guide aligns with the HMRC requirements for mandatory payrolling of Medical Benefits from 6th April 2027 which applies from the 2027/2028 tax year.

Introduction

The SD Worx UK payroll service is one of the most flexible, capable of dealing with the sometimes highly complex areas such as the Payrolling of Benefits In Kind (PBIK) even before voluntary payrolling was introduced by HMRC in April 2016.

Operating these arrangements does not form part of a standard payroll service and requires expertise support.

The PBIK service may be subject to additional charges to cover setup and ongoing service covering extra activity and complex maintenance requirements.

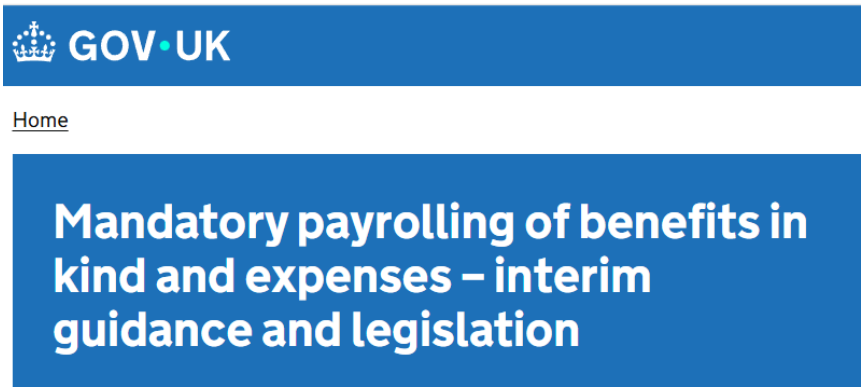
SD Worx also offers a benefits calculation service to aid employers in calculating the amount to be payrolled – this service attracts an associated charge for each calculation performed and the interface with payroll to:

1. Apply the benefit amount to the pay allowance element associated with the benefit in kind
2. Request and apply the reporting information from the employer and their benefit provider for reporting via the payroll to HMRC

The SD Worx Pay service incorporates thought leadership value add capabilities for Payrolling Benefits In Kind (PBIK) as part of the Payroll Advisory Legislation Services (UK PALS).

The following information is based on requirements outlined and published by HMRC on GOV.UK *(indicated in italics and subject to change)* along with SD Worx pay data items applicable and associated SD Worx Pay user instructions (non-italics).

The HMRC GOV.UK information on payrolling (subject to further change) can be located at: https://www.gov.uk/guidance/draft-guidance-and-legislation-to-aid-preparation-for-reporting-benefits-in-kind-in-real-time/the-phased-introduction-of-mandatory-payrolling-for-benefits-in-kind



SD Worx UK Knowledge pages on payrolling can be found at payhr.uk: https://sdworx-payhr.co.uk/sdworx-pay-payrolling-benefits-in-kind-from-april-2027/

SD Worx Payroll Allowance Element for medical benefits

Where an employer provides employees with medical benefits, then from 6th April 2027, that employer is required to payroll the benefit for the assessment of Income Tax and BIK Class 1A National Insurance, and separately report the total of all medical benefit cost to the employer (the new policy cost related to the individual) to HMRC via the Real Time Information (RTI) Full Payment Submission (FPS) via payroll.

There is an exception for Globally Mobile Employees who the employer may retain a P11D reporting option.

Medical Benefit pay element configurations (allowances)

Employers will require a pay element for the various medical benefits they offer. Potentially a separate pay element for each type of medical provider, and dental insurance provider etc.

The SD Worx pay solution will need to be told which allowance and which BIK category is to be applied:

- I – Medical benefit

The SD Worx PALS team and the PBIK service team usually recommend for ease of use and identification that allowances in the 800+ range are utilised for payrolling benefits, however, other allowances can be used.

The settings of the new or amended pay element would be:

Allowance?	Benefits type	Payable	Benefit Category	Tax Status	NIC Status
NNM	Medical	No	I	YES	BIK Class 1A

Where NNM is the numeric of the chosen allowances mapped to these benefits

Salary Sacrifice schemes pay element configuration (allowances)

The section only applies where medical benefits are provided as part of salary sacrifice or other Optional Remuneration Arrangement (OpRA) where an amount is to be reduced from the employees contractual pay.

Salary Sacrifice schemes which provide medical benefits to employees are treated by HMRC and for tax purposes as benefit kind medical benefits and the sacrifice is not a contribution towards the cost, but a reduction in contractual earnings.

The sacrifice required a separate payroll allowance element with a negative value (deductions should not be used as the only pre-tax deductiosn relate to: Pensions; Charity Giving; and Share Incentive Plans). Salary Sacrifice are not deductions from pay but a reduction of contractual earnings - the employee never contractually earned that money.

In relation to medical benefit salary sacrifice scheme, another pay allowance element is required to apply the negative sacrifice amount to reduce the amount of Tax and Class 1 national insurance:

Allowance?	Allowance tyoe	Payable	Benefit Category	Tax Status	NIC Status
SSM	Medical Salary Sacrifice	Yes to effect the salary reduction	None this is not a benefit	YES to effect the tax reduction	YES To effect the Class 1 NIC reduction

Where SSM is the numeric of the chosen allowance mapped for the sacrifice, any amount applied would generally be negative.

Please note that for those on parental leave such as Maternity, the sacrifice should not be applied to Statutory Maternity Pay as reduction, however, the individual is still in receipt of the taxable benefit and retains the right to the medical benefit(s).

Entering the payroll data – effecting the payrolling

The latest combined cost to the employer, the last annual renwal price, and any associated medical benefit applicable to be taxed must be entered each time they are changed (generally when the benefit starts or is changed. That would include mid year change, starters and adjustments potentially for leavers etc.

Depending on your allowance entry type, enter against the relevant allowance the period amount if applicable, or if using the annual amounts for allowances, the adjusted annual amount to effect the correct period value relating to that tax year going forward for the duration of the benefit coverage

There would be entered against the Allowance Number as a new permanent amount and adjusted at relevant change points.

This value will need reviewed and update when there is a change such as a policy renewal point which results in a different benefit value than the original notified.

The renewal cost also needs to be notified to HMRC, these values could be a combination of multiple medical benefits (medical and dental) combined.

The SD Worx pay solution will calculate and deduct the relevant Income Tax (subject to the 50% statutory limit) and BIK Class 1A liability and will report within the FPS financial fields for medical benefits.

Medical benefit data reporting to HMRC

In addition to the payrolling of the actual benefit charge, HMRC also require separate additional reporting information of the combined medical benefit cost to the employer, this reporting is not tied to a tax year but a combination the latest known annual premium costs.

This cost amount value reported may be different to the benefit allowances values which are being operated for the collection of tax and BIK Class 1A National Insurance in a particular tax year as the value may include proportions from a prior or future tax year, and may have been annualised to derive the correct period value.

In alignment with the HMRC FPS requirments, SD Worx PBIK & Pay services allows for the reporting of the employer cost, the reporting of the latest known renewal amount. Please note that this reporting is a combines value of all medical benefits an employee may receive.

Renewal Cost to the employer or Amount Foregone by the employee for Private Medical benefit	**E179**

Sending medical benefit cost data to HMRC: payrolling medcial benefits

Overview

For tax years prior to 2027/2028, employers were required to registered to payroll employees taxable benefits and expenses and send the taxable amounts to HM Revenue and Customs (HMRC), using a Full Payment Submission (FPS).

From 6th April 2027, the HMRC have added separate benefit reporting values (these are maintained automatically by SD Worx) and 1 new reporting value in relation to the combined employer costs for providing the benefit(s) to the employee.

SD Worx Pay offers formal Payrolling of Benefit In Kind (PBIK) and since 6th April 2016 it has also been possible to payroll Medical Benefits.

Find out what information to send

The list below shows what information is needed...(and the associated SDW Data Item)
Medical Benefit data:

- Renewa Cost or Amount Foregone by the employee for Private Medical beenfit to be payrolled (E179)

Completing the fields

The headings below show you what information to submit in the first FPS that includes payrolled tax.

Medical benefit related data

Renewal Cost to the employer or Amount Foregone by the employee for Private Medical benefit	**E179**

Renewal Cost or amount Foregone (E179)

Enter the total of the latest known medical benefits combined costs for the individual employee. Payments for private use or amounts *'made good'* aren't taken into account with this reported amount.

If an individual had two medical benefits, then this amount would be the combined latest known renewal amounts of both.

SD Worx Payroll Data Item Codes

The following Pay Data Items relate to the reporting of Medical Benefits:

- E179 Medical Benefits – Renewal Cost or amount foregone 1 - 11 Numeric

This Data Item is available for use in User Defined screens / panels and user defined results and reports.

Example entry of Medical Benefit details

The following is to illustrate (the values are illustrative only and not based on actual benefit calculations):

- Adam Adamson
- Medical benefit to be taxed £1,200 (for example allowance 801)
- Dental benefit to be taxed £600 (for example allowance 802)
- Combined renewal cost to the employer £1,800

Example 1 - Applying full year benefit amounts for April 2027 (or a new annual period)

The Following illustrates an example of the data where annual amounts are entered for the start of employment where the amount is for a full year, or a new policy year that aligns usng annual amounts:

Data entered	The FPS reports
8010 120000 This will apply £100 per month	This amount is divided by 12 and is subject to tax and BIK Class 1A and reported within the relevant medical benefit amount payrolled this time and added for year to date
8020 60000 This will apply £50 per month	This amount is divided by 12 and is subject to tax and BIK Class 1A and reporting within the relevant medical benefit amount payrolled this time and added for year to date
E179 180000	£1,800

For payrolls that operate periodic allowance amounts, then for the allowances apply the periodic allowance amount of the benefit. So in the example above the entries for monthly would be:

- 8010 10000 (to apply £100 per period month)
- 8020 5000 (to apply £50 per period month)
- E179 180000 (as this amount continues to be the renewal cost to the employer)

And for a weekly payroll the entries would be:

- 8010 2308 (to apply £23.08 per period week)
- 8020 11.54 (to apply £11.54 per period week)
- E179 180000 (as this amount continues to be the combined annual renewal cost to the employer)

Example 2 – An employee leaves and the benefit ends

If the employee was leaving, then the amount being payrolled may require adjustment for pro-rating the benefit charge. So if the final amount on leaving was an added £75 and £35 for the period the following would be applied..

Data entered	The FPS reports
8015 7500 This will apply £75 in that month as an override	This amount is subject to tax and BIK Class 1A and reported within the relevant medical benefit amount payrolled this time and added to the year to date reported value
8025 3500 This will apply £35 per month	This amount is subject to tax and BIK Class 1A and reporting within the relevant medical benefit amount payrolled this time

	and added to the year to date reported value
No change is made to the data item E179	The original renewal amount is reported

Example 3 – Different benefit renewal points

The following example is where the medical and dental renewal points do not align but apply from different points of the year.

So Medical was £1,200 but is increating to £1,300 from 1st December
And Dental was £600 but is increasing to £650 from 1st January

Data entered for December payroll		The FPS reports
8010 130000		1/12th of this amount is now subject to tax and BIK Class 1A moving forward
E179 190000		£1,900 is reported to HMRC The cost to the employer is no increased so this value reflects the new £1,300 plus the original £600 for Dental

Data entered for January payroll	The FPS reports
8020 65000	1/12th of this amount is now subject to tax and BIK Class 1A moving forward
E179 195000	The cost to the employer is now increased so this value reflects the existing £1,300 for medical plus the new £650 for Dental

Example 4 – New employee with only part year benefit and annual renewal

For a new employee who has an initial part year benefit charge that joined on 1st September may have a pro-rata cost amount of £300 until the next renewal in December for medical, and £200 until the next renwal in January for medical. Where allowances use annual amounts, the monthly value applicable may need to be multiple by 12 – so £300 / 3 months * 12 months = £1,200 and £200 / 4 months * 12 months = £600:

Data entered	The FPS reports
8010 120000 This will apply £100 per month for the 3 months	This amount is subject to tax and BIK Class 1A and reported within the relevant medical benefit amount payrolled
8020 60000 This will apply £50 per month for the 4 months	This amount is subject to tax and BIK Class 1A and reporting within the relevant medical benefit amount payrolled
E179 50000	£500 as this is the current cost for the pro-rated length of the benefits term

Then in December the amounts are adjusted to reflect the increased medical annual benefit amounts:

Data entered for December payroll	The FPS reports
8010 130000	1/12th of this amount is now subject to tax and BIK Class 1A moving forward
E179 150000	£1,500 is reported to HMRC The cost to the employer is no increased so this value reflects the new £1,300 plus the original £200 for Dental

And in January the futher adjustment take place to reflect the increased Dental annual benefit amounts:

Data entered for January payroll	The FPS reports
8020 65000	1/12th of this amount is now subject to tax and BIK Class 1A moving forward
E179 195000	The cost to the employer is now increased so this value reflects the existing £1,300 for medical plus the new £650 for Dental

Yes, this process is complex to understand, however, it aligns with the HMRC requirements for operating medical benefit payrolling with the introduction of the new mandatory payrolling medical benefit cost item from April 2026.

Data Reporting

Medical data is available for view, extraction, and reporting in several ways. Also by referencing to allowance reporting for the associated medical benefit allowance.

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