

Autumn 2026

Higher and Further Education Briefing

HaysMac

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Welcome



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Welcome to our Autumn 2026 edition of HaysMac's Higher and Further Education Briefing.

The financial, regulatory and governance landscape continues to evolve at pace. Alongside ongoing pressures around financial sustainability, institutions are now preparing for significant changes to financial reporting, taxation and governance, while also navigating new opportunities and risks arising from technology and international growth.

The implementation of the new SORP is now very much a live issue rather than a future consideration. In our opening article, I explore the revised income recognition requirements and what institutions should be doing now to assess contracts, document judgements and prepare for their first reporting periods under the new framework.

Employment taxes are also set for major change. Nick Bustin, Employment Tax Director, considers HMRC's move to mandatory payrolling of benefits in kind and explains why institutions should begin reviewing their payroll processes and employee communications well ahead of the 2027 implementation.

Phil Salmon, Partner, examines several important VAT developments affecting the sector, from proposed changes to VAT reporting and payment processes through to electronic invoicing and reforms to the Capital Goods Scheme

Staying with VAT, Charlotte Wain, Senior Manager, explores the often overlooked challenges of international VAT compliance and why institutions expanding overseas should ensure VAT considerations form part of their strategic planning from the outset

Technology governance is climbing rapidly up board agendas. In our fifth article, Rakesh Vaitha, Director, looks at AI governance and the questions boards and audit committees should be asking to ensure artificial intelligence is being used responsibly.

Financial reporting continues to require significant judgement. Georgia Piper, Senior Manager, focuses on accounting estimates, highlighting why the process behind the number is often just as important as the figure itself.

With many institutions reviewing their estates to support financial resilience, tax considerations remain highly relevant. Alice Palmer, Senior Manager, explores how universities can maximise the value of surplus land while avoiding unexpected tax consequences when entering into development, promotion or overage arrangements.

Financial sustainability remains firmly in the spotlight across the sector. In our penultimate article, Paul Metcalfe, Senior Manager, discusses the importance of looking beyond headline surpluses, deficits and net asset positions to gain a fuller understanding of an institution's long-term financial resilience.

Finally, Stephen Patey, Director considers one of the most significant Budget announcements for the sector: the reform of the VAT reverse charge rules for overseas services. While the changes may create additional costs for some institutions, they may also present opportunities for others.

We hope this briefing provides useful insights for your institution. If you'd like to explore any of the issues further, please contact me, the article author, or your usual HaysMac advisor.

What do the new SORP income recognition rules mean for institutions?

By now, institutions will be familiar with the 2026 Further and Higher Education SORP and the changes it brings. For most universities and colleges with a 31 July year-end, 2026/27 is the first financial year under the new requirements.

This is no longer a future implementation exercise. Institutions are already accounting for income in the first reporting period affected by the changes.

While lease accounting is likely to attract much of the attention, the revised income-recognition requirements also deserve careful consideration. Institutions will need to look more closely at their contracts, understand what they have promised to deliver and establish when control of the relevant goods or services passes to the customer.

For many familiar income streams, the accounting outcome may remain broadly unchanged. However, the analysis supporting that outcome will need to be more structured, and some complex arrangements could see changes to the timing or presentation of income.

Start with the type of income

The first step is to establish whether an arrangement is a contract with a customer, a government grant or another non-exchange transaction. This determines which section of the SORP applies and how income should be recognised.

Non-exchange transactions arise where an institution receives value without directly providing approximately equal value in return. Examples include donations, endowments, legacies and grants from private or charitable organisations.

Income is recognised when the institution becomes entitled to it, provided its value can be measured reliably and there are no outstanding performance-related conditions. Where entitlement depends on meeting such a condition, income is recognised when the condition is satisfied. Cash received beforehand is recorded as a liability.

Institutions should distinguish genuine performance-related conditions from restrictions or administrative requirements. For example, a requirement to report how funding has been spent does not automatically mean recognition should be deferred. The key question is whether the outstanding requirement affects the institution's entitlement to the income.

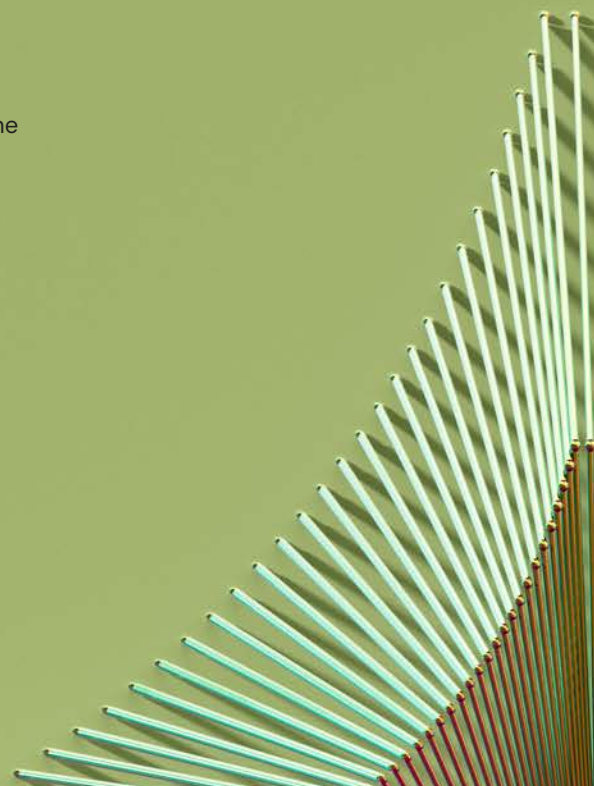
Government grants are dealt with separately under Section 17. Institutions can choose between the accrual and performance models, applying their chosen policy consistently to the relevant class of grant. Under the accrual model, income is recognised systematically over the periods in which related costs are recognised. Under the performance model, it is recognised as the relevant conditions are satisfied. Capital grants relating to land must use the performance model.

Applying the five-step model

Income from contracts with customers is assessed using a revised five-step model:

1. Identify the contract with the customer.
2. Identify the performance obligations.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognise income when, or as, each obligation is satisfied.

Institutions first need to establish that an enforceable contract exists, creating rights and obligations between the parties. They must then identify the promised goods or services and decide whether these are distinct.

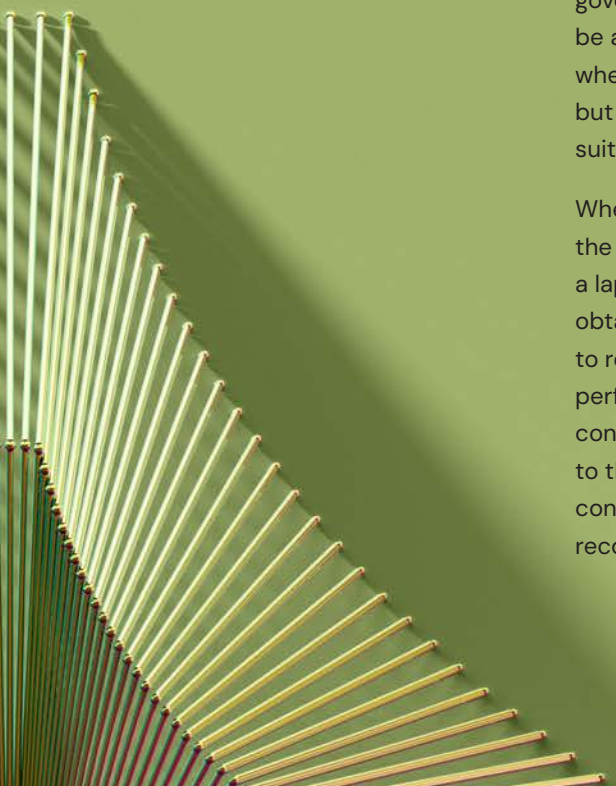


For example, teaching, assessment, library access and routine student support may form one integrated educational service rather than separate performance obligations. However, a tuition agreement that also includes equipment transferred to a student could contain two distinct obligations.

Where a contract contains multiple performance obligations, the transaction price must be allocated between them using their relative stand-alone selling prices. The amounts separately listed or invoiced will not necessarily determine that allocation.

Income is recognised when control passes to the customer. This may happen over time or at a specific point. Where an obligation is satisfied over time, institutions must select a measure of progress that faithfully reflects delivery. This could be based on outputs, such as milestones and deliverables, or inputs, such as costs incurred, labour hours or time elapsed.

The method should reflect how the goods or services are transferred to the customer, rather than simply following the timing of invoices, cash receipts or expenditure.



Variable consideration, including discounts, refunds and milestone payments, also needs to be considered. Institutions must estimate the amount they expect to receive, subject to the constraint on recognising amounts that could subsequently reverse. This assessment should be revisited at each reporting date.

What does this mean in practice?

Tuition income

For a typical annual tuition arrangement, the accounting outcome may not change significantly. Tuition and associated academic services will generally represent one integrated performance obligation, or a series of substantially similar services accounted for as a single obligation. Income will normally be recognised over the period in which those services are delivered.

However, institutions should document why the services have been treated this way and why the chosen recognition pattern reflects delivery.

Student withdrawals also need consideration. Institutions should establish how much of the service has been transferred by the withdrawal date and review the contractual terms governing refunds. Time elapsed may be an appropriate measure of progress where services are delivered evenly, but should not be assumed to be suitable in every case.

Where tuition includes other benefits, the treatment may differ. For example, a laptop transferred to a student who obtains control of it without having to return it may represent a separate performance obligation. Part of the contract price would be allocated to the laptop and recognised when control transfers, with the remainder recognised as tuition is delivered.

Commercial research contracts

Commercial research contracts are likely to require closer attention. They often include several deliverables, such as research activity, reports, datasets, workshops and dissemination events. Institutions should not automatically assume that the entire contract represents one stream of income recognised by reference to expenditure incurred.

The key is whether the promised activities form one integrated service or several distinct performance obligations. A research service may qualify for recognition over time, while a separately identifiable report or workshop may only be recognised when delivered.

Institutions should also revisit how they measure progress. Recognising income by reference to costs incurred may remain appropriate where expenditure faithfully reflects the services transferred. However, applying one cost-based percentage across an entire contract may not be suitable where it contains several distinct obligations.

Milestone payments, completion payments and amounts linked to specific outcomes also need to be assessed when determining the transaction price. They should not be recognised simply because the institution expects to achieve the relevant milestone.

Where should institutions focus their attention?

The greatest challenges are likely to arise where contractual arrangements or payment terms are more complex. Particular attention should be given to:

- Multi-party arrangements: Apprenticeships, research collaborations and international partnerships may involve several organisations. Institutions need to establish who the customer is and who is responsible for delivering the services. The organisation making the payment is not necessarily the customer.
- Contracts with multiple deliverables: Research, consultancy and collaborative provision may include several activities. Institutions must decide whether these form one integrated service or separate performance obligations.
- Variable payments: Where payments depend on learner completion, milestones, performance targets or successful outcomes, institutions must assess how much can be included in the transaction price and update that assessment at each reporting date.
- Services delivered over time: Institutions must establish whether the criteria for over-time recognition are met and select an appropriate measure of progress. Costs, time elapsed and outputs may all be suitable, depending on the arrangement.
- Third-party delivery: Where another organisation provides the goods or services, institutions should assess whether they are acting as principal or agent. If the institution controls the service before it transfers to the customer, it will generally recognise income gross. If it simply arranges for another party to provide the service, it may recognise only its fee or commission.

These features do not automatically mean existing accounting treatments need to change. They do highlight where more detailed contract assessments and supporting documentation are likely to be needed.

Payments to students

Bursaries, scholarships and other student payments also need consideration. Where a payment represents consideration payable to a student who is the customer, it is generally treated as a reduction in the transaction price unless the institution receives a distinct good or service in return.

A hardship payment made independently of the tuition contract may instead be a separate expense. Where an award is funded by a third party, institutions should consider the substance of the arrangements with both the student and the funding organisation, including whether there are two separate transactions.

What should institutions do now?

With the new SORP in effect, institutions should move beyond high-level impact assessments and focus on how the requirements apply to their actual income streams.

The immediate priority is to map material income streams and identify the contracts and funding agreements that underpin them. There is no need to review every individual transaction. Similar arrangements can be grouped, allowing attention to focus on material, unusual or judgemental contracts.

For each significant income stream, institutions should document who the customer is, what goods or services have been promised, how the transaction price has been determined and when income should be recognised.

They should also check whether existing finance systems can capture the information needed to measure progress, account for variable consideration and monitor contract balances.

Get reporting ready

The transition assessment should be completed and documented, including any opening adjustments required at 1 August 2026 and the information needed for the first-year disclosures. Significant judgements should be discussed with auditors early rather than left until the 2026/27 year-end process.

The new requirements do not mean every income stream will change. For many institutions, routine tuition and grant income may continue to produce familiar accounting outcomes. But familiar outcomes should not be confused with a familiar process.

The biggest risk? Assuming existing accounting policies remain appropriate without carrying out and documenting the necessary assessment. A focused review of material income streams, starting with more complex or judgemental arrangements, will help institutions apply their revised policies throughout 2026/27 and support the judgements reflected in their first accounts prepared under the new SORP.



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Expanding overseas? Don’t overlook international VAT

For many higher education institutions, international expansion represents an exciting opportunity to extend their reach, attract students from new markets and develop global partnerships. Whether establishing an overseas campus or branch, delivering transnational education (TNE) programmes, partnering with international universities, developing research collaborations or providing executive education and professional development overseas, an international presence can help universities broaden their impact, diversify income streams and strengthen their global reputation.

International activity is now a core part of institutional strategy and institutions are increasingly engaging across multiple jurisdictions. While these activities create significant opportunities, they can also introduce complex VAT obligations that are often overlooked during the planning stages.

When expanding overseas, institutions understandably focus on academic strategy, student recruitment, governance and operational delivery. Yet VAT can quickly become a significant financial and compliance risk if it isn't considered from the outset. Understanding the VAT implications of overseas activities is increasingly important as tax authorities become more sophisticated and international compliance requirements continue to evolve.

A common misconception is that VAT treatment overseas will broadly mirror the UK position. In reality, every jurisdiction has its own rules, exemptions and registration requirements. Activities that may be exempt from VAT in the UK, such as certain supplies of education, vocational training or related services, may be fully taxable elsewhere. Similarly, countries apply different registration thresholds, filing frequencies and compliance obligations. There is no 'one size fits all' approach.

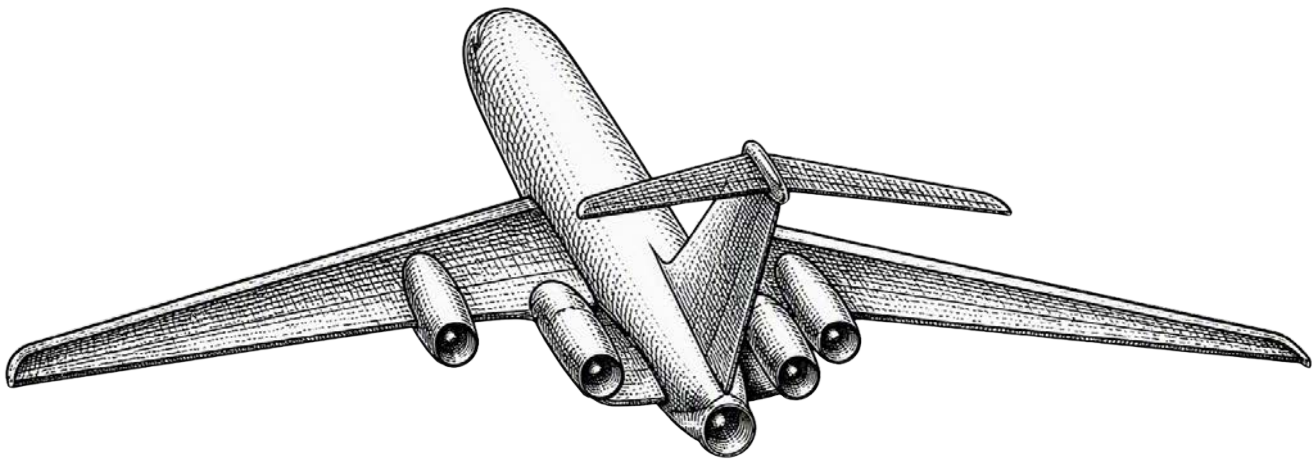
This becomes particularly relevant when a university begins delivering teaching, research or commercial activities overseas, whether through an overseas campus, a partner institution or a transnational education arrangement.

Tuition fees, professional training courses, executive education, online learning programmes, conferences, examinations, assessment services and the licensing of educational content can all create local VAT obligations. The VAT treatment will depend on the nature of the supply, the location of the student or customer, the way the service is delivered and the local tax rules. As TNE activity continues to grow, many universities are finding that the VAT implications of these arrangements can be very different from those that apply to their UK operations.

In some cases, an institution may need to register for VAT before delivering its first course or hosting an event. In others, a fiscal representative may be required, local invoicing rules may apply or regular VAT returns may need to be submitted. What appears to be a straightforward decision to establish an overseas teaching presence can quickly become a complex tax and compliance exercise.

For finance directors, finance teams and institutional leadership, the questions are often practical rather than technical. Does the institution need to register for VAT overseas? Are tuition fees and other educational services exempt or taxable locally? Can local VAT incurred on campus facilities, accommodation, marketing expenses and professional fees be recovered? Should invoices be raised by the overseas branch or the UK institution? What local support is needed to meet ongoing compliance obligations?

For example, a university establishing a teaching partnership in Asia, operating a branch campus in the Gulf region or delivering executive education programmes overseas may be required to register for VAT locally, account for tax on programme fees and comply with local invoicing and reporting requirements. These obligations can arise much earlier than institutions expect. These considerations can have a direct impact on student fees, programme pricing, operating budgets and the financial viability of international expansion. Getting the answers right early can help institutions avoid unexpected costs and make more informed decisions about their international activities.



The challenge can be even greater for institutions with a mixture of taxable and exempt activities. Most universities operate under partial exemption arrangements, meaning the recovery of VAT on expenditure is often restricted. International activity can further complicate this position, particularly where costs support a mixture of educational, research and commercial activities delivered across multiple jurisdictions.

For example, expenditure on academic staff, IT systems, digital learning platforms, campus facilities and professional services may support activities in both the UK and overseas. Determining where VAT can be recovered, and how costs should be allocated, requires careful consideration. Without appropriate planning, VAT can become an irrecoverable cost, placing additional pressure on already stretched institutional budgets.

At the same time, the wider VAT landscape is changing rapidly. Around the world, tax authorities are increasingly moving towards digital reporting, real-time submission requirements and electronic invoicing. VAT is no longer simply something that can be reviewed at the end of a reporting period. Instead, institutions are expected to capture accurate data at source and demonstrate robust processes throughout the transaction lifecycle.

This shift means VAT needs to be considered much earlier in institutional decision-making, from finance systems and student management platforms to data capture, international partnerships and operating models. Institutions planning to expand overseas should ensure that their systems and processes can accommodate the different VAT requirements of each jurisdiction in which they operate.

Within Europe, the introduction of the VAT in the Digital Age ('ViDA') reforms highlights the direction of travel. The reforms will expand digital reporting requirements, increase the use of e-invoicing and broaden certain simplification mechanisms, such as the One Stop Shop regimes. While implementation will be phased over several years, the message is clear: tax authorities expect greater transparency, better data and more immediate reporting.

For universities operating overseas campuses, delivering TNE programmes within the EU or providing digital learning services to students across multiple countries, these developments will further increase the importance of robust VAT governance, accurate data and consistent reporting processes.

The good news is that international VAT doesn't need to be a barrier to growth. Institutions that engage with VAT proactively are better positioned to expand confidently, protect their financial resources and avoid unexpected compliance costs.

By considering VAT implications early in the planning process, universities can avoid unexpected costs, meet local compliance requirements and expand overseas with greater confidence, allowing them to focus on delivering high-quality education and creating opportunities for students around the world.

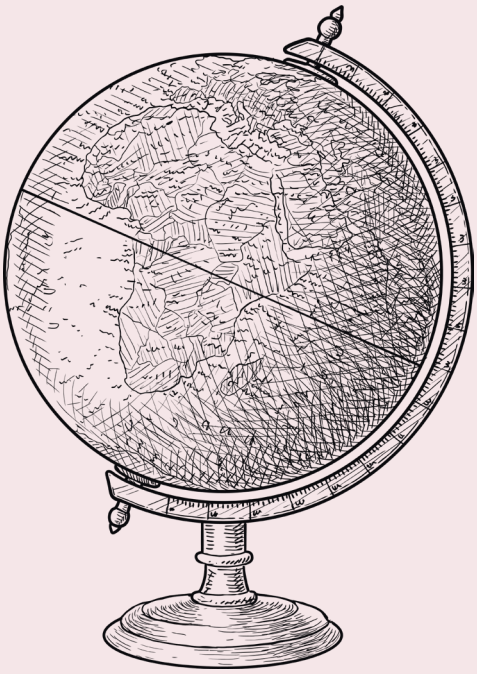
The key takeaway is simple. International VAT shouldn't be viewed as a back-office compliance matter. It is a strategic consideration that needs to sit alongside international growth, academic strategy, governance and financial sustainability.

As universities continue to expand their global footprint and attract students from around the world, ensuring VAT has a seat at the table from the beginning can help turn complexity into confidence and support sustainable, long-term growth.

Expanding overseas? Make sure VAT is part of the plan. Contact HaysMac's VAT team to find out how we can help.



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AI Governance: The next challenge for Boards and Audit Committees

Artificial intelligence is rapidly becoming embedded within day-to-day business operations. Within higher and further education institutions, AI is already being used across a wide range of activities, from supporting teaching and learning, student recruitment and admissions, through to research administration, finance, HR and student support services. In many cases, AI adoption is occurring organically, with staff and students experimenting with tools independently alongside institution-led initiatives.

As adoption increases, so does the risk profile.

Many organisations are still at an early stage of understanding where AI is being used, who is accountable for it and whether appropriate controls are in place. Whilst considerable focus has been placed on acceptable use policies, these arrangements alone are unlikely to provide sufficient oversight as AI becomes more integrated into business-critical processes.

The challenge facing boards is therefore no longer whether AI should be permitted within the organisation. The challenge is ensuring that its use is governed appropriately, the risks are understood and management can demonstrate that effective controls are operating.

Why AI risk is different

Traditional technology systems generally perform predefined tasks within agreed parameters. AI introduces a different set of considerations.

Increasingly sophisticated AI tools can analyse information, generate content, make recommendations and, in some cases, take actions across connected systems. As organisations explore the use of AI agents and automated decision-making tools, the associated risks extend beyond inaccurate outputs and begin to encompass operational, financial, cyber security, regulatory and reputational risks.

For universities and colleges, these risks can be particularly complex. AI may influence decisions relating to student support, admissions processes, widening participation initiatives, research activity or student communications. The use of AI in these areas raises important questions around fairness, transparency, data privacy and accountability.

Recent industry incidents have highlighted concerns relating to data exposure, unauthorised access to systems and unexpected system behaviour. Whether or not organisations are directly deploying advanced AI agents today, these developments demonstrate the speed at which the technology is evolving and the importance of maintaining effective oversight.

From a risk management perspective, the key question becomes: Does the board have confidence that AI is operating within defined parameters and that appropriate safeguards exist where things go wrong?



AI Governance is more than an AI policy

One of the most common observations emerging across organisations is the belief that an AI policy equates to AI governance. Whilst policies provide an important foundation, effective governance requires considerably more than guidance for employees on acceptable use.

Institutions should be able to demonstrate:

- Clear accountability for AI related decisions.
- An understanding of where AI is deployed across the Institution.
- A process for assessing risks before implementation.
- Appropriate controls over data, security and access permissions.
- Human oversight of AI-supported decisions.
- Ongoing monitoring and periodic independent assurance.

For example, an institution may have approved the use of AI-enabled student engagement tools, automated chatbot services for prospective students, or AI functionality embedded within learning platforms. Effective governance requires oversight of these applications, how decisions are made and whether appropriate safeguards exist to protect students, staff and institutional data.

Key areas for board oversight

Boards and audit committees should seek assurance over several key areas:

1. **AI Inventory:** Many institutions cannot currently provide a complete picture of where AI is being used. This may include AI-enabled functionality embedded within virtual learning environments, student recruitment systems, CRM platforms, library services, research tools and productivity software, as well as standalone AI tools adopted independently by staff and students. Without visibility, meaningful governance becomes difficult.
2. **Data protection and confidentiality:** AI tools often rely on large volumes of data. Institutions should understand what information is being processed, where it is stored and whether appropriate safeguards exist to protect confidential or personal information. Particular consideration should be given to student records, assessment information, wellbeing data, research data and commercially sensitive information relating to funding, partnerships and intellectual property
3. **Cybersecurity and access controls:** As AI capabilities become more integrated with organisational systems, access management becomes increasingly important. Questions should include:
    - What systems can the AI access?
    - What decisions can it make?
    - What actions can it perform?
    - Are permissions proportionate and regularly reviewed?
4. **Human oversight:** Management should be able to explain how human judgment remains involved in key decisions. This is particularly important where outputs may influence customers, employees, financial decisions or regulatory compliance. Within the education sector, this may extend to decisions affecting prospective students, current learners, academic progression, student support interventions or research activities. Institutions should be clear about where human review is required and where AI-generated outputs should never be relied upon without additional scrutiny
5. **Monitoring and assurance:** Governance arrangements should extend beyond implementation. Regular monitoring, management reporting and independent assurance activities can help identify emerging risks and provide confidence that controls remain effective as AI use evolves.



Questions board and audit committees should be asking

When considering the AI governance arrangements, board and audit committee members should ask the following questions:

- Does management know where AI is being used across the institution?
- Has AI usage been risk assessed?
- Are roles and responsibilities clearly defined?
- What controls exist over data shared with AI platforms?
- How are AI suppliers assessed and monitored?
- How are AI-related incidents identified and escalated?
- Is there evidence of ongoing monitoring and review?
- Has independent assurance been undertaken over AI governance arrangements?

The answers to these questions often provide a useful indication of the maturity of the institution's governance framework.

Conclusion

AI presents significant opportunities for institutions, but it also introduces a range of risks that require active oversight. For higher and further education providers, the challenge is often compounded by the scale and diversity of AI use across academic departments, professional services teams and the student community. Governance frameworks therefore need to provide oversight without restricting innovation and the potential benefits AI can offer to teaching, research and operational effectiveness.

From a board, management and risk management perspective, the objective should not be to slow innovation or prevent adoption. Instead, institutions should focus on establishing clear accountability, proportionate governance arrangements and effective controls that enable AI to be used safely and responsibly.

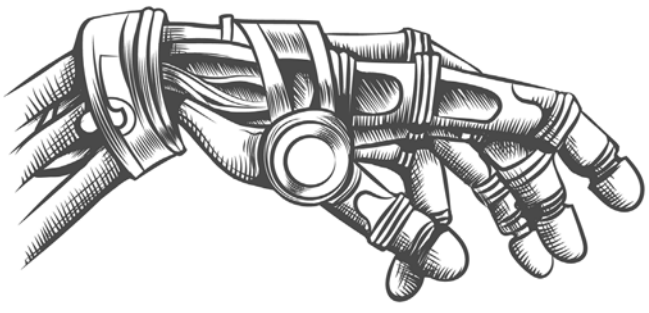
Ultimately, boards should be able to answer three fundamental questions:

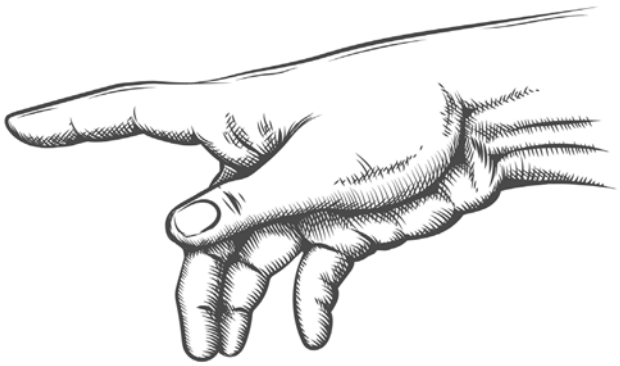
- Where are we using AI?
- What are the key risks?
- How does the board know those risks are being managed effectively?

If management cannot answer those questions with confidence, AI governance is unlikely to be sufficiently mature.



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Accounting estimates: Why the number is only part of the story

Many of the most significant numbers in an institution's financial statements are not simply extracted from the accounting system. Property valuations, pension obligations, provisions, impairment assessments and useful economic lives of assets all require judgement.

In each case, management is trying to put a number on an outcome that is inherently uncertain.

That does not make the number unreliable. But it does mean that preparing and auditing the financial statements involves something more important than checking the arithmetic: understanding how the estimate was made, what assumptions underpin it, and whether those assumptions remain reasonable.

For universities and colleges, this can be particularly important where estates are substantial, pension arrangements complex or financial pressures have changed the assumptions on which previous estimates were based.

It can be tempting to think of an accounting estimate as the final figure appearing in the financial statements. In reality, the figure is the end product of a process.

Consider the valuation of an institution's estate. Management may engage an external valuer, but appointing an expert does not transfer responsibility for the accounting estimate to that expert. Management still needs to understand the valuation sufficiently to assess whether the methodology, underlying data and assumptions are appropriate.

The same principle applies elsewhere. If a pension figure has been produced by an actuary, or an impairment model by a specialist adviser, management still needs to understand what sits behind it.

A useful challenge is therefore:

> *Could we explain, in plain English, why this estimate is reasonable?*

If the answer is effectively "because the expert calculated it", further work may be needed.

Estimates should not simply roll forward from one year to the next.

A useful starting point is to revisit the previous year's significant estimates and ask what has changed. Have actual outcomes been broadly consistent with previous assumptions? Has new information emerged? Has the institution's financial position or strategy changed? Are assets being used differently? Have circumstances arisen that might indicate impairment?

This retrospective review can be particularly valuable because it introduces evidence into what might otherwise become a largely subjective discussion.

For example, where an institution has consistently found that certain assets have longer useful lives than originally anticipated, this may prompt reassessment of depreciation assumptions. Conversely, plans to rationalise an estate or discontinue an area of activity might require management to reconsider the carrying value or expected economic life of the assets concerned.

Estimates inevitably change as better information becomes available. It's important that management understands why it changed and can demonstrate how the new estimate was reached.

Accounting estimates present another challenge. There can be a range of reasonable outcomes and that makes management bias an important consideration.

Bias need not imply deliberate manipulation; it can be much more subtle. When faced with uncertainty, people naturally develop expectations about the result they believe to be appropriate. Those expectations can influence the assumptions selected.

Individually, each judgement may appear reasonable. Taken together, however, a series of judgements consistently towards the optimistic end of a reasonable range may tell a different story.

This becomes particularly relevant when an institution is under financial pressure. An impairment judgement, provision or asset life may have a material impact on reported performance or the balance sheet.

A good review process therefore looks beyond each estimate individually and asks:

> *Do our significant judgements collectively lean in one direction?*

That is a useful question for finance teams, auditors and audit committees alike.

One of the most useful distinctions is between estimation uncertainty and a badly prepared estimate.

Where uncertainty is high, there may genuinely be a wide range of reasonable outcomes. Management should understand what drives the uncertainty and, where relevant, how sensitive the estimate is to changes in key assumptions.

Take an impairment assessment. A model may produce a precise figure, but its apparent precision can be misleading if relatively small changes to assumptions result in materially different outcomes. Understanding those sensitivities can be more informative than focusing exclusively on the model's central estimate.

This also helps when considering financial statement disclosures. Readers may need to understand not just the number recognised, but the significant judgements and uncertainties surrounding it.

External specialists play an important role in many estimates, particularly property valuations and pension calculations. They can provide expertise that an institution does not possess internally, but their involvement doesn't provide the final answer.



Finance teams should consider whether they understand:

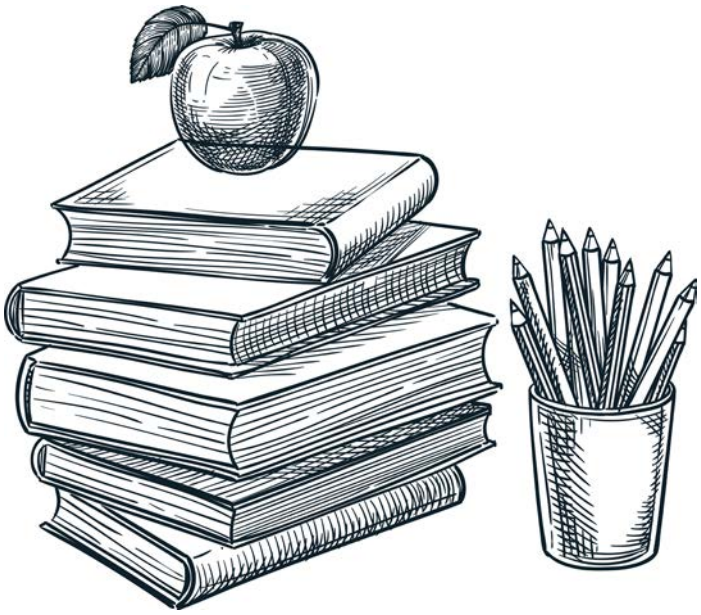
- The specialist's scope of work;
- The key information supplied to them;
- The methodology used;
- The significant assumptions adopted;
- Whether those assumptions are consistent with the institution's own knowledge and plans; and
- Any limitations or areas of particular uncertainty identified by the specialist.

This can also make the audit process considerably smoother. Questions about assumptions are easier to address when management has considered them at the time the estimate is prepared rather than attempting to reconstruct the rationale several months later.

Governors are not expected to reproduce valuation models or challenge actuarial calculations line by line. Their role is one of effective oversight and challenge.

For significant estimates, six questions provide a useful framework:

1. **Which estimates have the greatest uncertainty?** Materiality matters, but size alone should not determine where attention is focused.
2. **What are the key assumptions behind the estimate?** A complicated model may ultimately depend on only a handful of important judgements.
3. **What evidence supports those assumptions?** The distinction between an assumption that is possible and one supported by evidence can be important.
4. **What has changed from last year, and why?** Unexpected movements deserve explanation, but an estimate remaining unchanged despite changing circumstances can merit just as much scrutiny.
5. **What happens if our assumptions are wrong?** Sensitivity analysis can help boards understand the range of reasonably possible outcomes.
6. **Have our judgements tended towards one end of the reasonable range?** Looking across estimates can provide a different perspective from reviewing each one individually.



Perhaps the biggest practical lesson is that accounting estimates should not be regarded solely as a year-end compliance exercise.

Identifying significant estimates early gives management time to obtain relevant information, engage specialists where necessary, understand changes in assumptions and subject judgements to appropriate internal challenge.

It also changes the year-end conversation with auditors. Rather than starting with a number and working backwards to justify it, the institution can demonstrate the process through which the estimate was developed and challenged.

There will rarely be a single perfectly correct answer when dealing with an accounting estimate. That is precisely why the quality of the process matters.

For institutions, the objective should therefore not be to eliminate uncertainty. It should be to understand it, challenge it and demonstrate that significant judgements are based on appropriate evidence.



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Maximising land value while minimising tax surprises

Financial pressures across the higher education sector are prompting many universities to review their estates, dispose of surplus properties and explore development opportunities that can unlock value from underutilised land.

Recent estate rationalisation projects and campus disposals demonstrate that property is increasingly being viewed as a strategic source of funding rather than simply a place from which teaching and research are delivered.

This may involve promotion agreements, conditional sale contracts and overage arrangements, all of which can help maximise the value realised from surplus land. However, universities should be careful not to assume that all proceeds will automatically benefit from the tax exemptions available to charities.

Selling surplus property

In many cases, a university will simply be selling a property that has been used in its charitable activities or held as an investment. In those circumstances, charitable tax exemptions will usually be available, provided the gain is applied to its charitable purposes.

By contrast, where land or buildings are originally acquired with the intention of being developed or sold at a profit, the activity would generally be treated as a trading venture, meaning any profits would likely be subject to corporation tax.

The position becomes more complicated where the university takes active steps to enhance the value of long-held land or buildings before sale or where it seeks to share in future development profits.

Transactions in land rules

Anti-avoidance rules, commonly referred to as the 'Transactions in Land' rules have existed for decades, but were broadened significantly in 2016. These rules are designed to ensure that profits from activities that are, in substance, land trading or development activities are taxed as trading profits rather than benefitting from capital treatment. Importantly, HMRC recognises that the rules are not intended to apply to genuine investment activity.

The challenge is that the legislation is deliberately broad. A transaction does not need to look like a traditional property development trade for the rules to apply. Instead, HMRC will look at the overall arrangement and ask whether one of the main purposes is to realise additional profit from the development or disposal of land.



Changes in intention

Many universities have owned land for decades as part of their campus estate, investment portfolio or long term strategic plans. Only later might they decide that the land is surplus to requirements and suitable for development.

Where there has been a genuine change in intention, HMRC's guidance recognises that gains arising before that change should not be brought within the Transactions in Land rules. Instead, the focus is on profits attributable to later development or disposal activities.

For example, a university may have acquired land for future expansion, only many years later deciding to pursue a residential development opportunity. In such cases, it may be possible to distinguish between the value that accrued during the period of charitable ownership and any additional value generated through subsequent development activities.

Promotion agreements

Promotion agreements are increasingly popular where a university owns land with development potential. Typically, a promoter will seek planning permission and market the site, receiving a share of the eventual sale proceeds. This can generate significantly higher returns than an immediate sale.

Importantly, obtaining planning permission alone is not generally regarded as land development. This means a university may be able to enhance value without necessarily moving into active development activity.

However, the greater the university's participation in the development process, or the more closely its return is linked to development profits, the more important it becomes to assess the tax implications.

Overage arrangements

Many land sales now include overage provisions, allowing the university to receive additional payments if planning permission is granted or development subsequently takes place.

From a commercial perspective, overage can be an excellent way of ensuring the university shares in future value that may not be reflected in the initial sale price.

However, HMRC has specifically highlighted these "slice of the action" arrangements as potentially falling within the Transactions in Land rules. The concern is that the landowner is no longer simply disposing of an asset but participating in arrangements designed to realise profits from future development.

This does not mean overage arrangements should be avoided. In many cases, sharing in future development value can significantly increase the overall return to the university. However, any potential tax exposure should be identified and factored into the commercial decision making process at an early stage, rather than becoming an unexpected issue later in the transaction.



Pre-sale development activities

Universities should also take care where they undertake works to prepare land for development before it is sold. Activities such as remediation, demolition, infrastructure works or site preparation may strengthen an argument that the university is participating in a development project rather than simply disposing of a long-held asset.

Where more extensive development activity is being considered, universities may wish to explore whether those activities should be undertaken through a trading subsidiary rather than directly by the institution itself. While each case will depend on the specific facts, early planning can provide greater flexibility and may allow profits that could otherwise be taxable if earned directly by the university to be generated in a subsidiary and ultimately passed back to the university through charitable donations.

Where a university's plans for land have evolved over time, it is important to clearly document when any change in intention occurred. Board papers, business cases, professional valuations and other supporting evidence can help distinguish between value that accrued while the land was held as part of the university's charitable estate and value arising from later development activities.

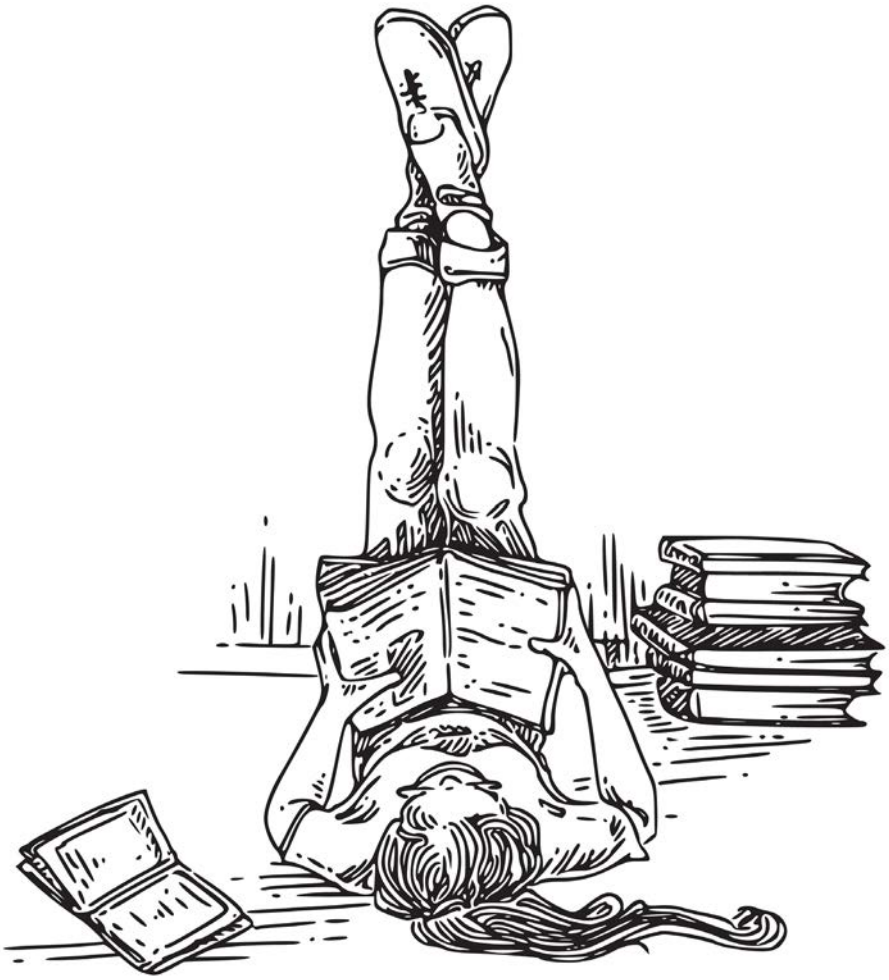
Planning ahead

A straightforward disposal will often be low risk from a tax perspective. However, promotion agreements, overage provisions and development activities can change the position significantly.

Early tax advice can help universities understand any potential tax costs, factor those costs into commercial decision-making and ensure the most appropriate structure is in place from the outset.



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Looking beyond the headline result

The financial pressures facing the higher education sector are well documented, but understanding how these pressures present themselves in an individual university is less straightforward. The financial statements provide a useful starting point, but neither a surplus nor a deficit necessarily tells the full story.

In the current environment, understanding what sits behind the reported result, how sustainable that position is and what this may indicate about future financial resilience has arguably become more important than the headline number itself.

A surplus isn't always a sign of stability

A university may report a surplus despite its underlying operations being under considerable pressure. Material one off items, such as a property disposal or movement in a defined benefit pension scheme, could support the reported position in a particular year but clearly cannot be relied upon indefinitely. While this may provide some welcome breathing space, it can also create a false sense of security and delay action to address an underlying operating deficit.

The risk is that difficult decisions are pushed into future years and only addressed once the warning signs become more apparent, at which point the institution may have less financial headroom and fewer options available.

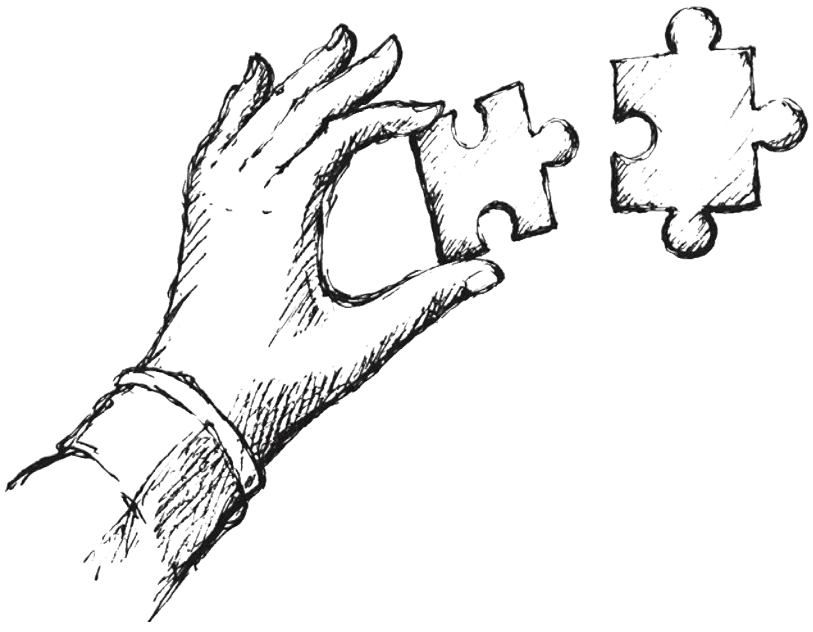
Equally, a reported deficit does not necessarily mean that an institution is in immediate financial or operational difficulty. Depreciation can significantly impact the reported result without a corresponding cash outflow, while changes in the use of buildings or falling student numbers could result in material impairment charges.

While these items may make the position look considerably worse, they do not necessarily indicate that the underlying operating model is unsustainable. In some cases, an impairment may instead reflect decisions already taken to rationalise the estate or change how the institution operates, potentially as part of the action being taken to address wider financial pressures.

Are savings sustainable, and is income secure?

Cost reductions also need to be understood in context. Genuine efficiencies which reduce the underlying cost base are quite different from savings achieved by simply reducing or deferring expenditure.

Estates maintenance is a good example, where reducing planned spend may protect cash in the short term without making the institution any more sustainable. If continued, this could create a much larger maintenance requirement in future years and leave more significant remedial action until it becomes increasingly difficult or costly to address.



The same consideration applies to income. International student recruitment has become an important source of income across the sector but creates additional exposure where an institution becomes heavily reliant on it, particularly when recruitment is concentrated within certain countries or courses.

This income can also be significantly influenced by matters outside the institution's control, including government policy and visa restrictions, with OfS reporting highlighting that student recruitment has been significantly below previous forecasts. This is particularly important given the largely fixed cost base of universities, where a shortfall in income is unlikely to result in a corresponding reduction in costs.

A strong result supported by international recruitment therefore needs to be considered alongside the level of reliance on that income and the impact should recruitment expectations not be met. This also places greater importance on the credibility of future forecasts, particularly where improving the financial position relies on significant growth in student numbers.

Looking beyond the balance sheet

The statement of comprehensive income can consequently provide a number of important indicators as to financial health, but it should not be viewed in isolation. The same applies to the balance sheet. Universities often have substantial net assets and unrestricted reserves, which at first glance can provide substantial comfort.

However, a significant proportion of these reserves may effectively be represented by land, buildings and other fixed assets rather than resources available to fund operations. A strong net asset position may therefore provide limited comfort where those assets are not readily realisable and are doing little to support the immediate liquidity or stability of the institution's operations.

Not all assets are created equal

Even within property portfolios there is considerable nuance. The existence of valuable property on a balance sheet does not necessarily mean it can easily be converted into cash at its carrying value, particularly if an institution needs to realise assets quickly. Location, alternative use and the depth of the local property market will all be relevant.

A university with property in London may have access to a much broader market for certain surplus assets, than an institution whose estate is largely purpose-built university accommodation in a smaller city where demand outside the higher education sector may be more limited.

Equally, the most valuable parts of an estate may be fundamental to delivering the university's activities and therefore not realistically available for sale. A large net asset position should therefore not, on its own, be taken as evidence of financial resilience without understanding what those assets comprise, whether they can realistically be realised and what impact their disposal would have on the institution.



Cash, liquidity and financing therefore need to be considered alongside both the reported result and the balance sheet. Borrowing is particularly important in this assessment, and it is not enough to establish that loan covenants are currently being met.

The level of headroom, the assumptions supporting future compliance and how quickly that headroom could reduce under a reasonable downside scenario may provide a very different picture.

This should also be considered alongside expenditure which may have been deferred to preserve cash. For institutions seeking to ride out the current pressures, continued underinvestment in an ageing estate could result in a significant future requirement for capital expenditure, further reducing financial headroom at a point when it may already be limited.

Understand the risks before they become urgent

Ultimately, there is no single measure which determines whether a university is financially healthy, and the pressures facing each institution will be different. While the wider challenges facing the sector are clear, universities need to understand their own position and the sustainability of their income, liquidity, estate, borrowing and future forecasts.

For some, this may highlight the need for immediate action, while others may have greater capacity to manage the current pressures. Understanding those individual circumstances early is important, particularly where a strong headline result or significant net asset position could otherwise provide comfort and delay changes which will ultimately still be required.



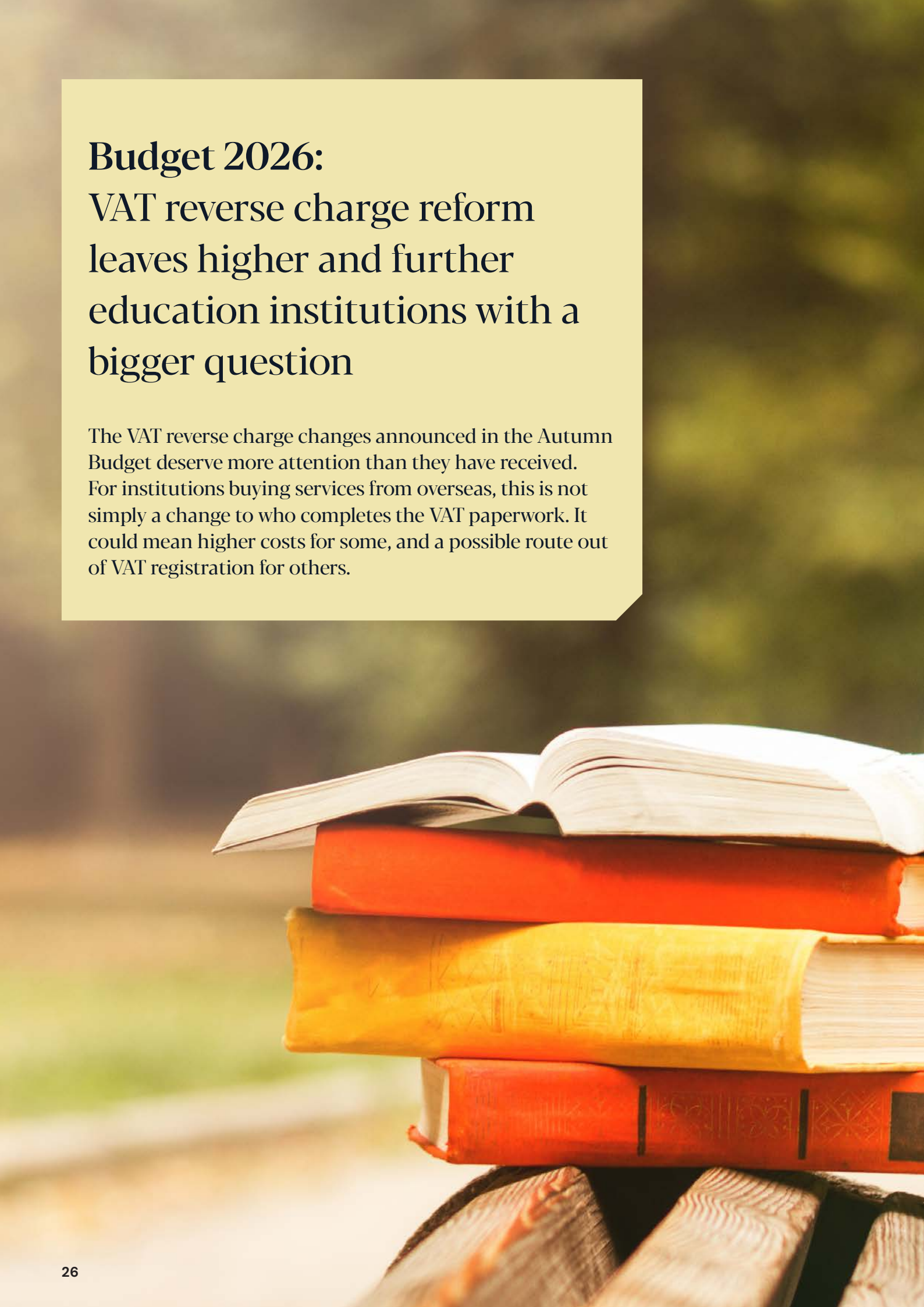
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Budget 2026:
VAT reverse charge reform leaves higher and further education institutions with a bigger question

The VAT reverse charge changes announced in the Autumn Budget deserve more attention than they have received. For institutions buying services from overseas, this is not simply a change to who completes the VAT paperwork. It could mean higher costs for some, and a possible route out of VAT registration for others.



From 1 April 2027, the Government has announced that it will restrict the reverse charge on relevant overseas services to UK customers that are actually VAT registered. Where the UK customer is not registered, the overseas supplier will instead be responsible for charging and accounting for UK VAT, where applicable.

In our view, the most interesting unanswered question concerns institutions who are already registered because their overseas service purchases pushed them over the threshold. If their own taxable supplies are otherwise below the deregistration threshold, will they have the option to leave the VAT system under the new rules? That possibility warrants a review now, but it is not yet a confirmed entitlement to deregister.

How do the rules work now?

Currently, where a UK business receives relevant services from an overseas supplier, the UK customer is generally responsible for accounting for VAT under the reverse charge.

Importantly, an unregistered UK business must currently add the value of relevant overseas services to its own taxable supplies when assessing whether VAT registration is required. If the combined value remains below the registration threshold and there is no other registration obligation, no VAT is currently due on those general-rule services. If the purchases trigger registration, the customer must register and account for the reverse charge.

This can produce some unusual results for institutions. An institution may have relatively little taxable income of its own but purchase significant amounts of software, digital services, consultancy or other services from overseas. Those purchases can push them over the VAT registration threshold and result in them having to register for VAT.

What changes from April 2027?

From 1 April 2027, the reverse charge will apply only where the UK customer is actually VAT registered. If it isn't, the overseas supplier will instead be responsible for charging UK VAT and accounting for it to HMRC.

The Government wants to remove the advantage that can arise when an unregistered UK business buys services from an overseas supplier rather than a UK supplier. That is understandable as a policy aim. But describing the measure as a simplification risks overlooking both the extra cost for smaller institutions and the unresolved position of those already registered.

For higher and further education institutions, there are two very different issues: whether existing registrations will still be necessary, and how much more unregistered institutions will pay.



The unanswered question: could existing registrants deregister?

The group that should be looking closely at this announcement is those currently VAT registered principally, or solely, because of the value of services they buy from overseas. The same question arises for other businesses in this position.

An institution could, for example, have limited taxable income but significant expenditure on overseas software, cloud services, digital platforms, advertising, consultancy or professional services.

The announced reform should prevent relevant overseas purchases from pulling an unregistered institution into the reverse charge from April 2027. But that does not, by itself, settle the position of an institution already registered. While it remains VAT registered, its relevant overseas purchases will still fall within the reverse charge.

That leaves a potentially important question. If the institution's own taxable supplies are below the £88,000 deregistration threshold, can it cancel its registration under the revised rules, with overseas suppliers then accounting for VAT instead? In our view, there is a strong policy argument for allowing this: otherwise, two institutions with the same activities and overseas expenditure could face different compliance obligations simply because one was already registered.

However, the published announcement does not expressly resolve how existing reverse-charge-driven registrations will interact with the deregistration rules. The legislation and HMRC guidance need to clarify this. Being below the £90,000 registration threshold on your own supplies is not enough. The separate £88,000 deregistration test, normally assessed by reference to expected taxable turnover over the next 12 months, and the treatment of reverse charge services must also be considered.

Our recommendation is to review the opportunity now, not to assume that the Budget announcement allows immediate deregistration. The reform takes effect on 1 April 2027 but until then, the existing rules continue to apply. Any cancellation must satisfy the applicable rules and have an agreed effective date. Even if deregistration becomes available, charities should weigh the administrative saving against lost input VAT recovery, VAT charged by overseas suppliers and any VAT due on assets retained at deregistration.

The losers? Institutions currently below the VAT threshold

For smaller, unregistered higher and further education institutions, the downside is more immediate and easier to identify. Services that currently arrive without VAT may become more expensive.

Take an institution buying £50,000 a year of relevant standard-rated services from overseas, with little or no taxable income of its own.

Under the current rules, those purchases have to be considered when assessing whether VAT registration is required. However, provided the institution remains below the registration threshold and does not otherwise need to register, HMRC explains that no VAT is currently due on that overseas supply, although its value counts towards the registration calculation.

From April 2027, the position changes.

The overseas supplier will instead be required to charge UK VAT. If those £50,000 of services are subject to VAT at 20%, the effect would be:

- Cost of services: £50,000
- UK VAT: £10,000
- Total cost: £60,000

For an unregistered institution, that £10,000 potentially becomes an irrecoverable additional cost.

HMRC expressly acknowledges this consequence, stating that the cost of such purchases will increase for non VAT-registered UK businesses because overseas suppliers will be required to charge VAT.

For an institution unable to recover that VAT, this is a real budget pressure, not an administrative simplification. Remaining comfortably below the VAT registration threshold will not protect it from the additional cost.

What should higher and further education institutions do?

Don't wait until April 2027 to assess the impact. The potential cost increase is clear enough to plan for. The possible deregistration benefit needs closer examination and clarification.

Institutions registered because of reverse charge services should identify whether their own taxable supplies would otherwise support deregistration, model the consequences of leaving and seek clarity on whether, and from when, cancellation will be available. Don't assume that you must remain registered indefinitely or that you can leave immediately.

Unregistered institutions buying significant overseas services should speak to their suppliers and build any additional VAT into their forecasts. Waiting for the first VAT-inclusive invoice is too late to start assessing the impact.

Institutions should consider:

- Their annual expenditure on overseas services;
- Whether that expenditure was responsible for their original VAT registration;
- Whether their own taxable supplies would fall below the £88,000 deregistration threshold, and how the revised rules will treat overseas purchases when assessing cancellation;
- The input VAT currently recovered through their VAT registration; and
- If they remain, or become, unregistered, the additional irrecoverable VAT they might incur.

Final thoughts

Our view is that this reform is more consequential for institutions than the simplification label suggests. For some, it means an additional irrecoverable cost. For others, it raises a genuine question about whether their VAT registration still serves a purpose.

The point we want clarified is straightforward. If an institution is registered only because of overseas service purchases, and its own taxable supplies are below the deregistration threshold, will it be able to deregister under the new regime? That could remove a disproportionate compliance burden. But it remains a potential opportunity, not a confirmed outcome.

The Government is not removing VAT from these services. It is changing who accounts for it when the customer is unregistered. Higher and further education institutions should review their position now, while HMRC should make the treatment of existing registrations clear well before April 2027.



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The key VAT changes ahead for Higher and Further Education institutions

A number of changes are due to take place within the VAT system over the next few years and during the summer the Government issued consultations about other potential changes. The timescale for responding to these consultations was very short and prior experience suggests that these "consultations" are actually a done deal and will go ahead, though they may be modified if responses to them identify things that simply wouldn't be possible.

Supplementary data for VAT returns

One of the consultations says that the Government will explore whether better use of VAT data that businesses already hold in their digital accounting systems could help HMRC work more efficiently.

The consultation says that the work will consider how data already held within the businesses' digital accounting systems for audit purposes could be used to support compliance and improve the effectiveness of the tax system. It goes on to say that engagement with stakeholders will inform any future decisions.

This is a potentially concerning measure which could extend the Making Tax Digital (MTD) programme. At present MTD simply requires that from the point of input of an income or expenditure entry the process through to the submission of the VAT return figures is done electronically without manual intervention. But the only information that is submitted to HMRC are the figures on the VAT return itself which prior to MTD was largely submitted electronically in any event.

This development could potentially allow HMRC to look back up the electronic chain and automatically drill down into accounting packages to extract data. In theory with the use of AI, HMRC could ultimately be able to conduct thousands of VAT inspections in real time and potentially without a taxpayer being aware it is happening.

Requiring payment of VAT and PAYE by Direct Debit

It was announced in the 2025 Budget that the Government intended to consult on making Direct Debit the mandatory payment method for VAT and PAYE return liabilities, subject to defined exceptions. The consultation, such as it was, ran from the end of June to 16 August (a similarly short timescale) also considered whether any enforcement arrangements or incentives would be appropriate.

This is a similarly concerning development which could allow HMRC to simply extract money from your bank account to pay a VAT liability. This could involve you being charged for setting up Direct Debit facilities and being charged if there are insufficient funds without allowing you to discuss payment plans in the event of a shortage of funding.

Electronic invoicing

Whilst it seems likely that the above two measures will go ahead, it has already been confirmed that from 1 April 2029 onwards it will be a requirement to issue VAT invoices electronically for all Business to Business and Business to Government transactions.

The Government has also now announced that the electronic procurement system Peppol will be the core interoperability network for e-invoicing in the UK. It was stated by the Government that this will give software developers and taxpayers an indication of the direction of travel for our work towards the e-invoicing mandate in 2029, enabling them to begin planning their product development and rollout of e-invoicing. It went on to say that the Government will continue to engage with stakeholders regarding the role of legacy systems which cannot interoperate in the future system.

But it failed to comment on the fact that this is an incredibly short period of time for software developers to design and roll out software, let alone for businesses to determine which one will work with their accounting package, and if none will, to potentially change their accounting package.

At this moment in time the Government has decided against a centralised model whereby invoices are issued and then validated by the Government before being sent on to the customer.

Should such a real time reporting requirement be introduced then along with payment by direct debit and access to supplementary data Big Brother really will have arrived.

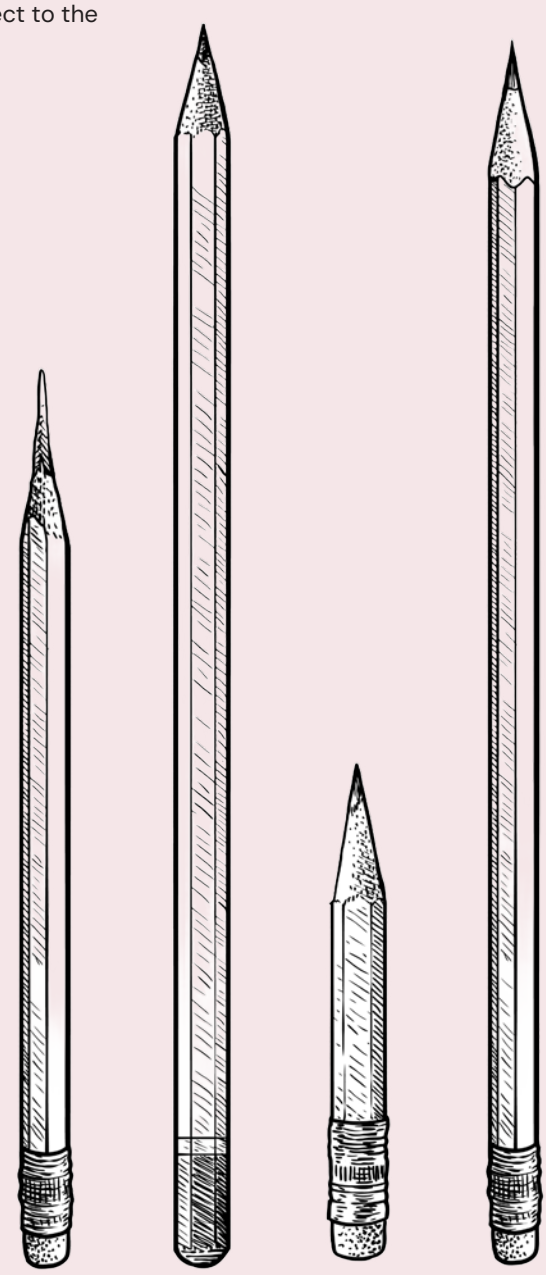
Capital Goods Scheme changes

Significant changes to the VAT Capital Goods Scheme (CGS) were introduced with effect from 29 July 2026. Quite why such a random date was chosen is anyone's guess, but under the new rules, the CGS threshold for land, buildings and civil engineering works has increased from £250k to £600k (exclusive of VAT), while computers and computer equipment have been removed from the CGS altogether.

The important point to note is that the changes are not retrospective so these changes only apply where the qualifying expenditure is incurred on or after 29 July 2026. Where a capital item has already been created before that date it will remain subject to the existing £250k threshold.



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Mandatory payrolling of benefits in kind: Why employers must start preparing now!

HMRC has now provided further detail on its phased introduction of mandatory payrolling of Benefits in Kind (PBiK), confirming that real-time reporting of benefits through payroll will become a reality for most employers over the next two years.

With HMRC's decision to delay and phase implementation, the latest announcements make it clear that businesses should not view the additional time as a reason to postpone preparations. For many institutions, the move to mandatory payrolling will involve significant changes to payroll, HR, benefits administration and employee communications.

The new timeline

HMRC confirmed a two-phase approach will be adopted based on benefit categories as opposed to employee headcount or size of the employer. We set out below when benefits will be subject to payrolling:

Phase 1: From 6 April 2027

Mandatory payrolling will apply to:

- Company cars
- Car fuel
- Vans
- Van fuel
- Employer-provided medical benefits

These benefits account for a substantial proportion of all benefits which are currently reported to HMRC on Forms P11D and will have the greatest impact.

Phase 2: From 6 April 2028

Mandatory payrolling will be extended to most remaining taxable benefits and expenses.

However:

- Employment-related loans, including director loan accounts; and
- Taxable living accommodation

will remain outside the mandatory regime. However, employers can choose to operate payrolling of both benefits on a voluntary basis (see further comments to come).

Why this matters

For many years, employers have been able to rely on the annual P11D process to identify and report taxable benefits after the end of the tax year.

The new regime fundamentally changes this approach. Instead of reporting benefits retrospectively, employers will need to identify, value and report taxable benefits throughout the year via payroll. Income Tax and Class 1A National Insurance will increasingly be accounted for in real time. The challenge for employers is not simply one of payroll compliance. This is a business transformation project that will require coordination between payroll, HR, finance, reward and benefits teams.



Strategic priorities ahead of Phase 1

Understand your current benefits population

Many employers have never undertaken a comprehensive review of all benefits currently reported on Forms P11D.

Now is the ideal opportunity to:

- Identify all benefits currently provided;
- Review how benefit values are determined;
- Identify who owns the underlying data; and
- Assess the quality of existing reporting processes.

Employers should not assume that existing P11D processes will automatically be suitable for real-time reporting.

Review data flows

One of the biggest practical challenges is ensuring that benefit information reaches payroll quickly enough. This reform will fundamentally change how benefits are taxed and reported.

The following are the areas employers need to address ahead of the Phase 1 and 2 deadlines:

Payroll

Employers will need to ensure payroll systems can manage real-time reporting, improve internal processes, and prepare employees for changes to how benefits are taxed.

Secondly, ensure the value of the benefits which are going to be payrolled are determined and steps are taken to ensure any changes in the benefit valuation are incorporated into your payroll reporting cycle.

Internal systems

Employers will need to ensure that all systems connected with the provision of benefits in kind will provide you with the best opportunity to manage payrolling of benefits. In addition to your payroll system, employers need to ensure HR and benefits platforms can collate data, for example, benefits reports and employee data so that accurate RTI submissions can be made to HMRC.

Governance procedures

Consider how you are going to track new joiners and leavers. Once employees are entitled to receive any benefits you will need to ensure any variations in the benefits provided are correctly captured.

Consequently, employers will need to review their processes for:

- New joiners
- Leavers
- Changes of company car
- Medical cover changes, such as extended cover and contributions towards family members being included in the scheme
- Salary sacrifice arrangements
- Increases or decreases in the cost of providing benefits.

How are you going to manage the position for employees where insufficient PAYE has been collected during the year? You may need to submit a P11D for the employees affected or revised RTI submissions.

Employee communications

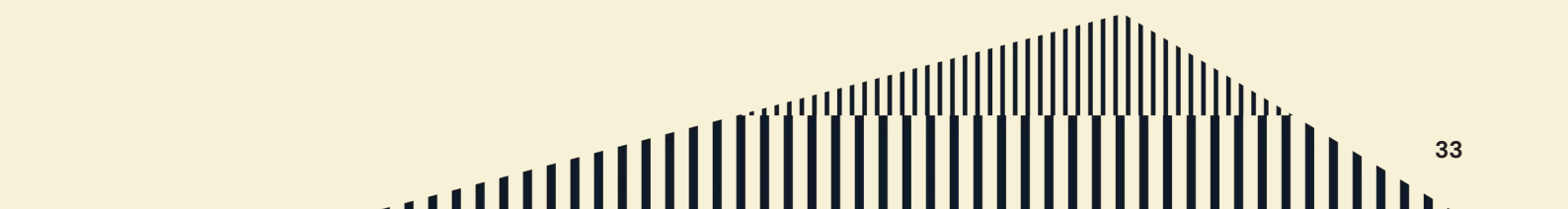
Employees will need to be advised about the introduction of PBiK and the impact it will have on the amount of tax which will be deducted from their salary. A clear communication strategy is recommended which can include staff briefings, written communications or both. However, doing nothing is not an option!

HMRC themselves have specifically highlighted the importance of employee communications. Many employees currently settle tax on benefits through adjustments to their tax code and may notice differences in their monthly net pay once benefits are processed through payroll.

Employers should consider a communications strategy covering:

- Why the changes are occurring;
- The impact on payslips;
- Tax code changes;
- The continued collection of previous year underpayments; and
- Who employees should contact if they have questions.

Early engagement should help minimise employee confusion and payroll queries.



Looking ahead to Phase 2

Although April 2028 may appear some distance away, employers should already be considering the wider implications of Phase 2.

Many businesses currently devote considerable time to producing annual P11Ds for a wide range of benefits. The move to real-time reporting provides an opportunity to:

- Simplify benefit processes;
- Eliminate manual reporting;
- Improve benefit governance; and
- Modernise payroll and reward operations.

Employers that wait until late 2027 to begin preparations may find themselves tackling significant implementation challenges alongside competing payroll and HR projects.

The voluntary payrolling opportunity

A particularly interesting feature of HMRC's latest guidance is the continued ability to voluntarily payroll benefits not included within Phase 1. HMRC has confirmed that a registration service for voluntary payrolling will open from November 2026 until 5 April 2027.

This creates an opportunity for employers to accelerate their transition to the new regime.

Rather than waiting for mandatory implementation, institutions may wish to consider voluntary payrolling of additional benefits from 2027 in order to:

- Reduce future reliance on Forms P11D;
- Test internal processes before Phase 2 becomes mandatory;
- Identify data and systems issues early;
- Familiarise employees with payrolled benefits; and
- Spread implementation costs over a longer period.

For some employers, a phased voluntary approach may prove more manageable than a large-scale transition immediately before April 2028.

Concluding thoughts

HMRC's phased approach provides welcome breathing space for institutions, but it should not be interpreted as a delay to action. The move to mandatory payrolling represents the biggest change to the taxation of employee benefits for many years.

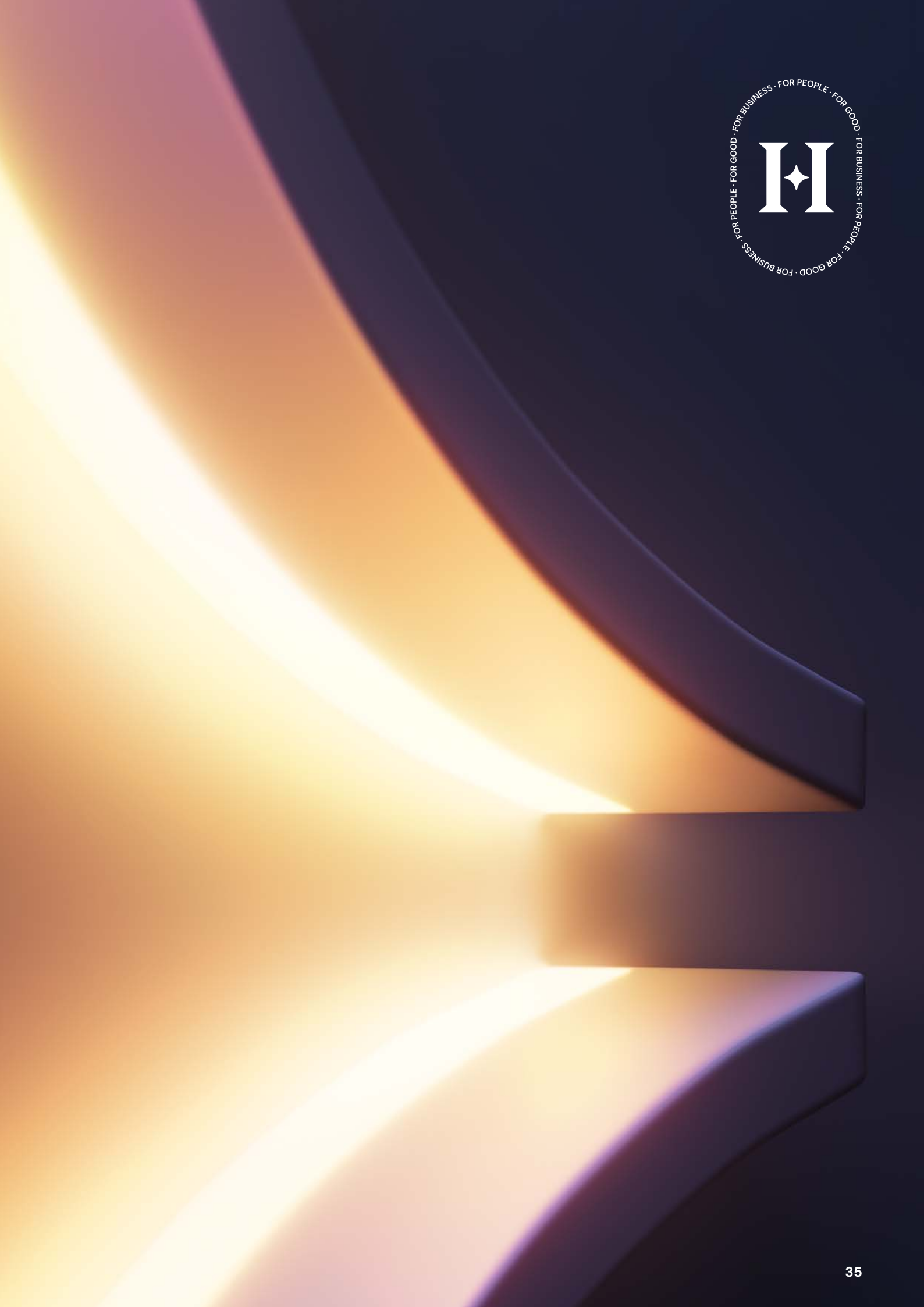
Employers should use the period before April 2027 to review benefit arrangements, strengthen governance processes, engage stakeholders and assess whether voluntary payrolling of additional benefits could provide a smoother route to full compliance.

Institutions that start planning now will be better placed to reduce risk, minimise disruption and take advantage of the opportunities presented by the new reporting framework.

Please contact the HaysMac Employment Tax team if you would like to discuss how mandatory payrolling may affect your institution and the steps that should be taken before April 2027.



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