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Welcome to our latest issue of Broking Business...

Drawing on our own expertise and that of leading insurance PE investors, B.P. Marsh and Apiary Capital, in this edition of Broking Business, Transaction Services Partner Will Lanyon explains what brokers can expect from their first Private Equity investment and reflect on what PE investment can mean for entrepreneurs who decide to stay on and continue to drive the business.

Firms are hiving up businesses and running off legacy balances before they submit a deauthorisation request to the regulator, but there are other considerations that are often overlooked. Head of Insurance Intermediaries Paul Goldwin and Director Charles Drew look at the process of deauthorising regulated entities, with a particular emphasis on client money.

HMRC has confirmed the new Payrolling of Benefits in Kind (PBiKs) regime has been delayed and will now be introduced from 6 April 2027. With any significant regulatory change, it is important for employers to begin preparing for their new obligations. Employment Tax Director Liam Condon explains what brokers should be considering ahead of the new regime coming into place.

And finally, if a broker is operating through a group of companies and makes intra-group charges for supplies of services that don't qualify for VAT-exemption, this may trigger a requirement to register for VAT and account to HMRC for standard rate output VAT on those intra-group charges.

In order to remove this cost, many brokers apply to HMRC to register both the supplying company and the recipient company as a single VAT group. Though creating VAT groups may be a good idea for many brokers, there are often unexpected obstacles in the HMRC application process. VAT Partner Mark Ellis looks at the advantages of creating a VAT group and how explains how to get your application right.

As always, please contact any of the team to discuss how we can support your business and let us know your thoughts on future topics.



Paul Goldwin
Head of Insurance Intermediaries

+44 (0)20 7516 2251
pgoldwin@pkf-l.com

What brokers can expect from their first Private Equity investment

Drawing on our own expertise and that of leading insurance PE investors, B.P. Marsh and Apiary Capital we reflect on what a PE investment can mean for entrepreneurs who decide to stay on and continue to drive the business.

Private equity (PE) can be a game changer for entrepreneurs, adding more than just financial support. It comes in many different shapes and sizes. It can be a minority or majority investment. It may involve considerable engagement or a more passive partnership. And the commitment may be short- or long-term. That means the process of choosing the right PE partner and what you want out of that relationship is very important.

What do PE firms look for in insurance intermediaries?

PE firms often aim to back management teams. So what are they looking for in the partnership? *"We look for a credible management team who we can work with, underpinned by a robust business plan, in terms of underlying assumptions (market share, growth)"* said our experts. The business's strategy could be M&A, digitisation, new products or just organic growth. What's important is having a strong, aligned management team that can drive operational improvements, execute growth strategies, and navigate market challenges. PE firms invest in companies with the potential for value creation, and the management team's expertise and leadership are critical in realising that potential.

A consistent theme in all of the conversations we have at PKF with PE firms is the commitment to support management to help them create this value, and it was something that both BP Marsh and Apiary emphasise; *"We look to invest in people and help support with what they need to help deliver this plan"*.

So what else influences PE investors? They want to see strong, recurring revenues and markets that are big enough to grow – elements that are often present in insurance intermediaries.

What support can investors provide?

- **Capital support.** One of the benefits of PE is finance or access to credit to support acquisitions – whether for M&A, scaling operations or expanding into new markets.
- **M&A strategy.** When considering or continuing with an M&A strategy, the PE firm may give support either through their own team or by putting an M&A team into the business. It may also provide access to deals, though often this is driven by the entrepreneur themselves, especially if they have strong links to the market.
- **Strategic guidance and expertise.** Whilst PE firms bring a wealth of knowledge and experience, most industry expertise will come from the entrepreneur's own management team. Some investors have large operating teams to support the business, but many that we work with do not. Support and guidance from the PE principals can be invaluable, and they may also bring in one or two key individuals (often as NEDs) to provide guidance or access to information, people or expertise that the management team doesn't have.

How to balance change and stability

Although PE firms are sometimes expected to make substantial changes, this is often not the case. The approach depends on the nature of the management team and the PE firm's investment strategy. In many cases, preserving the company's existing culture and processes is essential to maintain stability and guarantee growth.

Often the business has a clearly defined growth strategy and just needs support to achieve it. Typically, where changes are made these are to boost growth and enhance the management of the firm. This might include:

- **Back office and finance.** This is often an area where change can occur. This is more likely to involve providing funding to support additional or more senior staff, rather than changing the business fundamentals. This brings expertise in-house and enables the business to grow. Where the business is a start-up or scale-up, the PE firm may look to provide direct support *"akin to an outsourced head office that allows management the ability to focus on growing the business"*. Meanwhile, the PE firm can carry out less exciting roles such as financial management, governance, and systems and controls.
- **Performance metrics and digitisation.** PE firms often aim to improve financial reporting. This is often done by bringing in new or complementary systems to digitise the business and help it to use data more effectively.



What to expect when plans change

Business plans don't always go the way everyone expects, often through no fault of the business. This may be because of a market downturn, such as the one caused by the pandemic.

Whilst PE investors and entrepreneurs are often aligned in their thinking, it's worth remembering that PE firms' key aim is to invest in your business to make a return. That means some may look to take a more proactive approach and get more involved when you are struggling – whatever the reason. That's why talking through with your potential PE investor their approach to supporting you when the business plan isn't working is so important.

Entrepreneurs can expect PE to provide not only the financial resources needed for growth, but also strategic and operational input. How this is done will depend on your requirements and what you need from the investment. So it's vital to identify what help you really need before engaging in discussions with an investor.

If you would like to talk through what PE investment may mean for your business, please contact our experts.



Will Lanyon
Partner
+44 (0)20 7516 2411
wlanyon@pkf-l.com



John Needham
Partner
+44 (0)20 7516 2284
jneedham@pkf-l.com



Deauthorisation from the FCA: why and how?

The consequence of consolidation is often deauthorisation. We look at the process, with a particular emphasis on client money.

The M&A market for insurance brokers and MGAs strengthened in 2024 and has continued to do so into 2025 as a result of attractive valuations. This ongoing consolidation is driving an increase in the number of legal entities, and therefore FCA authorised firms, in larger insurance broking groups.

Groups are restructuring to streamline and rationalise, so that they can stay lean. This avoids the unnecessary cost and effort of operating too many regulated firms. So deauthorising regulated entities that are no longer needed meets this aim.

What is the deauthorisation process?

Firms are hiving up businesses and running off legacy balances before they submit a deauthorisation request to the regulator. This request must confirm that regulated activities have ceased, that clients have been made aware, and that any outstanding returns or regulatory fees have been settled. Once accepted, the regulator will approve the revocation of Part IV permissions for the firm.

But there are other considerations that are often overlooked. These can lead to a lengthy deauthorisation process or difficulties in clearly demonstrating regulated activities have ceased.

In particular, firms with client money permissions must produce an accountant's letter to confirm that client money is no longer being held. Delays in the process of clearing legacy balances often lead to issues with obtaining this assurance.

How to prepare for deauthorisation

In preparation for obtaining this letter, firms must be able to demonstrate that:

- insurance balances have been properly reconciled
- all client monies have been paid to the appropriate parties
- client money bank accounts have been fully reconciled and hold no client money
- client money bank accounts have been closed.

The primary concern during deauthorisation is that firms may fail to safeguard client money through a run-off exercise.

The FCA is particularly uneasy about how firms might clear legacy balances from their insurance ledgers, and has a renewed focus on credit writebacks.

Firms must make sure that any ledger clearance process documents the implications for the fiduciary duty of their directors under trust law. We recommend firms obtain external legal advice when carrying out any credit writeback or balance transfers.

It's critical that firms are aware of, and prepared for, these requirements for a simplified and efficient deauthorisation process.

Conversations with the FCA

The FCA has recently challenged the wording of accountants' letters. At PKF we have been discussing with the regulator the best way to produce a form of negative assurance report that it finds acceptable, and have now agreed on a suitable form of words.

For more information on deauthorising regulated entities please contact our experts.



Paul Goldwin
Partner

+44 (0)20 7516 2251
pgoldwin@pkf-l.com



Charles Drew
Director

+44 (0)20 7516 2344
cdrew@pkf-l.com

Mandatory Payrolling of Benefits in Kind (PBiKs): planning ahead

HMRC has confirmed the new PBiKs regime has been delayed and will now be introduced from 6 April 2027. The changes will be significant, so employers should use the additional 12 months to start planning.

From 6 April 2027, it will no longer be possible to report Benefits in Kind (BiKs) on a P11D (except for beneficial loans and accommodation). Instead employers will be required to report and process Income Tax and Class 1A NICs on most BiKs through payroll in real-time.

Originally HMRC announced that this regime was to be implemented from 6 April 2026. However, after recent discussions with stakeholders, it was announced to Parliament that the implementation is to be delayed by a year to provide more time for employers, payroll professionals, software providers and tax agents to prepare for the change.

The concept of payrolling benefits isn't entirely new and, for some time, it's been possible for employers to enter a voluntary payrolling benefits regime with HMRC. But the change from 2027/28 will see all employers forced to take action.

For the 2024/25, 2025/26 and 2026/27 tax years, employers will still need to file Forms P11D, and a Form P11D(b) summarising Class 1A NICs due. These must be submitted by 6 July following the end of the tax year, and Class 1A NICs remitted to HMRC by 22 July.

What should employers be thinking about?

Whilst in theory payrolling of benefits represents a simplification of the tax system, there are many practical points for employers to consider in advance of this change. Reliance cannot be placed on outsourced payroll providers to ensure new obligations are met. It is therefore important that employers use this additional 12 months before payrolling becomes mandatory to plan for the change.

Here are some key considerations:

- **Determine what benefits are provided and to whom.** Brokers will need to set up a robust process to understand what BiKs are being provided in real-time, and which employees or Directors are receiving them. This may sound simple, but can be complicated by new joiners, leavers, individuals on long-term periods of absence (ie parental leave, sickness, sabbatical), or any new or one off benefits for example.

This period of change may provide a wider opportunity for brokers to revisit employee reward arrangements. With careful consideration, they could perhaps mitigate some of the increased employer NIC costs which took effect in April 2025 by offering their employees tax efficient benefits or reward schemes.

- **Third-party vendors and data management.** The change means employers must ensure accurate benefit data is available more regularly, compared to the annual process under existing P11D obligations. This additional data management burden will require detailed planning with third party providers. Underlying contractual terms may need to be updated to establish new data delivery agreements in advance of 6 April 2027.
- **Calculating BiK values in real time.** For some BiKs the taxable value is simply the cash equivalent of the amount paid by the employer. But for others there are more complex tax calculations to apply. Currently employers have until the P11D filing deadline to make these calculations. But in the future the window will be much shorter and limited to the payroll period, typically monthly for brokers.

Some employees receive multiple benefits, or they may vary during a tax year (eg changing medical insurance from single to family cover, receiving a one-off benefit, or changing company car). In these cases the cash equivalent calculations may be complex. Employers should plan a robust process to address this.

- **Updating payroll processes.** Regardless of whether brokers manage payroll operations in-house or outsource this process, all businesses will need to review existing payroll processes and update them to account for the new obligations. It's likely that stakeholders from a range of internal functions will need to input or be consulted. These might include tax, reward, payroll and HR roles. Given Class 1A NICs will be due in real time (rather than after the end of the tax year), finance teams should also be involved to assess cash flow impact.
- **Employee communications.** In future, under the payrolling regime, the value of benefits must be added to the employee's taxable pay as a notional payment for each pay period. So individuals that receive taxable benefits will likely see a change to their net pay in transitional years if benefits have not previously been payrolled. This is because PAYE codes will be amended to account for any underpaid tax related to BiKs reported on Forms P11Ds in 2026/27 and BiKs taxed in real time from 2027/28 onwards. The impact will be greatest for more expensive benefits.

As with all pay and remuneration-related changes, it's vital to manage employee expectations carefully. Month-to-month payslip presentation will, of course, be important. But employers may also consider other communications ahead of the change to highlight the mandatory payrolling regime: what will change and how it could impact employees.

- **Governance and controls.** HMRC will, in theory, have more immediate access to BiK data under the new regime. This places even more importance on setting up appropriate internal controls to ensure compliance. It is also worth noting that, as a payroll obligation, BiK reporting will now fall within the Senior Accounting Officer regime for those very large brokers (the Form P11D and P11D(b) process was not previously included).



It's time to prepare

With any significant regulatory change it is important for employers to begin preparing for their new obligations.

Brokers should, as a minimum, be considering:

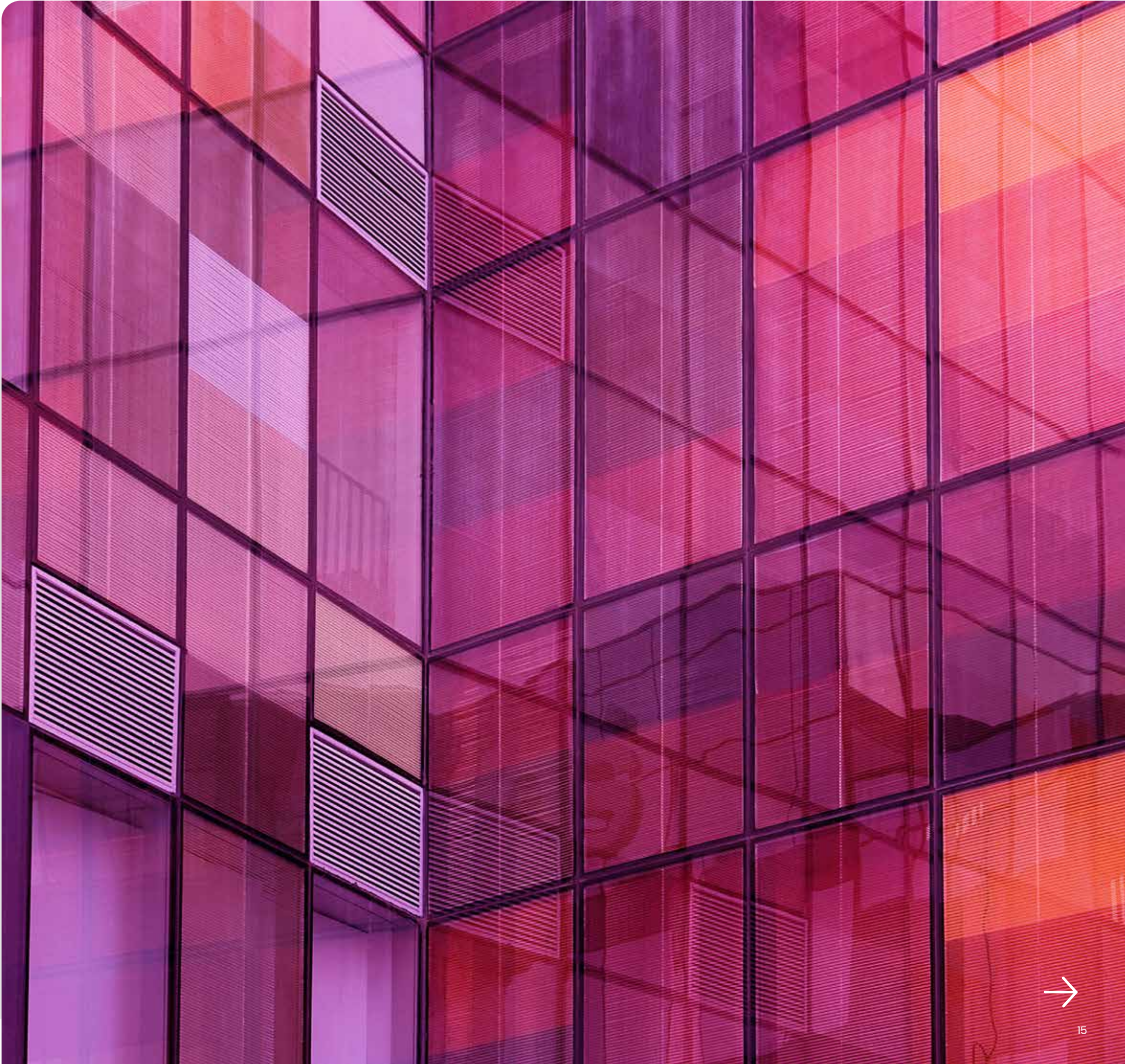
- what benefits are provided and to whom
- how BiK data will be collected and processed in real time
- how the reportable value of BiKs will be calculated
- what employee communications are required.

If you have any questions on issues covered in this article, please contact our expert.



Liam Condon
Director

+44 (0)20 7516 2200
lcondron@pkf-l.com



Creating VAT groups: the advantages

They may be a good idea for many brokers, but we examine the often unexpected obstacles in the HMRC application process.

When brokers supply VAT-exempt insurance-related services to UK insureds, HMRC normally restricts the recovery of input VAT incurred on their expenditure.

But if a broker is operating through a group of companies and makes intra-group charges for supplies of services that don't qualify for VAT-exemption, the situation may be different. Examples include secondments of staff, supplies of software, use of office facilities, management services. In this case, the supplying broker may trigger a requirement to register for VAT and account to HMRC for standard rate output VAT on those intra-group charges – that VAT being partly or wholly irrecoverable from HMRC by the recipient company.

A single VAT group: yes or no?

In order to remove this manufactured internal VAT cost, many brokers apply to HMRC to register both the supplying company and the recipient company (and other group companies too) as a single VAT group. This means the supplying company doesn't need to account to HMRC for VAT in respect of the intra-group charges.

But the downside of registering for VAT is that it obliges the broker to account to HMRC for output VAT on any other supplies made that may be VATable, like software licence fees charged to third parties. This also applies to certain services received from non-UK suppliers, such as software or advertising services, regardless of whether their value falls below the current UK VAT registration threshold of £90,000 pa.

So, it's essential to weigh up likely future output VAT costs against future VAT savings arising from a VAT grouping before applying to HMRC to form a VAT group.

Getting the application right

In the past few years, we have seen both brokers and HMRC mess up VAT grouping applications. This seems to happen most often when adding one or more companies (including UK branches of non-UK companies) to an existing UK VAT group. From the brokers' side, high turnovers of staff in the past few years have led to mistakes, such as:

- Internal miscommunications
- Lack of follow-up on what is seen as a 'minor administrative task', ie adding a newly purchased company to an existing VAT group
- A company to which VATable services are supplied not being made to a member of a VAT group because the broker failed to send the VAT grouping forms to HMRC (or didn't keep the documentary evidence to prove it had done so).

These issues are costly because, firstly, output VAT is due to HMRC on the intra-group services supplied to the non VAT-grouped company. Secondly, HMRC doesn't normally agree to backdate VAT groupings by more than 30 days.

As a result, brokers are liable to HMRC for significant amounts of VAT (plus interest and potentially also a 'careless error' penalty). Often these issues are identified during broker groups' annual statutory audit or during the due diligence process relating to a transaction.

HMRC’s struggles

From HMRC’s side, its VAT group registration team has also suffered high staff turnover in recent years. This means many VAT application forms have been lost or not processed. These oversights are normally spotted when someone (such as the broker’s auditor) asks for the most up-to-date VAT registration certificate. Since it lists the current VAT group members, it is then clear that HMRC hasn’t yet recognised certain companies as members.

The next stage is often a frantic search for proof that the forms were sent to HMRC. But, as we’ve said, it’s not always possible to find the evidence – leaving brokers in a difficult position with a lack of proof of sending the forms and HMRC denying they’d ever received the forms.

A minefield of challenges

But there’s another hurdle. If HMRC refuses to backdate the addition of a company to a VAT group by more than 30 days, then it seems the broker can only challenge HMRC’s decision through a judicial review in the High Court. This would be expensive, time-consuming and have no guarantee of success.

And the complications do not stop there.

Immediately the broker finds out the recipient company isn’t a member of the VAT group, regulations require it to inform HMRC of the amount of output VAT it owes (split into VAT return periods) on the intra-group charges made to the recipient company to date.

If the broker fails to make this voluntary disclosure, HMRC may consider it has “deliberately” tried to bring about a “loss of VAT” (per Section 77 of the VAT Act). This would allow HMRC to assess for VAT (and interest) going back four years from the date the broker discovered the error.

On top of this, HMRC could also levy a higher ‘deliberate error’ penalty (which may be as much as 100% of the value of the VAT assessments).

Needless to say, none of the above are pleasant discussions to have with an auditor or an adviser carrying out due diligence.

Getting help pays in the long run

Creating VAT groups and adding companies to them is often seen as a quick and easy administrative task that doesn’t merit the cost of a VAT adviser. But, in our view, the associated professional fees are worth it because the adviser can:

- ensure that the VAT grouping forms reach HMRC by the deadline
- prove that they reached HMRC
- chase HMRC until the updated VAT group certificate is received.

When the broker’s auditor carries out their annual work or when an acquirer’s adviser does their due diligence, the broker can then be confident there are no unknown significant VAT costs (plus interest and penalties) associated with their intra-group charges. And that means they can’t give rise to accounts disclosures and sale price reductions or sale delays.

So we’d recommend always getting professional support to prepare and file VAT group application forms to HMRC. The cost is minor compared to the significant financial burden that might arise. It’s much like taking out insurance.

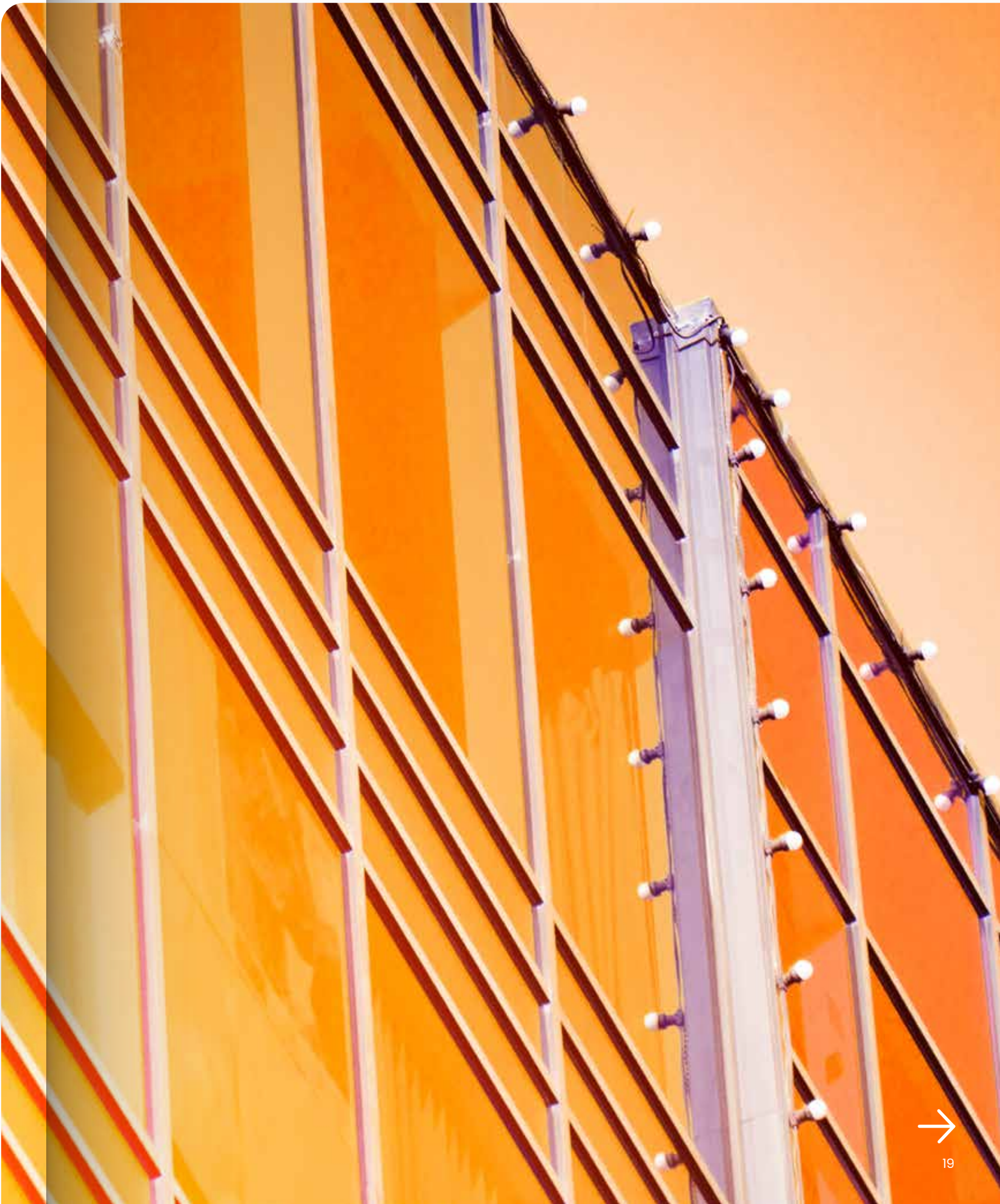
For more information on VAT groups and the issues for brokers, please contact our experts.



Mark Ellis
Partner
+44 (0)20 7072 1102
mellis@pkf-l.com



Irfaan Abdool Wabh
Director
+44 (0)20 7031 5386
iabdoolwabh@pkf-l.com



About PKF

Simplifying complexity for our clients

PKF is one of the UK’s largest and most successful accountancy brands.

With over 150 years’ experience in the insurance market, PKF has built up a solid and comprehensive reputation as one of a small number of UK accounting firms with in-depth expertise in supporting businesses, their owners and investors across the insurance industry.

Ranked as the largest auditor of insurance intermediaries in the UK and the 7th largest auditor of general insurers, our dedicated insurance team acts for major carriers and syndicates, brokers and MGAs including many businesses harnessing the power of technology to transform the insurance industry.

How we can help...

Statutory Audit

→

Governance, risk and control assurance

→

Tax

→

Transaction advisory


→

Restucturing

→

Business solutions

→



PKF UK
in numbers

12th

Largest audit practice
in the UK in the latest
Accountancy Daily rankings

20

Offices across
the UK

2,050+

Employees and
140 partners

£202m

Fee income
and growing rapidly



Insurance
intermediaries
in numbers

1st

Largest auditor of
insurance intermediaries

100+


Insurance
intermediary clients

30%

Advisor to one third of
the UK’s Top 50 Brokers

15

PE backed insurance
intermediary clients



PKF Global
in numbers

Part of the
16th

Largest global
accounting network

480

Offices in
150 countries

\$1.7bn+

In aggregate
fee income

21,000

Employees

Get in touch today

To see how we can help...



Paul Goldwin
Partner – Audit & Assurance
+44 (0)20 7516 2251
pgoldwin@pkf-l.com



Satya Beekarry
Partner – Audit & Assurance
+44 (0)20 7516 2425
sbeekarry@pkf-l.com



Phil Broadbery
Partner – Technology
+44 (0)20 7516 2235
pbroadbery@pkf-l.com



Ian Cowan
Partner – Audit & Assurance
+44 (0)20 7516 2281
icowan@pkf-l.com



Tom Golding
Partner – Tax
+44 (0)20 7516 2413
tgolding@pkf-l.com



Will Lanyon
Partner – Transaction Services
+44 (0)20 7516 2411
wlanyon@pkf-l.com



John Needham
Partner – Transaction Services
+44 (0)20 7516 2284
jneedham@pkf-l.com



Azhar Rana
Partner – Audit & Assurance
+44 (0)20 7516 2232
arana@pkf-l.com



Chris Riley
Partner – Head of Tax
+44 (0)20 7516 2427
criley@pkf-l.com



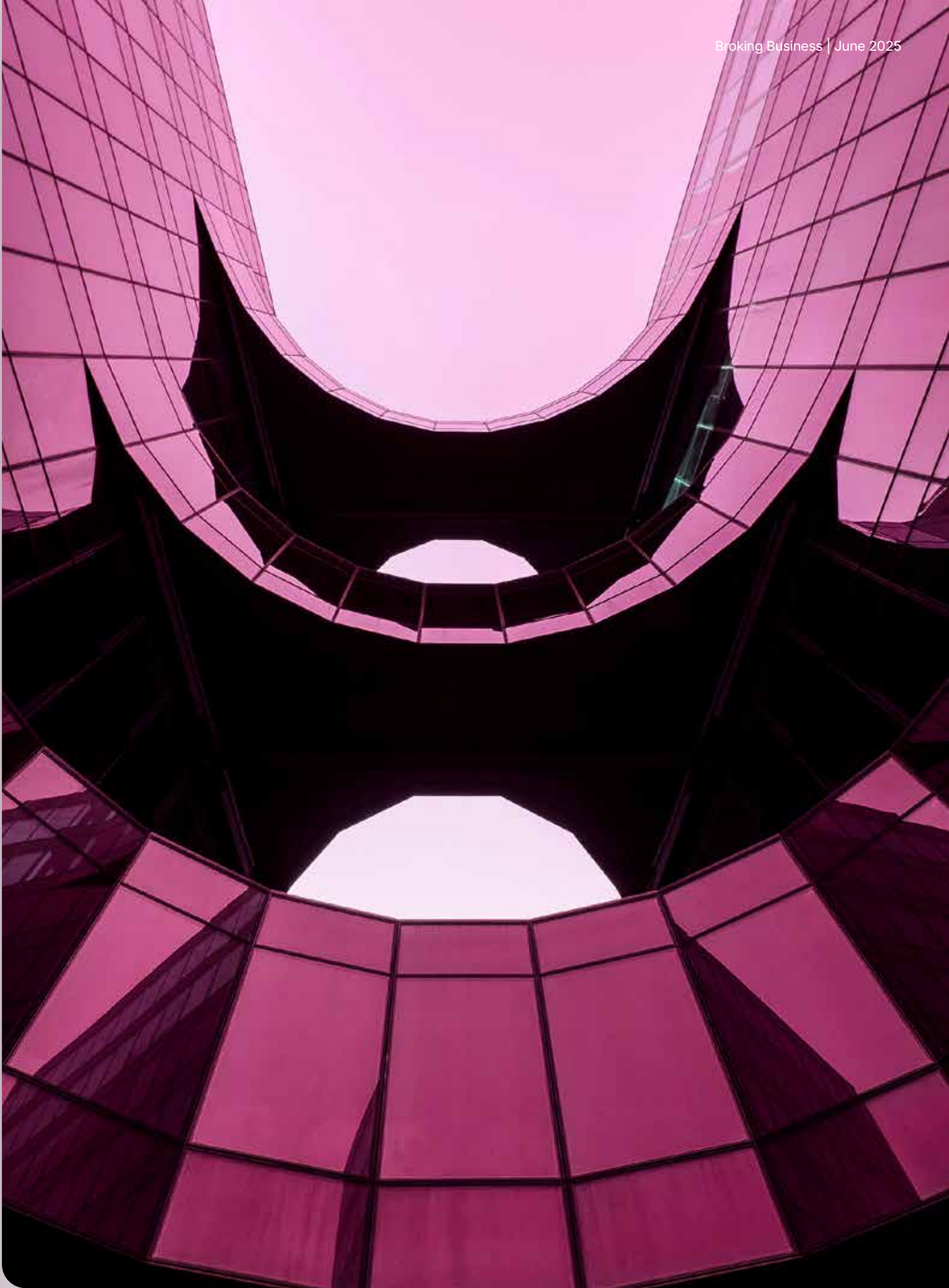
Martin Watson
Partner – Audit & Assurance
+44 (0)113 524 6220
mwatson@pkf-l.com



James Wilkinson
Partner – Audit & Assurance
+44 (0)161 552 4220
jwilkinson@pkf-l.com



Jessica Wills
Partner – Governance, Risk & Control Assurance
+44 (0)20 7516 2229
jwills@pkf-l.com



PKF Littlejohn LLP
www.pkf-l.com

London
15 Westferry Circus
Canary Wharf
London E14 4HD
+44 (0)20 7516 2200

Leeds
3rd Floor, One Park Row
Leeds
LS1 5HN
+44 (0)113 244 5141

Manchester
11 York Street
Manchester
M2 2AW
+44 (0)161 552 4220

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