# Budget reaction: DOTAS and IHT changes welcomed

Briefings

05 January 2026

Measures in November's Budget drew a mixed response from CIOT and ATT, with both bodies welcoming some measures but voicing concerns about the growing complexity of the tax system.

CIOT and ATT both welcomed the government's decision to make the new £1 million agricultural and business property relief allowance for inheritance tax transferable between spouses and civil partners. Danny Clifford, chair of CIOT's Private Client (UK) Committee, said it was 'significant and welcome… The lack of transferability in the draft proposals would have led to some harsh outcomes, especially for those who fail to take expert advice on how to structure their finances.' Jon Stride, Chair of ATT's Technical Steering Group, said the change would help to make the policy more workable: 'Without it, many would have been forced unnecessarily into more complex planning involving trusts to ensure allowances were not wasted.'

The Institute also welcomed the news, in relation to taxing unused pension pots, that pension scheme administrators will be able to keep back 50% of the pension fund for up to 15 months in case inheritance tax is payable. CIOT had previously commented that making personal representatives responsible for paying IHT due on the deceased's pension funds was unfair, since they have no control over the funds. 'We welcome the government's recognition of this issue and the adoption of at least some of our compromise suggestions,' said Clifford.

However, CIOT expressed regret that other issues they had raised about the legislation remain unaddressed, and both organisations called for a more comprehensive overhaul of inheritance tax, rather than a series of piecemeal changes. The extension of the freeze on the nil rate band until April 2031 was described by ATT as 'not so much fiscal drag as fiscal immovability', with the Association highlighting that some allowances have now been frozen for decades.

CIOT welcomed the government's decision not to introduce a criminal offence of failing to notify a scheme under the Disclosure of Tax Avoidance Scheme (DOTAS) rules. The decision was made following consultation with CIOT and other stakeholders on draft legislation published in July. CIOT had argued that that the proposals were poorly targeted, imposing potentially unworkable conditions on tax agents, whilst many of the 'bad actors' who were the target of the measures are based offshore so would be out of reach and able to continue their abuse of the system.

---

## 'Smorgasbord hard to digest'

Both CIOT and ATT warned that the continued freezing of thresholds and the introduction of more than 60 changes to existing tax regimes will increase the administrative burden on HMRC and taxpayers, especially individuals and small businesses. 'Rachel Reeves' smorgasbord of tax changes could give HMRC indigestion,' judged CIOT President Nichola Ross Martin. 'It will mean more taxpayers, more tax returns and more work for tax collectors, as well as taxpayers and their advisers,' she added.

'Each of these measures may have its justifications when viewed in isolation, but the cumulative effect is a system that becomes harder to navigate year after year,' said ATT's Jon Stride.

The new high-value council tax surcharge in England was one of the measures identified by CIOT as adding further complexity to the tax system. Leigh Sayliss, Property Taxes Committee chair, noted that there are already nine main taxes that you have to consider if you own property. However, the Institute welcomed the delay in implementation until 2028 and the planned consultation on reliefs, exemptions and administrative arrangements.

The announcement of a cap on the national insurance advantages of pension salary sacrifice arrangements from April 2029 was another change highlighted as introducing new complications. The two bodies warned that the cap would complicate retirement saving, require software updates and could lead to unfair outcomes between employees depending on how their remuneration packages are structured. ATT noted that employers face recalculating benefit packages and possibly renegotiating employee contracts. CIOT highlighted that basic rate taxpayers and those with student loans would be disproportionately affected, and called for clarity on how the cap would be applied.

LITRG, meanwhile, focused on the impact of the continued freeze of the income tax personal allowance, warning that more low-income earners and pensioners will be drawn into the tax net as earnings rise but thresholds remain static. The group is particularly concerned about pensioners who may find themselves owing tax on their state pension for the first time, and urged HMRC to modernise the way state pension is taxed, ideally bringing it into the PAYE system to ease compliance.

LITRG also called on the government to clarify its plan to exempt certain state pensioners from income tax, warning that the proposal risks creating two classes of pensioners and introducing further complexity. ‘The government should be extremely wary of anything which smacks of the arbitrary singling out of one group of people for different tax treatment without giving full thought to the potential complications and consequences,’ said LITRG technical officer Joanne Walker.

---

## MTD easement welcomed

ATT and LITRG both welcomed the government’s decision to defer late filing penalties for taxpayers entering the Making Tax Digital (MTD) regime in 2026–27. ATT described this as a ‘sensible step’ that will give affected taxpayers – particularly landlords and sole traders – time to adjust to new quarterly reporting requirements.

LITRG praised the move for providing a period of grace and noted that the new penalty regime is generally simpler and fairer than the current self-assessment system. However, both organisations stressed the importance of adequate support for those transitioning to MTD.

CIOT welcomed legislation to extend income tax exemptions for eye tests, glasses and home working equipment to include costs reimbursed by employers – and to introduce a new exemption for flu vaccinations – but called for further reform so that all employer reimbursements are treated the same as directly provided benefits, simplifying life for businesses, employees and HMRC.

From a Scottish perspective, CIOT noted that the Budget gives the Scottish Parliament new powers to set rates of income tax on property income from 2027, but other changes – such as the personal allowance freeze and dividend tax increases – will apply in Scotland. The Institute highlighted the need for better information on the real-life impacts of tax policy choices for Scottish taxpayers.

In summary, while CIOT, ATT and LITRG broadly welcomed a number of measures in the Budget as showing that the government is listening to professional bodies and others, they are united in their concern about increasing complexity, the impact of frozen thresholds and the need for greater clarity and simplification in tax policy.