ATT highlights ‘permafrost’ of frozen allowances

Briefings

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Some relief thresholds have not been uprated since the 1970s and 80s, says ATT.

A study by the ATT has highlighted the extent to which the freezing of reliefs and allowances is reducing their value. The Association is calling on the government to commit to reviewing and uprating allowances more regularly.

The ATT has identified some of the most outdated reliefs and allowances across the tax system, ranging from VAT to employment, self-employment, inheritance tax and savings. The oldest is the inheritance tax (IHT) wedding gift allowance, last changed in 1975 (when it was still capital transfer tax!), which would have risen from its present value of £5,000 to £39,876 if it had been uprated in line with CPI inflation.

Another example highlighted by ATT is the VAT partial exemption de minimis level, which has not changed in more than three decades.

Under one of the tests, where a business incurs no more than £625 of VAT on costs per month on average (£7,500 per year), and where exempt supplies are no more than 50% of total supplies, the business is able to recover all input VAT, including that attributed to exempt supplies. If that limit had been increased in line with inflation, it would now be more than £16,000 per year. Increasing it to around that level would simplify VAT recovery, reduce administrative burdens and provide additional relief to small businesses, suggests ATT.

Other frozen reliefs and allowances include:

- IHT annual exemption, frozen at £3,000 since 1981, which would be £11,875 if uprated in line with inflation;
- IHT small gifts exemption, frozen at £250 since 1985, which would be £795 if uprated in line with inflation; and
- homeworking rates, frozen at £10 to £26 since 2013, which would be £14.40 to £37.43 if uprated in line with inflation.

Emma Rawson, ATT's Director of Public Policy, explained: 'The tax system should be simple and suitable for 21st century taxpayers, but too many reliefs and allowances have been left to quietly wither.

'Some of these thresholds haven't moved since the 1970s and 80s, while one was set before its respective tax even existed in its current form. Others, like the £150 annual party exemption, have simply been frozen for years while prices have risen dramatically around them.

'The result is a system that creates unnecessary complexity, increases admin and costs for households and businesses, and no longer achieves what it was designed to do. The government doesn't need to fix everything at once, and we acknowledge that some changes may come with a cost. However, a proper commitment to reviewing and uprating these allowances regularly would go a long way towards making tax simpler, fairer and fit for today's economic landscape.'

Further details of the ATT's analysis can be read on the Association's website.