Tackling outdated rates and allowances at the heart of ATT Budget representations

OMB | Employment Tax | Inheritance Tax and trusts

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Ahead of the Budget on 28 October, the ATT submitted Budget representations suggesting that the government should review outdated rates and allowances, introduce simplifications for inheritance tax and extend the soft landing for penalties for Making Tax Digital for Income Tax.

As in previous years, the ATT has taken the opportunity to submit formal Budget representations making suggestions for the Chancellor to consider when he prepares the Budget. Several of this year's Budget representations centre on the ATT's Outdated reliefs and allowances campaign, which draws attention to the need to uplift allowances in line with inflation to prevent their importance and usefulness to taxpayers from declining over time, a trend that risks adding complexity to the tax system for limited practical benefit. We will know by the time of reading the extent

to which the Chancellor has taken up these suggestions.

Reforming tax relief for trivial benefits

The ATT's **Budget representation on trivial benefits** highlighted how both the £50 limit on benefits that can be covered by the exemption in Income Tax (Earnings and Pensions) Act (ITEPA) 2003 s 323A, and the £300 annual cap on trivial benefits provided to directors and their households/families have not increased since the exemption was brought into legislation in April 2016. Inflation since 2016 means that many of the items that the exemption would have covered previously are no longer exempt.

We also focused on some technical aspects of the exemption where expenditure is reimbursed to another member of staff rather than paid directly by the employer. As well as calling for aligned treatment regardless of how the expenditure is paid, we recommended that the £50 limit be increased to £70, in line with inflation, and that the £300 annual cap on benefits provided to directors and their households/families be increased to £425.

Annual parties and social functions

In a separate Budget representation on annual parties and social functions, the ATT repeated previous calls for the tax exemption for annual parties and social functions in ITEPA 2003 s 264 to be increased from the current £150 per head (including VAT). The exemption has remained unchanged since April 2003, but employers frequently find that this is insufficient to cover today's cost of (say) a Christmas party, particularly in London and other more expensive parts of the UK.

To reflect movements in inflation over the last 23 years, we recommended that the exemption be increased to £280 per head (including VAT), noting a potential risk to the hospitality sector if employers scale back events to avoid increased compliance and tax costs.

HMRC approved mileage rates

While welcoming the increase in HMRC-approved mileage rates from 45p to 55p for the first 10,000 business miles in an employee's own car or van earlier this year, the ATT's Budget representation on mileage rates argued that this did not go far enough to cover the increase in motoring costs since the rates were last increased in April 2011.

As a simplification, we recommended that a single rate of 60p per business mile for travel in an employee's car or van be introduced, as well as allowing employees to claim the 5p per mile passenger payment if they are not reimbursed by their employer for car sharing on business travel. To avoid employees being out of pocket in future, we suggested that these rates are reviewed at least annually going forward.

Inheritance tax simplification

In the ATT's Budget representation on Inheritance Tax (IHT) simplification, we suggested two areas where changes could improve fairness and achieve administrative savings for HMRC ahead of the digitalisation of the IHT system by April 2027.

Our recommendations were to remove the complexity of the residence nil rate band by merging it with the nil rate band, which would then be worth £500,000. We also called on the government to treat pension property as a separate component of the estate for the reduced 36% IHT rate, where at least 10% of the net estate is left to charity.

Penalties soft landing for Making Tax Digital for Income Tax

A further Budget representation on Making Tax Digital for Income Tax (MTD) drew attention to the current penalty easement for late filing of quarterly updates, which currently applies only to the 2026/27 MTD compliance cycle.

We noted that over 1 million lower-income taxpayers are expected to be in scope of MTD from April 2027, many of whom are unrepresented and do not use software as part of their accounting records. To support those taxpayers with the transition to MTD, we have called for the penalty easement to be extended to cover those taxpayers required to join MTD for the first time in 2027/28. If the government

accepts this approach, it would align the treatment of late filing with that taken for the new late payment penalties.

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