Treasury Committee: inquiry into tax reliefs

General Features

21 October 2022

The CIOT, ATT and LITRG have each provided written evidence to the House of Commons Treasury Committee’s inquiry into tax reliefs.

On 22 July, the House of Commons Treasury Committee launched an inquiry into tax reliefs (tinyurl.com/4pzpmv2k), asking a wide range of questions around broad themes such as value for money, behavioural impacts and international comparisons, as well as proposals for the addition or removal of particular reliefs.

CIOT comments

We urged the Committee to recognise the important distinction between structural and non-structural reliefs, because they serve different purposes. A structural relief should be evaluated in the light of the overall tax system and its operation, whereas a non-structural relief should be evaluated in the light of its particular objectives. Some reliefs exist in large part for administrative purposes, for example the property and trading allowances, and we suggested there may be merit in recognising reliefs which exist purely for administrative convenience either as a separate category of relief, or specifically recognising this additional characteristic when evaluating them.

We recognised that the main purpose of the tax system is to collect the money that pays for the UK’s public services and other government spending. In our view, its design should demonstrate the characteristics of simplicity, clarity and certainty. Tax reliefs represent something of a departure from these principles because they can introduce complexity in the forms of the scope of the relief, boundary issues and their practical application. These can be particularly acute for non-structural reliefs, which are designed to encourage certain behaviours.

With this in mind, we suggested that tax reliefs, particularly non-structural tax reliefs, should be ‘SMART’. In this sense, they should display the following characteristics:

- Specific: Be clear as to their scope and purpose, specify who is intended to benefit from the relief, and meet a defined objective.
- Measurable: It should be possible to estimate the cost of a tax relief to an adequate level of accuracy.
- Achievable: Be readily accessible to those who they are intended to benefit, straightforward to claim and administer, and without unintended consequences.
- Reviewed: Reliefs should be subject to a systematic process of regular, scheduled reviews to ensure that they are achieving their objectives at an appropriate cost, with the results of those reviews published on a timely basis.
- Timeframe: They should be predictable over time and not subject to frequent tinkering.

We also questioned whether some tax reliefs should be considered a ‘relief’ at all. Taking capital allowances as an example, any acceleration of a tax deduction might constitute a relief from tax, but should the allowance representing commercial depreciation be considered a relief?

ATT comments

The ATT submission focused on two specific aspects of the existing system of tax reliefs: the importance of keeping financial levels of reliefs under review; and the problems that self-employed individuals currently encounter in securing tax relief for training costs.

We noted that whilst the financial level of certain thresholds and reliefs are regularly reviewed and adjusted by the government, there are by contrast others which have not been reviewed or uprated for several years, or in some instances since they were first introduced. We highlighted several examples (including inheritance tax gift reliefs and approved mileage rates for business travel) and recommended that the financial level of all reliefs and thresholds should be reviewed on a regular basis to ensure that they remain relevant given inflation and other economic conditions.

On training costs, we noted that currently self-employed individuals can only receive relief for training which maintains or updates existing skills, but not to develop new skills or retrain in another field. We would like to see existing tax reliefs for the self-employed extended to cover the costs of work-related upskilling and retraining. This could benefit both individuals and the wider economy, through encouraging the establishment of new profitable businesses, and could also help to address existing shortages in certain parts of the labour market.

LITRG comments

The LITRG response focused on some general principles relating to tax reliefs and practical challenges for unrepresented taxpayers.

We noted that for unrepresented taxpayers, where a tax relief is not automatic, there are several prerequisites for enabling taxpayers to make a successful claim. The first is awareness of the relief. In general, much more needs to be done to raise awareness among taxpayers of various reliefs. We provided the example of the marriage allowance. It is currently thought that while over two million couples benefit from the allowance, just as many eligible couples could have failed to make a claim. Other prerequisites, many of which also need more work, include providing good guidance such that a taxpayer can work out if they are eligible, ensuring that processes for claiming reliefs are straightforward, and ensuring that taxpayers understand how to apply for the relief.

An additional point we made is that the creation of tax reliefs to incentivise different behaviours can place unrepresented taxpayers at a disadvantage. Those with a tax adviser may receive information about such reliefs from their adviser and therefore be able to benefit. Unrepresented taxpayers are less likely to hear about these reliefs and may miss out on them.

We highlighted the fact that the inconsistent use of terminology in relation to tax reliefs can lead to confusion and hinders understanding. For example, the terms relief and allowance are used inconsistently and for reliefs that operate in different manners.

We also reiterated a call from our December 2020 paper, ‘A better deal for the low income taxpayer’, for fixed amount reliefs to be reviewed (and uprated where appropriate) on an annual basis, by default.

At the time of writing, the Treasury Committee has not published our written evidence, which means that we cannot yet publish it on our websites. But they will soon be available on the submissions pages of each of our websites at: www.tax.org.uk/submissions/1, www.att.org.uk/technical/submissions www.litrg.org.uk/latest-news/submissions).

Richard Wild *rwild@ciot.org.uk*

Emma Rawson *erawson@att.org.uk*

Joanne Walker *jwalker@litrg.org.uk*