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REIMBURSING EMPLOYEES FAIRLY FOR USING THEIR OWN CAR FOR WORK

Representation by Association of Taxation Technicians in respect of the Autumn Budget 2025

1 Introduction

- 1.1 The Association of Taxation Technicians (ATT) considers that, in the light of recent high inflation and increased motoring costs, the Government should increase the amount that drivers can be paid tax-free for using their own car for work. The current rates have remained unchanged for over 14 years, during which time the cost of running a car has increased substantially.
- 1.2 The vast majority of private employers who contribute towards the costs of business travel by car use 'HMRC-approved' rates. As these have been frozen for so long, employees are no longer being reimbursed the true cost of their business travel. This particularly impacts lower-paid workers, such as care workers, who have no choice but to use their own cars to travel to their clients.
- 1.3 An employer who chooses to pay higher rates to better reflect the current costs of motoring creates a tax cost for themselves and their employee, as well as additional administration in calculating and reporting the charge for each employee. HMRC in turn then incur costs processing the reports and amending employee tax codes to collect any tax due. We suggest that increasing the approved mileage rates could reduce administration costs and result in a fairer outcome for employees.
- 1.4 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This submission is written with that background.

2 Our recommendation

- 2.1 Approved Mileage Allowance Payments (AMAPs) provide a statutory exemption from tax for payments made by employers to employees who carry out business travel in their own vehicles. Our recommendation is that all of the AMAP rates set out in ITEPA 2003 s230 should be uprated to better reflect the current costs of running and maintaining a personal vehicle, in a similar way that HMRC regularly revises the advisory fuel rates for employees using a company car. Thereafter, AMAPs should be reviewed and updated on an annual basis.

- 2.2 The structure of AMAPs could also be simplified by dropping the two-tier approach for cars based on the total mileage in the tax year, and replacing it with a simpler, single rate for both Income Tax and National Insurance purposes.

A single AMAP rate of at least 50p/mile for all mileage in a car or van could better capture the additional costs incurred by employees. There is of course no obligation for employers to pay any increased rate, in which case the employee could claim relief on any difference between the mileage rate paid and the AMAP.

3 Background to our recommendation

- 3.1 AMAPs exist as a statutory simplification to allow employers to reimburse their employees for business travel without tax consequences for either party. The rate which can be paid tax-free depends on the vehicle used and, in some cases, the mileage travelled.
- 3.2 An employee using their own car or van for business travel can be reimbursed tax free as follows:
- 45p/mile for the first 10,000 miles of business travel
 - 25p/mile for any mileage beyond that (although the 45p/mile rate applies for all mileage for National Insurance purposes)
 - an additional 5p/mile can be paid per passenger, provided that the journey is also business travel for the passenger

The rate for employees using motorcycles is 24p/mile.

Where an employer uses their bicycle for business travel, the approved rate is 20p/mile.

- 3.3 The main 45p/mile rate for cars and vans for the first 10,000 miles was last changed in April 2011. The rates for mileage in excess of that limit, and for motorbikes and cycles have been unchanged since at least 2001. These rates are now so out of date that employees using their own vehicle for work are effectively out of pocket.
- 3.4 If an employer chooses to pay higher mileage rates which better reflect the cost to their employee of running a vehicle, this creates tax implications for both the employee and employer. Calculating and reporting these tax consequences creates additional administration for the employer and additional work for HMRC in processing and collecting relatively modest amounts of tax. The contrasting treatment for tax and National Insurance purposes further complicates matters, as excess mileage is subject to Class 1 National Insurance via the payroll contrasted with entries on Form P11D for Income Tax purposes.
- 3.5 Some public sector employers, such as the NHS and a number of Local Authorities pay rates that differ from the HMRC rates. Generally, higher rates are paid for small amounts of business travel and lower rates when travel increases. Depending on the employee's mileage over the tax year, what they are paid may be higher or lower than the tax-free amounts available using HMRC rates. Those employees who have received more than the HMRC rates must pay tax on the extra, while those who received less can claim tax relief on the shortfall. If the HMRC rates were updated more regularly and set at a level that other Government departments and Local Authorities were prepared to accept, this would simplify the position for employees, introduce consistency between the private and public sector and reduce administration costs across Government.
- 3.6 Where the employee is either not reimbursed for business travel or reimbursed at a lower rate than the AMAPs rates, they can claim tax relief on the difference between what, if anything, they have been

reimbursed and what they would have been entitled to using AMAPs. However, no tax relief is available for the 5p/mile passenger supplement if it is not paid by the employer.

Increasing AMAPs would therefore still benefit those employees whose employer did not want to pay the full HMRC rates. We also feel that it should be possible for relief for passenger mileage to be claimed where this is not reimbursed by the employer, to promote the environmental benefits of employees sharing transport.

- 3.7 We do not have the evidence to suggest specific rates based on the current cost of motoring, but as an indication of the potential uplift needed, the Bank of England's inflation calculator¹ suggests that 45p in 2011 would be worth 67p by August 2025, and 25p from 2001 would be 47p.

4 Contact details

- 4.1 We would be pleased to join in any discussion relating to this representation. Should you wish to discuss any aspect of this representation, please contact our relevant Technical Officer, Chris Campbell on atttechnical@att.org.uk.

The Association of Taxation Technicians

14 October 2025

5 Note

- 5.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government, and academia.

The Association has more than 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.

¹ <https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator>