

Budget Review 2025

Information correct as at 27 November 2025

In her second Labour Budget, the Chancellor for the Exchequer, Rachel Reeves, stuck to the party's manifesto commitments and didn't increase the headline rates of tax. No major taxes were impacted but the well-publicised freezing of allowances and rate bands were confirmed having the effect of bringing more people into the higher tax bands over the coming years. There were a number of other smaller changes to various taxes and reliefs which are discussed below.

THE GOOD NEWS

Despite many weeks and months of speculation regarding reliefs, allowances or other favourable rules that may be reformed or abolished, there is some good news in the Budget:

- The £1 million allowance for qualifying agricultural or business assets is to be transferable from 6 April 2026. This is despite the Government's continued insistence, since last year's Budget, that the allowance would not be transferable. As the rules will apply from April 2026, we expect to see the details and conditions for this when the draft Finance Bill is issued in the next few days.
- The seven year rule where lifetime gifts are still regarded as part of your estate for Inheritance Tax (IHT) is unchanged, despite speculation that this period could be extended to ten years.
- The Capital Gains Tax (CGT) rebasing to market value on death has not changed. Neither has the IHT spouse exemption.
- The main CGT reliefs (rollover / holdover) are unaffected. There is a small change to incorporation relief (see below).
- The 25% tax free lump sum for pension pots is unaffected, as is the annual allowance.
- The "temporary" 5p cut to fuel duty is extended for five months, and will be reversed in three stages on 1 September 2026, 1 December 2026 and 1 March 2027 to bring the rate to pre-March 2022 levels.
- Enterprise Management Incentives, or EMI, is a tax favoured share scheme aimed at employees. This is being extended so that larger employers may qualify.
- The Two-Child Benefit Cap "within universal credit" is being abolished from April 2026.
- The 'Cycle to Work' scheme remains unchanged after early speculation that the cost to purchase a bike was to be restricted.
- A freeze on prescription costs and rail prices.

PERSONAL

Income Tax Rates and Bands

The Income Tax rate bands, frozen since 2020/21, will remain at the current levels until 2030/31. For employees, the rates of income tax for the UK, excluding Scotland, remain at 20%, 40% and 45%. The threshold for the 45% tax band remains at £125,140. The personal allowance, the amount an individual can typically earn before paying Income Tax, will continue at £12,570 and the higher rate tax threshold will remain at £50,270.

The Plan 2 student loan repayment threshold will be frozen at £29,385 for three years from April 2027.

There are, however, significant changes to the rates of tax payable on dividend, property and savings income. The changes are not identical for each source of income (see below).

Dividend Income

These changes will apply from 6 April 2026 (i.e. the 2026/27 tax year). The basic (or ordinary) rate for dividend income will increase to 10.75% (from 8.75%). The higher (or upper) rate will increase to 35.75% (from 33.75%). There is no change to the additional rate, which remains 39.35%.

Property Income and Savings Income

These changes apply from 6 April 2027 (i.e. the 2027/28 tax year). All rates will increase by 2%, making the basic rate, higher rate and additional rates 22%, 42% and 47% respectively.

Scottish Income Tax rates for 2025/26 will be confirmed in the Scottish Budget on 13 January 2026. The Government is to engage with the devolved governments in Scotland and Wales to provide them with the ability to set property income rates in line with their current income tax powers in their fiscal frameworks. It should be noted that the Scottish Rate of Income Tax does not apply to savings and dividend income.

Tax Reliefs and Allowances

The current tax rules allow for reliefs and allowances to be set off in the best way for the taxpayer (e.g. personal allowance will usually be offset against the highest taxed source of income, which is usually employment or self-employment income). One notable exception to the rule is property finance costs, where the allowable deduction has been restricted since April 2017.

From 6 April 2027, any available reliefs and allowances to be offset against income will only be applied to property, savings and dividend income after they have been applied to other sources of income.

Penalty Reform: Self-Assessment and VAT penalties

The Government will not apply late submission penalties for quarterly updates during the 2026-27 tax year for Income Tax Self-Assessment (ITSA) taxpayers required to join Making Tax Digital (MTD). The Government will apply the new penalty regime for late submission and late payment to all ITSA taxpayers not already due to join the new system for 2027/28.

The Government will increase the penalties due for late payment of ITSA and VAT from 1 April 2027.

State Pension and Simple Assessment

There will be a 4.8% increase in basic and new state pensions under the triple lock.

The Government will ease the administrative burden for pensioners whose sole income is the basic or new State Pension without any increments so that they do not have to pay small amounts of tax via Simple Assessment from 2027-28 if the new or basic State Pension exceeds the personal allowance from that point. The Government will set out more detail next year.

Voluntary National Insurance Contributions (NICs) Abroad

From April 2026 onwards, the option to pay voluntary Class 2 NICs for periods abroad will be removed and new Class 3 NICs applications for periods abroad will require 10 years continuous UK residency or National Insurance Contributions. These changes do not affect the ability of anyone to purchase Voluntary National Insurance Contributions (VNICs) for tax years prior to 2026-27 and a wider review of VNICs policy is planned to ensure the system is fair and fit for purpose.

UK Individual Savings Account (ISA)

From 6 April 2027 for savers under 65 years old, the annual ISA limit of £20,000 will be set at a maximum amount of £12,000 in cash. Savers over the age of 65 will continue to be able to save up to £20,000 in a cash ISA each year.

The Government will publish a consultation in early 2026 regarding the reform of the Lifetime ISA and the implementation of a new, simpler ISA product to support first time buyers to buy a home. Once available, this new product will be offered in place of the Lifetime ISA. For now, the Lifetime ISA annual allowance remains at £4,000.

The limit for Junior ISA's and Child Trust Funds remains at £9,000.

Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) Investments

There are various limits that apply to companies that qualify for EIS and VCT reliefs. The thresholds to be applied from 6 April 2026 will, in general, double, allowing a greater number of companies to qualify for relief.

However, the rate of Income Tax relief for VCT investments is reducing from 30% to 20% from 6 April 2026.

Enterprise Management Incentives (EMI) Options

Measures will amend provisions for some of the limits relating to the EMI scheme. For eligible companies, the changes that will apply to EMI contracts granted on or after 6 April 2026 are the limit on:

- company options (at date of grant) will be increased from £3 million to £6 million;
- gross assets will be increased from £30 million to £120 million;
- the number of employees will be increased from 250 to 500.

For eligible companies, the following change will apply to EMI contracts granted on or after 6 April 2026 and can also apply retrospectively to existing EMI contracts which have not already expired or been exercised. The limit on the exercise period will be increased from 10 years to 15 years. Existing contracts can be amended without losing the tax advantages the schemes offer, provided they are in line with the legislation.

Non-UK Resident Dividend Credit

The Government will abolish the dividend tax credit for non-UK residents with UK income, aligning their treatment with UK residents. This will take effect from 6 April 2026.

Capital Gains Tax

No changes were announced to the rates of CGT, which remain at 18% and 24%, respectively, depending on the taxpayer's level of income.

Business Asset Disposal Relief (BADR) and Investors' Relief

As announced in the Autumn Budget 2024, the CGT rate for Business Asset Disposal Relief and Investors' Relief qualifying gains will increase to 18% from 6 April 2026.

Incorporation Relief Claims Process

Incorporation relief applies where the whole of a business is incorporated. Where the conditions are met, incorporation relief applies automatically, and no claim is necessary. From 6 April 2026, a claim will be required. Whilst this is a minor change, there are ongoing discussions with HMRC and the Chartered Institute of Taxation with regard to the transfer of business debts as part of the incorporation of the business. It is possible to

transfer business debts under a concession granted by HMRC, but this requires further clarity from HMRC and nothing was announced in the Budget to address this.

Capital Gains Tax Anti Avoidance Share: Exchanges and Reorganisations

The Government will modernise the anti-avoidance provisions that apply to share exchanges and company reorganisations with immediate effect. This will be legislated for in the Finance Bill 2025-26.

Employee Ownership Trusts (EOTs)

It has become popular for business owners to sell their shares in the company to an EOT. Until Budget day (26 November 2025), the disposal of shares was exempt from CGT if the relevant conditions were met.

From 26 November 2025, 50% of the gain on a qualifying disposal to the trustees of an EOT will be treated as the disposer's chargeable gain for CGT purposes. The remaining 50% of the gain will not be chargeable at the time of disposal but will continue to be held over to come into charge on any future disposal of the shares by the trustees of the EOT. For the seller, Business Asset Disposal Relief and Investors' Relief will not be available on disposals where relief has been claimed.

Inheritance Tax

The Inheritance Tax threshold of £325,000 was already frozen until April 2030, and this is to be extended for a further year. The IHT residence nil rate band is also frozen at £175,000. The taper threshold remains £2 million. The forthcoming combined allowance for the 100% rate of agricultural property relief and business property relief will also be fixed at £1 million for a further year until 5 April 2031.

There was no change in the rates of IHT.

Inheritance Tax – Agricultural Relief (AR) and Business Relief (BR)

As announced in the Autumn Budget 2024, the availability of AR and BR at 100% will be limited to the first £1 million of qualifying property. Any excess will then be eligible for relief at 50%. The Government insisted, repeatedly, that the £1 million allowance was not transferable. Happily, the Government has listened and agreed that this allowance will be transferrable between spouses and civil partners. This is with effect from 6 April 2026, when the £1 million allowance takes effect.

There was also a change announced where new legislation will be introduced that will look-through non-UK companies or similar bodies to treat UK agricultural land and buildings as situated in the UK for IHT purposes. This is a tax anti-avoidance measure and follows the existing treatment for UK residential property.

Inheritance Tax and Pension Schemes

The Government will introduce a mechanism for personal representatives to direct pension scheme administrators to withhold benefits and to pay Inheritance Tax due on unused pension funds or pension death benefits to support them in administering the estate. This will be available in limited circumstances to reduce the impact on pension beneficiaries. If personal representatives direct the scheme administrators to withhold funds, the pension scheme beneficiaries who will only be able to access 50% of the deceased's pension death benefits which may be subject to IHT for up to 15 months after the date of death. This delay is to ensure that enough money is held back to cover any potential IHT liability. Personal representatives will also be discharged from liability for pensions discovered after they have

received clearance for settling the Inheritance Tax due on the estate, if HMRC are satisfied that they have made every effort to locate the deceased's pensions.

Stamp Duty Land Tax (SDLT)

No significant changes to SDLT were announced.

High Value Council Tax Surcharge (or "Mansion Tax")

The Government will introduce the High Value Council Tax Surcharge, a new charge on owners of residential property in England worth £2 million or more, starting in 2028-29. Local authorities will collect this revenue on behalf of central government. Revenue will be used to support funding for local government services, with further detail to be set out at the next spending review. The Government will consult on implementation of HVCTS in the New Year.

The rates per band, based on 2026 valuations, are:

- over £2 million to £2.5 million: £2,500
- over £2.5 million to £3.5 million: £3,500
- over £3.5 million to £5 million: £5,000
- over £5 million: £7,500

Stamp Duty Reserve Tax (SDRT)

SDRT is a tax payable when buying shares electronically (usually via the Certificates Registry for Electronic Share Transfer system). The rate of tax is 0.5%.

Where a company is listed on a UK regulated market, there will be no SDRT charge for the first three years after listing. Whilst good news, this will be disappointing for more fundamental changes to bring the UK stock market in line with other international stock exchanges.

Loan Charge Review

In the 2024 Budget, the Government committed to an independent review of the position regarding the loan charge provisions that were introduced in 2017. This was controversial and affected many thousands of individuals, who faced demands for large sums. The review has suggested a number of recommendations which the Government has accepted (with one exception). This should allow affected individuals to engage with HMRC to discuss and settle their affairs.

BUSINESS

National Insurance Contributions (NICs) Thresholds for Employees and the Self Employed

The Government is maintaining the NICs Primary Threshold (PT) and Lower Profits Limit (LPL) at £12,570 from April 2028 until April 2031. The NICs Upper Earnings Limit (UEL) and Upper Profits Limit (UPL) will be maintained at £50,270 from April 2028 to April 2031, as well as other employer NICs relief thresholds aligned with the UEL.

Employer National Insurance Contributions – Secondary Threshold

The Government is maintaining the per-employee threshold at which employers become liable to pay National Insurance (the Secondary Threshold) at £5,000 from April 2028 until April 2031.

Pensions, Salary Sacrifice and NICs

It has become very popular for employers to provide a range of benefits to employees under Salary Sacrifice arrangements. One of the most popular benefits was for an employer to make a company pension contribution for an employee. This saved Employer and Employee NICs (and Income Tax) for the payment made to the pension scheme. Some employer's shared the Employers' NIC saving with the employee to further boost the attractiveness of making such a contribution.

The Government have said the cost of this relief will be £8 billion annually from 2030/31 without further reform. Hence, there will be a charge for both employer and employee NICs on pension contributions above £2,000 per annum made via Salary Sacrifice. This will take effect from 6 April 2029. It is unclear at this stage how these rules will impact on the pension auto enrolment rules where the employer is required to make a 3% contribution (as part of a total of 8%) of salary for the employee.

Extension of Employer National Insurance Contributions Veteran's Relief

In April 2021, a National Insurance Contributions (NICs) relief for employers that hire former members of the UK regular armed forces was introduced. The Veteran's Relief was due to end on 5 April 2026 but will now be extended for a final two years, until the 2027 to 2028 tax year.

National Minimum Wage (NMW) and National Living Wage (NLW)

The NLW will rise from £12.21 to £12.71 per hour in April 2026 for those aged 21 and over. The NMW rate for 18 to 20 year olds will rise from £10.00 to £10.85 per hour. The NMW rate for 16 to 17 years old and apprentices will increase to £8.00 per hour.

Corporation Tax Rate

No significant changes were announced to Corporation Tax. The main rate of Corporation Tax remains 25% on taxable profits over £250,000. The 19% rate will become a small profits rate payable by companies with profits of £50,000 or less. Companies with taxable profits between £50,000 and £250,000 will be subject to a marginal Corporation Tax calculated at a rate between 19% and 25%.

Increases to Corporation Tax Late Filing Penalties

The Government will double the penalty for taxpayer's submitting a Corporation Tax Return late from 1 April 2026. This will be legislated for in the Finance Bill 2025-26.

Company Car Tax

Employee car ownership schemes will be brought within the scope of the Benefit in Kind rules from 6 April 2030.

Capital Allowances

The current Capital Allowances system including permanent full expensing and the £1 million Annual Investment Allowance will be maintained.

The Government will introduce a new 40% first year allowance (FYA) for main rate expenditure – including most expenditure on assets for leasing and expenditure by unincorporated businesses – from 1 January 2026.

From 1 April 2026 for Corporation Tax and 6 April 2026 for Income Tax, the main rate writing-down allowance will be reduced from 18% to 14%.

The Government will extend for a further year the 100% first year allowances (FYA) for qualifying expenditure on zero emission cars and the 100% FYA for qualifying expenditure on plant or machinery for electric vehicle (EV) charge points. The FYA will now be in place until 31 March 2027 for Corporation Tax purposes, and 5 April 2027 for Income Tax purposes.

VAT

The standard rate of VAT will remain at 20%.

In a move that is likely to catch many businesses off guard, from April 2029 all VAT invoices will have to be produced using an electronic format. The move to mandatory e-invoicing is designed to modernise the tax system the Government said, and from April 2029 businesses will be required to issue all VAT invoices as 'e-invoices'. The Government will publish further details in the 2026 Budget.

Business Rates

From 1 April 2026, business rate bills in England will be updated to reflect changes in property values since the last revaluation in 2023. As a result of the revaluation, the small business multiplier will decrease from 49.9p in 2025-26 to 43.2p in 2026-27, and the standard multiplier will decrease from 55.5p to 48p. To support ratepayers facing large bill increases at the revaluation the Government is introducing a redesigned Transitional Relief scheme worth £3.2 billion over the next three years. The Government is introducing a 1p supplement to the relevant tax rate for ratepayers who do not receive Transitional Relief or the Supporting Small Business scheme to partially fund Transitional Relief. This will apply for one year from 1 April 2026.

From 1 April 2026, the Government is introducing two permanently lower business rate multipliers for eligible Retail, Hospitality and Leisure (RHL) properties with rateable values below £500,000. These rates will be 5p lower than the national multipliers, making the small business RHL multiplier 38.2p in 2026-27 and the standard RHL multiplier 43p in 2026-27.

From 1 April 2026, the Government is introducing a high-value business rate multiplier for properties with rateable values of £500,000 and above, 2.8p above the national standard multiplier, making the high-value multiplier 50.8p in 2026-27.

Vehicle Excise Duty and Electric Vehicle Excise Duty

The Government will uprate Vehicle Excise Duty rates for cars, vans and motorcycles in line with the Retail Price Index from 1 April 2026.

The Government is introducing Electric Vehicle Excise Duty (eVED), a new mileage charge for electric and plug-in hybrid cars, with effect from April 2028. Drivers will pay for their mileage on a per-mile basis alongside their existing Vehicle Excise Duty. Electric cars will pay half the equivalent fuel duty rate for petrol and diesel cars, and plug-in hybrid cars will pay a reduced rate equivalent to half of the electric car rate.

The proposed mileage rates are 3p per mile for electric cars and 1.5p per mile for hybrid cars.

The Government has published a consultation which provides further detail on how eVED will work and is seeking views on its implementation.

Fuel Duty

Fuel Duty was once again frozen. The 5p per litre cut to fuel duty on petrol and diesel was due to remain in place until 22 March 2026, but is now extended to 31 August 2026. The reduction will gradually be reversed from 1 September 2026, 1 December 2026 and 1 March 2027 to bring the fuel duty rate to pre-March 2022 levels.

Targeted Research and Development (R&D) Advance Assurance Service

Following some recent high profile cases where dubious claims for R&D credits have been made, the Government will pilot a targeted Advance Assurance Service from Spring 2026, enabling Small and Medium-sized Enterprises (SMEs) to gain clarity on key aspects of their R&D tax relief claims before submitting to HMRC. The Government is also publishing a summary of responses to the advance clearance consultation.

There were no other changes made to the current R&D rules and reliefs.

Soft Drinks Industry Levy (SDIL) Consultation Response

The Government will reduce the threshold at which the SDIL applies from 5g to 4.5g sugar per 100ml and remove the exemptions for milk-based and milk substitute drinks with added sugar to create a level playing field between pre-packaged beverages. These reforms will be implemented on 1 January 2028, following consultation on the legislation. Open cup beverages, such as those bought in cafes, will remain unaffected.

Gambling Duty

The Government will not proceed with a single tax on remote betting and gaming. Instead, Remote Gaming Duty will increase from 21% to 40% from 1 April 2026. A new Remote Betting Rate will be introduced at 25% from 1 April 2027 within General Betting Duty. This new rate will not apply to self-service betting terminals, spread betting or pool betting. Remote bets on horse racing will be excluded from these changes and remain taxed at 15%. Bingo Duty will be abolished from 1 April 2026.

As always, the information outlined above is for general guidance purposes only. We appreciate that every individual and business has different circumstances and you should always seek appropriate professional advice before you act on any of the information provided. No responsibility for loss occasioned by any person acting as a result of the material contained in this review can be accepted by GWA, its Partners and employees.

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