Autumn Budget Statement 2025

In its simplest form, Chancellor Reeves' latest Budget announced measures aimed at raising tax revenue, whilst trying to not stifle economic growth or stoke inflation.

However, the real picture is more complex...

This was surely one of the most anticipated Budgets in history. Following seemingly limitless speculation, it arrived amid a flurry of drama as its contents were leaked (via an impact assessment from the Office for Budgetary Responsibility) shortly before the Chancellor took to the dispatch box.

The Budget arrived against a backdrop of persistent 'fiscal drag' – a phenomenon whereby inflation combines with wage growth to pull an increasing number of people into higher tax brackets, raising the government's tax revenue without actively raising income tax rates. As income tax thresholds remain frozen, more taxpayers find themselves creeping up the scale and facing higher personal tax rates, with an accompanying potential reduction in (or complete loss of) their personal tax allowances.

This Budget does also include some active individual measures, designed to raise significant sums of revenue, but these will not enter the statute book until towards the end of the decade.

The following are some of the Budget highlights that may be of interest.

Income tax

The income tax personal allowance (£12,570) and higher rate threshold (£50,270) remain frozen at their 2021 levels until 5 April 2031. The additional rate threshold remains at £125,140.

The rates of income tax applied to earnings and business profits remain at 20% (basic rate), 40% (higher rate) and 45% (additional rate).

The Chancellor announced increases to the savings rates, dividend rates, and a new rate of income tax payable on rental profits.

Dividend income tax rates will increase by 2% across the basic and higher rate bands from 6 April 2026. The basic rate will rise from 8.75% to 10.75% and the higher rate from 33.75% to 35.75%. The additional rate will remain unchanged at 39.35%.

Income tax on savings (interest) will increase by 2% across all bands (i.e. rising to 22%, 42% & 47% respectively) from 6 April 2027.

From 6 April 2027 separate tax rates will be introduced for property income. From this date, the rates of tax applicable to rental profits will be 22% (basic rate), 42% (higher rate) and 47% (additional rate). The rate of relief for mortgage interest and finance charges on rental income will be restricted to 22% from 6 April 2027 in line with the property basic rate of tax.

National Insurance (NIC)

The NIC primary threshold (PT) and lower profits limit (LPL) will be held at £12,570 until 5 April 2031.

The upper earnings limit (UEL) and upper profits limit (UPL) will remain at £50,270 for the same period.

The employer NIC secondary threshold (the threshold at which employers become liable to pay employer NICs for an employee) will remain frozen at £5,000 until April 2031.

There are no changes to the current headline NIC rates.

ISA allowance

In an effort to encourage investment in the financial markets, from 6 April 2027, the Chancellor announced that the maximum amount that may be saved annually into a cash ISA will reduce from £20,000 to £12,000 for those aged under 65 years of age.

The previous £20,000 annual savings limit will remain unchanged for 'stocks and shares' ISAs.

From April 2027 It will be possible for an individual to save £12,000 in a cash ISA and up to a further £8,000 into a stocks and shares ISA.

The maximum that may be saved into a Junior ISA remains frozen at £9,000 and the maximum that may be saved in a lifetime ISA remains at £4,000 per year.

Salary sacrifice – charging NIC on pension contributions

Pension salary sacrifice schemes convert an employee's salary, which would otherwise be subject to Class 1 employee and employer NICs, into employer pension contributions. This results in lower NIC charges for both the employee and the employer.

From 6 April 2029 only the first £2,000 of employee pension contributions made through salary sacrifice will be exempt from NICs. Contributions in excess of this amount will be subject to both employee and employer NICs at 8% or 2% and 15% respectively.

Employer funded pension contributions will remain exempt from income tax in the hands of the employee provided that these contributions, when combined with employee contributions, do not exceed certain limits.

Winter fuel payments charge

In measures previously announced, from 6 April 2026, pensioners with taxable income over £35,000 will be subject to the winter fuel payments charge unless they have previously opted out from receiving their 2025/26 winter fuel payment. The winter fuel payment typically stands at £200 per person per year.

HMRC will automatically re-collect the winter fuel payment under PAYE unless the affected taxpayer already submits a self-assessment tax return.

Where a pensioner is in receipt of certain state benefits, they will not be subject to the winter fuel payments charge.

Benefits in kind - plug-in hybrid electric vehicles (PHEVs)

When an employer provides a company car to an employee that is also available for private use, a benefit in kind income tax charge arises on the employee.

The benefit in kind is calculated by applying a fixed percentage based on the car's CO_2 emissions (or the mileage range of an electric car) to the manufacturer's list price. Class 1A NIC is also payable by the employer.

New international emission standards observe higher CO_2 emissions for PHEVs than previous standards which now result in an increase in the benefit in kind charge due on PHEV company cars.

The government will introduce a temporary easement to mitigate the increasing benefit in kind tax liabilities on PHEV company cars due to the new emission standards. The rules are backdated to 1 January 2025 and will be in place until April 2028.

Removal of tax relief on non-reimbursed homeworking expenses

New rules will remove the process by which employees may claim an income tax deduction if they incur additional household costs (such as on utilities bills) where their employer requires them to work from home under the terms of their employment contract. Claims for income tax relief for these costs will not be admissible from 6 April 2026. However, income tax and NIC will not be chargeable on the cost of such expenses where they are reimbursed to the employee by their employer.

Abolition of notional tax credit on dividends received by non-UK residents

In a technical adjustment to the income tax rules, from 6 April 2026 new measures will affect non-UK resident individuals who receive dividend income from UK companies and who also receive UK rental income or partnership income.

When calculating their exposure to UK income tax, the notional tax credit on UK dividend income (which had previously been abolished for UK resident taxpayers from April 2016) will be removed for non-UK resident taxpayers.

Loan charge review (disguised remuneration schemes)

Disguised remuneration schemes are tax avoidance schemes that seek to avoid income tax and National Insurance by 'disguising' income (usually from employment) as another form of payment to an individual (typically a loan). Retroactive anti-avoidance rules were introduced by Budget 2016 that were designed to tackle the historical use of these schemes and resulted in the so called 'loan charge'.

Highly controversial since its introduction, the government will introduce a new loan charge settlement opportunity that is designed to remove various barriers that may have previously prevented those affected by the loan charge to bring their matter to a close with HMRC.

Late payment interest charged by HMRC will be curtailed and some of those affected by the loan charge may find their liabilities reduced to zero. Where a taxpayer is unable to settle their liability immediately, HMRC will agree to new payment arrangements specifically tailored to the ability of the taxpayer to pay.

Capital gains tax (CGT)

Business assets disposal relief:

As previously announced, the rate of CGT due on qualifying capital gains will increase from 14% to 18% for disposals taking place from 6 April 2026. The lifetime limit on qualifying capital gains remains unchanged at £1million.

Employee ownership trusts

Prior to Budget Day, individuals were eligible for 100% CGT relief on certain disposals of shares to employee ownership trusts.

From 26 November 2025, CGT relief will be restricted to 50% on such transfers, meaning that 50% of the resulting capital gains will now be subject to CGT.

Incorporation relief

Previously applying automatically, new tax rules mean it will be necessary to include a formal claim for CGT incorporation relief to apply in Self-Assessment tax returns from 6 April 2026.

Taxpayers will be required to provide brief details of the transaction in their tax return including supporting tax calculations and the activities of the business being transferred to the company.

CGT – anti avoidance for share exchanges and reorganisations

Under the normal CGT rules that apply to share reorganisations (including the issue of shares in a company in exchange for shares held in another company) there is no immediate CGT charge for individual shareholders, or a corporation tax charge for corporate shareholders. These are usually referred to as ‘paper for paper’ transactions where no cash is paid to the shareholder.

New anti-avoidance rules will apply to share exchanges and company re-constructions from 26 November 2025.

The new rules are designed to counter arrangements where the purpose (or one of the main purposes) of a company reconstruction is to secure an artificial tax advantage. Where the new anti- avoidance rules apply there will be no CGT or corporation tax relief for the person undertaking the transaction.

Non-UK resident capital gains anti-avoidance

New technical measures will make various changes to the CGT rules that apply to the disposal of UK land and property by non-resident persons or ‘entities’ such as offshore companies.

From 26 November 2025 the definition of a UK property rich entity will extend to individual cells within protected cell companies (PCCs). From that date, individual cells must be considered for the purposes of determining both the ‘property richness’ and ‘substantial indirect interest’ tests rather than the composition of the wider PCC itself.

Inheritance Tax (IHT)

Nil rate band (NRB) and residential nil rate band (RNRB):

The government once again extended the freeze on the IHT nil rate band which will remain at £325,000 until 5 April 2031. The residence nil rate band also remains frozen at £175,000 until the same date.

The estate taper limit for availability of the RNRB remains at £2million.

Business relief and agricultural relief:

As previously announced, from 6 April 2026 IHT business relief (BR) and agricultural relief (AR) will be subject to a combined £1million rolling cap that will refresh every seven years. The cap will be frozen at this level until 5 April 2031.

In an effort to ease the impact of these controversial IHT reforms, the Chancellor announced that the £1million combined BR and AR allowance (or any unused part of it) will be transferable to a surviving spouse or civil partner on death, including in circumstances where the first death occurs before 6 April 2026. This means that if an individual dies and owns less than £1million of relievable assets, the unused allowance may be transferred to the surviving spouse or civil partner.

Transfers of qualifying BR and AR assets (either on death or during lifetime) valued at under £1million will be subject to 0% IHT. Values in excess of £1million will benefit from 50% relief therefore attracting an effective IHT rate of 20% rather than 40%.

AIM listed shares:

From 6 April 2026, AIM listed shares will attract on 50% business relief, therefore attracting an effective IHT rate of 20% rather than 40%. The £1million IHT BR allowance will not apply to AIM listed shares.

IHT – unused pension funds and death benefits

As previously announced, for deaths occurring from 6 April 2027, Personal Representatives will be liable for reporting and paying any IHT due on the deceased’s unused pension funds and pension death benefits (excluding death in service benefits). The existing IHT principles of providing exemption for death benefits passing to a surviving spouse, civil partner, and UK registered charities will be maintained.

At Budget 2025, the government set out further details on the process to implement the upcoming changes. These include the ability of Personal Representatives to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months following the date of death and to pay the IHT due directly to HMRC in certain circumstances. Furthermore, Personal Representatives will not be held liable for underpaid IHT on pension funds once they have received tax clearance from HMRC, provided they have made best efforts to track down ‘lost’ pension pots.

IHT anti-avoidance

The government will make changes so that UK agricultural property (i.e. agricultural land and buildings and woodlands) held by offshore entities will be treated as UK situated for IHT purposes.

This revised treatment is in line with the current IHT treatment of UK residential property. The new rules will increase IHT liabilities for certain long term residents and their associated trusts. The changes will take effect from 6 April 2026.

In line with the income tax and CGT treatment, from 26 November 2025, the IHT charity exemption will be restricted to gifts made directly to UK registered charities and community amateur sports clubs. Gifts to trusts which are not registered as UK charities or community amateur sports clubs will not benefit from IHT exemption from that date.

Making Tax Digital for Income Tax (MTD)

From 6 April 2026, MTD becomes a mandatory filing requirement for landlords and self-employed individuals with turnover from these sources exceeding £50,000.

The requirement to submit quarterly returns to HMRC detailing income and expenses will commence with the first quarterly electronic submission for 2026/27 due by 7 August 2026.

Cap on IHT trust charges for long term UK residents

From 6 April 2025 the IHT charges that apply to trusts which held excluded property as at 30 October 2024 will be capped at £5million over each ten year cycle. This will be relevant to trusts set up by former non-UK domiciled individuals who have been living in the UK for 10 or more years.

Trustees will remain liable to IHT charges up to the capped amount. The measure will limit the amount of IHT payable by very large trusts where trust assets exceed approximately £83million in value.

Venture capital schemes

From 6 April 2026 the rate of income tax relief available on a subscription for new shares in a venture capital trust (VCT) will reduce from 30% to 20%. The annual VCT subscription limit of £200,000 remains unchanged.

Individuals may continue to subscribe up to £1million per annum for Enterprise Investment Scheme (EIS) shares that may qualify for income tax relief under the EIS with a further allowance of £1million for EIS shares in knowledge intensive companies. The Seed Enterprise Investment Scheme (SEIS) annual investment limit remains at £200,000.

Changes announced will increase the value of companies that qualify for VCT/EIS investment purposes.

Enterprise Management Incentive (EMI) Scheme – expanding eligibility limits

The company eligibility limits for EMI plans will increase from 6 April 2026 so that more companies will qualify and their employees should be able to benefit from the scheme if their employer implements an EMI scheme.

Existing contracts relating to unexpired EMI options may be amended without losing tax advantages provided the amendments are in line with the tax rules.

Carried interest reform

As previously announced, from 6 April 2026, all carried interest will be treated as trading profits subject to income tax (up to 45%) and Class 4 NIC. The amount of qualifying carried interest that will be subject to these taxes will be adjusted by a multiplier resulting in an effective tax rate of 34.075% for an additional rate taxpayer.

Various other changes will affect carried interest from 2026/27. Those affected should seek advice to understand how the changes will impact their personal tax affairs going forward.

Electric Vehicle Excise Duty (‘eVED’)

The Chancellor announced the introduction of Electric Vehicle Excise Duty which will be charged at an initial rate of 3p per mile for battery electric cars and 1.5p per mile for plug-in hybrid cars. These rates will increase annually with the CPI. eVED will be payable along with existing Vehicle Excise Duty based on the estimated mileage each year with a true-up based on actual mileage.

The government intends to introduce eVED from 1 April 2028. A public consultation about the new measures has opened and will close on 18 March 2026.

High Value Council Tax Surcharge (HVCTS)

With effect from 1 April 2028 the Chancellor announced a proposal to introduce a council tax surcharge for owners of residential property in England worth £2million or more.

For residential property valued between £2million - £2.5million the surcharge will be £2,500 per year with graduated rates increasing to £7,500 per year for residential property valued over £5million.

HVCTS will be administered by local councils and payable alongside existing council tax bills. The revenue raised will support the funding of local government services.

It is the government’s intention that it will be homeowners rather than tenants / occupiers who will be liable to the HVCTS. Occupiers will continue to be liable for annual council tax charges in the usual way.

Annual Tax on Enveloped Dwellings (ATED): out of time claims for relief

ATED is an annual charge on residential properties (valued over £500,000) owned by ‘non-natural persons’ such as companies or collective investment vehicles.

Relief from the ATED can be obtained where residential properties are used for commercial purposes, i.e. where they are let in a property rental business. Exemption must be claimed annually in an ATED return.

New rules will ensure that late claims for relief from the ATED where properties are let for commercial purposes will be accepted by HMRC, although it should be noted that the stringent late filing penalties associated with late filed ATED returns will remain payable.

Tackling promoters of marketed tax avoidance schemes

New measures, including penalties and criminal offences will be put in place to target the promoters of marketed tax avoidance schemes.

If you have questions about taxation, or our wealth planning services, please contact the Marketing team:

marketing.hwam@handelsbanken.co.uk