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UK Budget 2025

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After a prolonged period of intense speculation, which has been very unsettling for many people, Rachel Reeves delivered her Budget speech on Wednesday 26 November.

It was never going to be good news…

The key points that are likely to be of interest have been summarised below.

Frozen income tax thresholds

The personal allowance (£12,570) and higher rate threshold (£50,270), as well as the starting rate for savings (£5,000 where applicable), have been frozen for a further three years, from 6 April 2028 until 5 April 2031.

Increased income tax rates

Income tax rates on property, savings and dividend income are to be increased by 2% as follows:

- Dividend income – from 6 April 2026 The basic rate will be 10.75% and the higher rate will be 35.75%, however the additional rate remains unchanged at 39.35%.
- Property and savings income – from 6 April 2027 The basic rate will be 22%, the higher rate will be 42% and the additional rate will be 47%.
- Tax relief for allowable finance costs against rental income will be at the property basic rate of 22%.

When ascertaining which income tax rate applies, the new ordering is firstly income which is not property, savings or dividends, then property income, then savings income and then finally, dividend income. Allowances and reliefs are also to be set off in this new order.

Cash ISA limits reduced

From April 2027, the maximum amount which can be contributed by UK residents aged under 65 into a cash ISA reduces from £20,000 to £12,000. However, up to £20,000 can still be contributed to a stock and shares ISA, with £20,000 remaining the overall limit across all types of ISA.

Non-resident dividend tax credit

From 6 April 2026 non-UK residents will no longer receive a non-repayable tax credit on dividends from UK companies. This applies to offshore trustees as well as individuals.

Voluntary National Insurance contributions (NICs) by non-UK residents

Previous UK residents will no longer be able to pay voluntary Class 2 NICs to contribute towards their UK state pension entitlement, and only certain non-UK residents will be able to apply to pay voluntary Class 3 NICs (being those who have previously lived in the UK for a continuous period of 10 years or who have paid at least 10 years of contributions whilst living in the UK). For those able to move to Class 3, this will increase their weekly contributions in 2026/27 from £3.65 to £18.40. HMRC will write to affected individuals from July 2026.

Salary sacrifice arrangements for UK pension contributions

From 6 April 2029, the exemption from employer and employee NICs on employee pension contributions through salary sacrifice arrangements will be capped at £2,000 per annum . No changes have been made to the tax treatment of such contributions.

High Value Council Tax Surcharge ("mansion tax")

This will apply to owners of residential property in England worth £2 million or more, starting in April 2028. Owners of properties worth between £2 million and £5 million will pay between £2,500 and £5,000 per year, with a maximum rate of £7,500 per year for properties worth over £5 million (based on updated valuations).

CGT for non-UK residents: disposals of Protected Cell Companies ("PCCs")

When ascertaining whether the disposal of a PCC is "UK property-rich" for CGT purposes (i.e. whether the disposal is exposed to CGT or not), each individual cell must be considered separately from 26 November 2025, whereas previously the PCC as a whole was considered.

CGT for non-UK residents: Extra Statutory Concession for gains on CIVs

Interests held by non-UK residents in "UK property rich" Collective Investment Vehicles (e.g. REITS), unlike other UK land interests, are not subject to an ownership threshold and gains arising are therefore within the scope of CGT subject to treaty relief applying. Currently, HMRC's guidance states that in such circumstances, a formal treaty claim will not need to be made (i.e. on a tax return). It has been confirmed that this approach will now be formalised as an Extra Statutory Concession. This will be relevant to offshore individuals, trusts and companies.

Making Tax Digital for Income Tax

For those caught by MTD for IT from April 2026, late submission penalties will not apply for the first year.

A "small taxpayer group" will be exempted from MTD and for some others, the start date will be deferred to April 2027; more information to follow.

Inheritance Tax (IHT)

Nil Rate Band

The nil rate band is to remain at £325,000 until 5 April 2031 (it was previously frozen until 2030).

Unused allowance for agricultural and business property reliefs (APR and BPR)

From 6 April 2026, any unused £1 million allowance for the 100% rate of APR and BPR will be transferable between spouses and civil partners, even if the first death was before 6 April 2026. This mirrors the existing rules for the nil rate band and residence nil rate band.

Anti-avoidance measure re agricultural property

From 6 April 2026, UK agricultural property will no longer be able to be sheltered from IHT by being held via non-UK companies (as is already the case for UK residential property).

Anti avoidance measure re trust exit charges

Where a settlor of a trust ceases to be a "long-term UK resident" (LTR), there will be an IHT exit charge in relation to any foreign trust assets held (as these cease to be in scope of IHT). This charge could potentially be avoided if foreign trust assets were exchanged for UK trust assets prior to the cessation of the settlor's LTR status. From 26 November 2025, an exit charge will arise if UK situs assets held when the settlor ceases to be an LTR, are later replaced with foreign situs assets.

Capping IHT charges for former excluded property in trusts

In respect of excluded property held in a trust immediately prior to 30 October 2024, IHT charges arising after 5 April 2025 (i.e. ten-year charges and exit charges) will be capped at £5 million for each relevant period of 10 years. For the first relevant period (from 6 April 2025 to the next ten-year anniversary date of the trust) the cap is pro-rated as applicable.

In practice, this concession will have limited application given that the value of the trust would have to be in excess of £83 million in order to benefit from the concession.

Post departure trade profits

From 6 April 2026, non-UK residents who receive a dividend from a UK close company during a period of "temporary non-residence" (broadly, 5 years or less outside the UK) will be taxed on these when they return to the UK, even where the dividend is made from "post departure trade profits" (profits that accrue to the company after the individual left the UK).

Employee ownership trusts (EOTs) and capital gains tax (CGT)

From 26 November 2025, CGT relief on qualifying share disposals to EOTs is reduced from 100% to 50%.

CGT: share for share exchanges

Where certain conditions are satisfied, share for share exchanges and company reconstructions do not give rise to a gain and the gain is effectively deferred. With effect from 26 November 2025 there is a tightening of the anti-avoidance provisions and transactions with a main purpose of securing a tax advantage will not benefit from these provisions.

Increased penalties

For CT returns with a filing date on or after 1 April 2026, the applicable late return penalties are doubled.

Penalties on late paid self-assessment tax and VAT will increase from 1 April 2027.

Incorporation relief claims process

From 6 April 2026, individuals and trustees transferring a business to a company will need to make a claim for Incorporation Relief through the self-assessment tax return; it will no longer apply automatically.

Disguised Remuneration: Loan charge review

Following a government review, a new settlement opportunity is to be introduced by Finance Bill 2025-26 with a view to settling liabilities on loans made between 9 December 2010 and 5 April 2019 from employment related third party arrangements (such as employee benefit trusts) with a fair outcome. The key features of the settlement opportunity have been published.

Mandatory Tax Adviser registration

Following a consultation undertaken in 2024, there is to be a requirement for "tax advisers" to be registered with HMRC and the process will commence from May 2026 with a transitional period.

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