Octo
FINANCIAL PLANNING

Autumn Budget Client Newsletter

26 November 2025

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THE BUDGET BACKGROUND

The second Budget of a parliament is meant to be the dull one. It is normally the first Budget when the tax rises and other nasties are revealed, as far away as possible from the next election. That typical scenario was what Rachel Reeves was hoping for after raising tax by £41bn (and spending by £74bn) in her October 2024 première as Chancellor. She strongly suggested as much, telling the CBI in the following month that she was "not coming back with more borrowing or more taxes". It has not worked out that way:

- In March 2025, the Office for Budget Responsibility (OBR) gave the Chancellor an initial forecast that showed she needed to find about £5bn if she were to match the October 2024 Budget's projections for 2029/30. This is the key year for her financial stability test, when the government's day-to-day spending must be fully covered by tax revenues. To return to the October 2024 position, with its small £9.9bn margin (the oft-mentioned 'headroom'), £5.5bn of cuts to disability benefits were hastily announced.

- In June 2025, backbenchers forced the government to climb down on means-testing of the Winter Fuel Payment, which Rachel Reeves had announced in the previous August – before her first Budget – as one of the measures to fill a "£22bn black hole". The reversal meant about £1bn of planned savings disappeared.

- The climbdown on the Winter Fuel Payment encouraged a further rebellion on the proposed changes to disability benefits, in particular the Personal Income Payment (PIP). After much to-ing and fro-ing, the PIP reforms were effectively kicked into the long grass by the announcement that there would be no changes, pending a fresh review now due to report in autumn 2026. The recently published terms of reference for that review might suggest that the government has since given up any hope of making savings.

The net result is that the Chancellor went into her second Budget having effectively lost about two thirds of her headroom, even before the OBR had started making any changes to its forecasts. These were widely expected to show a worsening of the financial situation: cumulative borrowing for the first seven months of 2025/26 was estimated to be £116.8bn, £9.9bn (that number again) more than the OBR's March projection for the seven-month point.

In the event, the Chancellor chose to more than double her fiscal headroom to £21.7bn, a figure which the OBR unfortunately revealed by publishing its Economic and Fiscal Outlook *before* the Chancellor rose to her feet. This increase was achieved by, to quote the ill-fated OBR, “a frontloaded increase in spending of £9bn and backloaded increase in taxes of £26bn”.

The main measures, most well trailed over the past few months, included:

- A three-year extension to the freeze on the income tax personal allowance and, tax thresholds and certain employee and self-employed National Insurance Contributions (NICs) thresholds, meaning no change is now due before 6 April 2031.

- The extension for another three years (again to 5 April 2031) of the £5,000 secondary (employer) Class 1 NICs threshold.

- An increase in dividend tax rates for basic and higher rate taxpayers of two percentage points from 2026/27.

- An increase in all tax rates on savings income and property income, also of two percentage points, effective from 2027/28.

- The introduction of NICs on pension contributions over £2,000 derived from salary sacrifice from 2029/30.

- A new high value council tax surcharge (HVCTS), to be introduced from 1 April 2028 on properties in England valued at over £2m.

- A reduction in the rate of income tax relief for investment in Venture Capital Trusts (VCTs) from 30% to 20% from 2026/27.

In this Newsletter we look at the impact of the changes announced in the Budget on various groups of taxpayers. The categorisation is, unavoidably, somewhat arbitrary, so it pays to read all sections. Similarly, several of the tax planning points – such as those listed below in our 12 Quick Tax Tips – are universal.

If you need further information on how you will be affected personally, you are strongly recommended to consult your financial adviser:

12 Quick Tax Tips

1. Don't waste your (or your partner's) £12,570 personal allowance or, if it cannot all be used, the option in some circumstances to transfer £1,260 of it.

2. Don't forget the personal savings allowance (PSA), reducing tax on interest earned.

3. Don't ignore the dividend allowance, a saving tax of up to 39.35% on £500 of dividends in 2025/26 and 2026/27.

4. Don't dismiss NICs – they are really a tax at up to 23.0%.

5. Think *marginal* tax rates – the system creates 63% (and much higher) marginal rates.

6. ISAs should be your first port of call for investments and then deposits.

7. Even if you're eligible for a Lifetime ISA (LISA) while it continues to exist, you still might find a pension is a better choice.

8. Tax on capital gains remains generally lower and paid later than tax on investment income.

9. Trusts can save inheritance tax (IHT), but suffer the highest rates of capital gains tax (CGT) and income tax.

10. File your tax return on time and accurately to avoid penalties and the taxman's attention.

11. If you are entitled to a company car, going electric and using salary sacrifice could slash your tax bill, although you will have to consider the proposed new "pay per mile" charge on EVs and PHEVs.

12. Don't assume HMRC won't find out: *evasion* is always illegal.

INVESTORS AND SAVERS

The personal allowance

The personal allowance was frozen at £12,570 from 6 April 2022 and will now remain at that level until 5 April 2031, following the new three-year extension announced by the Chancellor. Had the allowance received the normal inflationary increase, rather than been fixed, for 2025/26 it would be around £3,000 higher.

At the other end of the income scale, some taxpayers will have no personal allowance in 2026/27 (or future tax years up to 2029/30) because their income exceeds £125,140. The phasing out of the personal allowance starts at £100,000 and reduces the allowance to nil at £125,140 – also the threshold for additional (45%)/top (48% in Scotland) rate tax.

If you or your partner do not fully use the personal allowance, you could be paying more tax than necessary. There are several ways to make sure you maximise use of your allowances:

- Choose the right investments: some investments do not allow you to reclaim tax paid while others are designed to give capital gain, not income.

- Couples should consider rebalancing investments so that each has enough income to cover their personal allowance.

- Make sure that, in retirement, you (and your partner) each have enough pension income. On its own, state pension provision may not be enough, be it the new state pension (£241.30 a week in 2026/27) or the, lower, old state pension (if you reached your state pension age (SPA) before 6 April 2016). However, your state pension may be more than the basic amounts, which means it could already exceed the personal allowance.

- If one of you pays tax at no more than basic rate and the other is a non-taxpayer, check whether it is worth claiming the transferable married allowance (£1,260 each tax year through to 5 April 2031).

The PSA

The PSA first appeared in April 2016 and has been unchanged since then. Broadly speaking, if you are a:

- *basic rate taxpayer*, the first £1,000 of savings income you earn is untaxed;

- *higher rate taxpayer*, the first £500 of savings income you earn is untaxed;

- *additional rate taxpayer*, you do not receive any PSA.

‘Savings income’ in this instance is primarily interest, but also includes gains made on investment bonds, including offshore/international bonds. Although called an allowance, the reality is that the PSA is a nil rate tax band, so it is not quite as generous as it seems. The PSA means that banks, building societies, National Savings & Investments (NS&I) and UK-based fixed interest collective funds all pay interest without any tax deducted, but they do report payments to HMRC. Thus, if your interest income exceeds your PSA, you could have tax to pay.

Until the past few years, exceeding the PSA limits required a substantial amount of capital, but the higher interest rates that have prevailed since 2022 have changed the picture. For example, if you are a higher rate taxpayer with an account paying 3.75%, then a little over £13,300 is enough to generate annual interest above your PSA. Be warned that, if you do not tell HMRC, it will have the data to tell you and ask for any tax due. That is a fact some taxpayers are discovering as HMRC issues simple assessments to collect the tax due on higher than assumed interest paid in 2024/25.

If you and your spouse/civil partner receive substantial interest income, it is worth checking that you both maximise the benefit of the PSA. This will become more important in the future, as all income tax rates on savings income will rise by two percentage points from 2027/28 (to 22%, 42% and 47%). When reviewing your use of the PSA, it is wise to check the interest rates you are receiving. Last year, research by the Financial Conduct Authority (FCA) found that deposit accounts open to new investors offered, on average, 0.4% more than closed accounts. Many banks’ easy access account interest rates remain well adrift of the Bank of England’s current 4% rate. The Bank’s own statistics show an average instant access rate of 1.81%, whereas 4%+ is available from some smaller banks and building societies.

The dividend allowance and dividend tax rates

The dividend allowance also started life in April 2016, at a level of £5,000 before it was reduced to £2,000 in April 2018. The Autumn Statement 2022 announced two further cuts, leaving it now at just £500.

The allowance means that, in 2026/27, the first £500 of dividends you receive is not subject to any tax in your hands, regardless of your marginal income tax rate. Once the £500 allowance is exceeded, there is a tax charge, at the rates shown in the table below. Like the PSA, the dividend allowance is really a nil rate band, so up to £500 of dividends do not disappear from your tax calculations, even though they are taxed at 0%.

In 2026/27, some dividend tax rates will increase:

Dividend tax rates

Tax year	Basic rate	Higher rate	Additional rate
2025/26	8.75%	33.75%	39.35%
2026/27	10.75%	35.75%	39.35%

The historic yield on UK shares is currently around 3.3%, which means, in theory, a UK share portfolio worth not much more than about £15,000 could attract tax on dividend income in 2026/27, even for a basic rate taxpayer.

Recent reports suggest some investors have already been caught out by the cuts in the dividend allowance. HMRC has been writing to selected self-assessment taxpayers advising them to check the dividend total on their 2023/24 return, as HMRC have “seen quite a few mistakes in this area”.

Planning Point

The dividend allowance of just £500 underlines the value of the dividend tax shelter provided by ISAs. Beyond ISAs, investment bonds and pension arrangements can also provide some shelter.

The starting rate tax band

The starting rate band for savings income was launched at £5,000 in 2016/17 and at a tax rate of 0%, and will remain at that level through to the end of 2030/31. Sadly, most people cannot take advantage of the starting rate band: if your earnings and/or pension income exceed £17,570 in 2025/26, then that will probably include you. However, if you (or your partner) do qualify, you will need to ensure you have the right type of investment income to pay 0% tax.

Planning Point

If you don’t anticipate using all your personal allowance or PSA in the current tax year, think about creating more income by closing deposit accounts before 6 April and crystallising the interest in this tax year. You may even find a better rate with a new provider, but beware of early closure penalties.

For the coming tax year, consider who should own what in terms of investments and savings. The PSA and reduced dividend allowances mean it is not simply a question of loading as much as possible on the lower rate taxpayer of a couple. In theory, you will each be able enjoy an income of up to £19,070 tax free in 2026/27, but only if you have the right mix of earnings, savings income and dividends.

CGT

CGT is another investment tax which has become more burdensome in the past few years, following a reduction of more than three quarters in the annual exemption to £3,000 and last year's increase in rates.

Gains are currently taxed as the top slice of income, but the rates are lower than those that apply to income not covered by allowances. Gains are now generally taxable at 18% to the extent they fall in the basic rate band (£37,700 each tax year through to 2030/31) and 24% if they fall into the higher or additional rate bands.

From 2026/27, carried interest will no longer be taxed as capital gain. Instead, it will be taxed within the income tax framework, with a 72.5% multiplier applied to qualifying carried interest that is brought within the charge. The multiplier implies an effective maximum income tax rate of 36.625% (45% x 0.725) outside Scotland. Class 4 NICs will also apply to the amount charged to income tax.

Planning Point

If you do not use your £3,000 annual exemption by Sunday 5 April 2026, you will lose it and a possible tax saving of £720. If you have gains of over the exempt amount to realise, it could be worth deferring the excess until 6 April or later to gain another annual exemption and defer the CGT bill until 31 January 2028. However, remember that CGT on residential property gains (e.g. buy-to-let) is payable within 60 days of the completion of a sale.

Individual Savings Accounts (ISAs)

The annual ISA investment limit for 2026/27 will be £20,000 overall, a figure that has been unchanged since 2017/18 and will not do so until at least April 2030, following last year's Budget changes. This year's Budget announced two important changes to ISAs:

- From 2027/28, the limit for subscriptions to cash ISAs will fall to £12,000 for those aged under 65.
- The £4,000 limit for the Lifetime ISA (LISA) will remain, but early in 2026 the government will consult on the creation of a new first time buyer's ISA to replace the LISA.

The £9,000 limit for the Junior ISA (JISA) and Child Trust Fund (CTF) stays unchanged until at least the end of 2029/30.

ISAs have long been one of the simplest ways to save tax, with nothing to report or claim on your tax return. The arrival of the LISA complicated matters, as it sits somewhere between the traditional ISA and a pension plan – one probable reason why it is to be scrapped. If you are thinking of investing in a LISA before they disappear, you would be well advised to seek advice before taking any action.

Over time, substantial sums can build up in ISAs: if you had maximised your ISA investment since they first became available in April 1999, you would by now have placed over £345,000 largely out of reach of UK taxes. With the cuts to dividend allowances, reductions in the CGT annual exemption and higher CGT rates, such long-term planning has become more valuable.

> ***Planning Point***
>
> The first CTF accounts matured in September 2020 as their owners reached 18. The tax benefits continue after maturity as a 'protected account' until instructions to deal with the monies are provided. That is just as well, because, in September 2025, HMRC reported that 758,000 18-23 year olds had an unclaimed CTF, with an average value of around £2,000. For those who do claim, one option is to transfer to an ISA. To trace a missing CTF go to www.gov.uk/child-trust-funds/find-a-child-trust-fund.

VCTs and Enterprise Investment Schemes (EISs)

VCTs and EISs have been subject to many rule changes over the years. Before the Budget, the most recent significant reforms changed the nature of schemes by raising the element of risk, which included the introduction of an explicit 'risk to capital' requirement. This has focussed the investment made by VCTs, EISs and Seed Enterprise Investment Schemes (SEISs) on young companies where there is a real risk to the capital being invested.

The Budget makes several changes to VCTs and EISs from 2026/27, mostly focussed on expanding the size of eligible companies and the investment they can receive:

- The gross assets requirement that a company must not exceed for the EIS and VCT will rise from £15m to £30m immediately before the issue of the shares or securities, and from £16m to £35m immediately after the issue.
- The annual investment limit that companies can raise will double to £10m, and for knowledge-intensive companies to £20m.
- A company's lifetime investment limit will double to £24m, and for knowledge-intensive companies to £40m.
- The rate of income tax relief for VCT investment will be cut from 30% to 20% from 2026/27. EIS relief will remain at 30%.

Interest in VCTs, EISs and SEISs has grown as the number of higher rate taxpayers has grown, because of the continuing freeze on the higher rate threshold and, in relation to VCTs, the tax freedom of dividends against a background of higher taxes on other investments and, soon to be even higher, taxes on dividends. VCT fundraising in 2024/25 was the third highest on record at nearly £900m, a figure that could be exceeded this tax year, in light of the impending reduction of the rate of income tax relief and the increase in the rate of dividend taxation for basic and higher rate taxpayers on other investments. Most of the long-established VCTs started their 2025/26 capital raising well ahead of the Autumn Budget.

Planning Point

The most attractive VCT offers can sell out quickly – well before you read about them in the weekend press. With many offers already open, some with limited remaining capacity, and the final opportunity to obtain 30% tax relief, make sure you let us know as soon as possible if you want to make any VCT investment in this tax year.

Pay later, not now?

For the growing number of higher and additional rate taxpayers, there can be a case for considering the options for tax deferral, once the decision on which sector to invest in has been made. The potential advantages and disadvantages of tax deferral include:

- What would be going to the Treasury instead remains invested, enhancing potential returns.
- There is the possibility that tax rates will be lower when the investment is realised. The opposite risk is that the higher tax rates could appear in the future. However, your marginal tax rate could rise anyway because of the impact of tax bands and allowances being frozen until 5 April 2031.
- Investing in UK or offshore investment bonds can provide a highly effective and simple way to manage tax deferment and the ability, with advice, to minimise or avoid tax on encashment altogether.
- Some tax liabilities might disappear completely. Under current rules there is generally no CGT on death and, although several think tanks have suggested this relief should be withdrawn, it is one of the proposed CGT reforms that has not been taken up by the Chancellor.

- The investor may change their country of residence, giving rise to a lower tax rate or possible tax savings during the period of transition between the old and new homes.

As the above proves, there is a variety of tax-deferral options available but, as ever, advice is needed.

ESTATE PLANNERS

Nil rate band

The nil rate band reached its current level of £325,000 in April 2009 and, following this year's Budget announcement, will now be frozen until 5 April 2031. Had the nil rate band been increased in line with CPI inflation since 2010, it would be about £530,000 in 2026/27 - £205,000 higher.

Freezing the nil rate band drags more estates into the IHT net, an effect exacerbated by the high inflation after the pandemic. From 6 April 2027 there is a further turn of the screw as pension death benefits are brought into the scope of IHT. If your estate is already potentially liable to IHT, the prolonged freeze could mean it will suffer more tax in the future if property and/or investment values increase. Since April 2009, average UK house prices are up by over 75%, according to the Nationwide, and UK share prices have more than doubled (March 2009 marked their low point in the wake of the financial crisis).

Residence nil rate band (RNRB)

The RNRB came into effect on 6 April 2017, rising to its current £175,000 in April 2020. Like the main nil rate band, the RNRB is now frozen until 5 April 2031. The threshold above which the RNRB is subject to a 50% taper reduction is also fixed until 5 April 2031, at £2,000,000, meaning it is lost altogether for estates valued at £2,350,000 or more (£2,700,000 on second death for couples where the full RNRB is unused on first death).

IHT yearly exemptions

The frozen nil rate bands make the yearly IHT exemptions all the more important:

- *The £3,000 annual exemption.* Any unused part of this exemption can be carried forward one tax year, but it must then be used *after* the £3,000 exemption for that year. So, for example, if you made a gift of £1,000 covered by the annual exemption in 2024/25, you can make gifts totalling £5,000 covered by the annual exemption in 2025/26 by 5 April 2026.

- *The £250 small gifts exemption.* You can make as many outright gifts of up to £250 per individual per tax year as you wish free of IHT, provided that the recipient does not also receive any part of your £3,000 annual exempt amount.

- *The normal expenditure exemption.* Any gift that you make is exempt from IHT if:
    - it forms part of your normal expenditure; and
    - taking one year with another it is made out of income; and
    - it leaves you with sufficient income to maintain your usual standard of living.

Business and agricultural reliefs

In her 2024 Budget, the Chancellor announced major changes to both these reliefs:

- From 6 April 2026, the current 100% rate of relief will generally remain available for the first £1mn of combined eligible agricultural and business property, whether held by individuals or trusts. Above the £1m threshold, the rate of relief will be 50%.
- For AIM shares and other quoted shares designated as 'not listed' on the markets of recognised stock exchanges, such as AIM, the rate of relief will halve to 50% from 6 April 2026.
- The new reliefs apply to lifetime transfers made after 29 October 2024 if the donor (transferor) dies after 5 April 2026.
- The current 50% relief rates of business and agricultural relief will continue and be unaffected by the introduction of the new allowance.
- For certain trusts that were established before 30 October 2024, the £1m allowance will apply to each trust. However, where a settlor sets up multiple trusts after 29 October 2024, the £1m allowance will be divided between trusts.

This year's Budget contained one concession which had been widely called for. Any unused 100% agricultural or business allowance will be transferable to a surviving spouse or civil partner, regardless of when the first death occurred. This treatment mirrors the transferability of the nil rate bands and simplifies estate planning strategies.

Pension death benefits

Following another IHT change announced in last year's Budget, most unused pension funds and death benefits will be taxed as part of the individual's estate from 6 April 2027.

In the Budget it was stated that personal representatives will be able to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and pay IHT due in certain circumstances. Personal representatives will also be discharged from a liability for payment of IHT on pensions discovered after they have received clearance from HMRC.

Planning Point

The change to the treatment of pension death benefits, and where you own business or agricultural property, the changes to business relief and agricultural relief could significantly increase the overall IHT bill on your estate. If you have not already done so, now is the time to arrange for a review of your estate planning. In some cases, life insurance in trust to meet the IHT liability can be worthwhile considering.

BUSINESS OWNERS

Corporation tax rate

The main rate of corporation tax is 25%, a rate which will remain the ceiling throughout this Parliament. Companies with profits of up to £50,000 are subject to a rate of 19%, while for those with profits between £50,000 and £250,000, corporation tax is effectively 19% on the first £50,000 of profits and 26.5% on the excess.

Capital allowances and research and development (R&D) allowances

Capital allowances have been subject to a variety of changes in recent years, ostensibly to encourage an increase in business investment.

The Annual Investment Allowance (AIA), which gives 100% initial relief for investment in plant and machinery (P&M) by businesses, incorporated or otherwise, is now fixed at £1,000,000. However, the AIA has largely been eclipsed, *for companies only,* by 'full expensing' (100% P&M allowance), which, again, the government has pledged not to change.

In the Budget, a new 40% First Year Allowance was announced that will take effect from 1 January 2026 for main rate expenditure – including most expenditure on assets for leasing and expenditure by unincorporated businesses. Cars, second-hand assets and assets for leasing abroad will not qualify.

From 1 April 2026, for corporation tax, and 6 April, for income tax, the main rate writing-down allowances will reduce from 18% to 14%.

Planning Point

Remember that, if your company's profits fall into the £50,000 to £250,000 band, then, on each marginal £1,000 of profit, £265 goes to the Exchequer. The corollary is that any tax-allowable costs, such as a salary, investment in plant and machinery or pension contributions gain 26.5% tax relief.

NICs

Last year's Budget announced significant changes to Class 1 employer's NICs: As a reminder:

- The rate of Class 1 employer's NICs is now 15.0%.

- The secondary threshold, above which employer's NICs are payable, was cut to £5,000 and frozen until 5 April 2028.
- The employment allowance was raised to £10,500, with no upper eligibility threshold.

For 2026/27:

- The lower earnings limit will increase to £6,708 per annum (£129 per week), up from £6,500. (The lower earnings limit is the minimum level of earnings at which an employee's NICs count towards the state pension.)

- The secondary threshold will be frozen for a further three years, up to and including 2030/31.

- The Class 3 voluntary NICs rate will increase to £18.40 per week, from the current £17.75 per week.

- For the self-employed, there is a £260 increase in the small profits threshold to £7,105 and the voluntary Class 2 NIC rate increases to £3.65 per week from £3.50 per week.

- Access to pay *voluntary* class 2 NICs from abroad will be removed from 6 April 2026.

- The period of initial residency or contribution period required to pay *any* voluntary NICs outside of the UK will rise to ten years.

- A review of voluntary NICs will be launched with a call for evidence in the new year.

Pensions

There have been many important pension changes in the past few years, to which new IHT charges on death benefits will be added from 2027/28 (please see Estate Planners above):

- The annual allowance, which sets a tax efficient ceiling on total yearly pension contributions, was increased to a maximum of £60,000 from 2023/24. Annual allowance tapering now applies when threshold income exceeds £200,000 and adjusted income exceeds £260,000. The minimum tapered annual allowance is £10,000 (which operates when adjusted income is £360,000 or more).

- The money purchase annual allowance (MPAA), which is triggered the first time that pension benefits are drawn flexibly, rose to £10,000 from 2023/24.

- The lifetime allowance (LTA) which had set a tax efficient maximum value of pension benefits, was abolished from 6 April 2024.

- At the same time as the LTA was removed from pension legislation, a new cap (the lump sum allowance) on the tax-free pension commencement lump sum was introduced, set at £268,275, unless any of the LTA transitional protections apply.

- Similarly, since 6 April 2024, a new cap on lump sum death benefits (the lump sum and death benefit allowance) of £1,073,100 has applied. Again, this is subject to any higher figure resulting from previous LTA protections.

While these reforms have simplified the pensions tax regime in some respects, they have also added another layer of complexity to pension planning.

Planning Point

The forthcoming changes to the IHT treatment of death benefits mean that pension contributions may not be the most tax-efficient way to invest if estate planning is important to you. As ever, in this complex area, professional advice is vital *before* taking any action.

Salary sacrifice

Some years ago, the Treasury introduced measures to curtail the use of optional remuneration arrangements (OpRA), more commonly known as salary sacrifice schemes. Most such arrangements are now subject to employer's NICs (and taxed on the employee) based on the amount of salary given up rather than the notional value (if any) of the fringe benefit received.

However, salary sacrifice for pension contributions were favourably treated and fully exempted from the rules. Cars with CO_2 emissions of 75g/km or less – typically electric and some plug-in hybrids – were also made exempt. The introduction of a grant of up to £3,750 for new EVs has further enhanced their relative appeal.

From 2029/30, an effective cap on £2,000 a year of salary will apply to pensions funded by salary sacrifice. Employer's and employee's NICs will be levied on the excess so, while the income tax relief benefits of salary sacrifice into pensions will still exist, contributions above £2,000 made as a result of a salary sacrifice will not benefit from the NICs savings.

Planning Point

The exemption given from the OpRA rules to low emission vehicles makes these worth considering if you offer a salary sacrifice scheme for your employees.

VAT registration and deregistration

The VAT registration threshold will remain at £90,000 and the deregistration threshold will also be unchanged at £88,000.

Business rates

Following a revaluation, in 2026/27 there will be a new approach to business rates:

- Small retail, hospitality and leisure (RHL) properties will be subject to a multiplier of 38.2p and the multiplier for standard RHL properties will be 43p.
- The small business rates multiplier will be 43.2p, while the standard multiplier will be 48p
- For properties with a rateable value of £500,000 and above the multiplier will be 50.8p.

For those seeing bill increases, there are various support packages over the next three years, including:

• A Transitional Relief scheme providing more generous support to the largest ratepayers, including airports and hospitality.
• A Supporting Small Business scheme to help the smallest businesses.
• An expansion of the Supporting Small Business scheme to businesses which were eligible for the old RHL relief, protecting them as they transition to permanently lower tax rates.

Dividends or salary…or self-employment?

The choice of whether to run a business as a company rather than as self-employed has often been heavily driven by tax considerations. The company route offers the opportunity to draw income as dividends, free of NICs, and shelter profits at a marginal corporation tax rate that is below the higher rate of income tax (and less than basic rate if profits are under £50,000). The tax mathematics of incorporation has been, and continues to be, upended by:

- Changes in corporation tax rates from 1 April 2023;
- Reductions in the dividend allowance in 2023/24 and 2024/25;
- Two rounds of cuts to employee NICs (on earnings up to £50,270);
- In Scotland, the introduction, in 2024/25, of the 'advanced' income tax rate of 45% (for taxable income between £62,430 and £125,140) and a 48% top rate on earnings. Dividends remain subject to UK-wide rates;
- The higher rate of Class 1 employer's NICs from 6 April 2025; and
- The two percentage points increase in dividend tax rates for basic and higher rate taxpayers from 6 April 2026, announced in the Budget.

However, incorporation is not just about tax and is an area where expert advice is essential.

For existing companies, the increase in dividend tax does not automatically mean that salary is to be preferred to dividends. When choosing between dividend and salary, advice is essential in considering the combined impact of corporation tax, NIC, income tax and dividend tax rates:

Dividend or salary revisited

Joan's company will make profits of around £85,000 in the financial year to 31 March 2027. She is already an English higher rate taxpayer with income of around £83,000 a year (the majority of which is salary from her company) and wants to draw £20,000 of those profits out of the company. Any dividend she draws in 2026/27 is fully taxable as her dividend allowance is already exhausted. In many previous years she had chosen a dividend rather than a bonus, but that does not make financial sense in 2026/27, despite the increase in the employer's NIC rate implemented from 6 April 2025:

	Bonus £	**Dividend £**
Gross profit	20,000	20,000
Corporation tax		(5,300)
Employer NIC*	(2,609)	
Gross pay/dividend	17,391	14,700
Income tax†	(6,956)	(5,255)
Employee NIC	(348)	
Net income	**10,087**	**9,445**

** The £10,500 Employment Allowance is assumed to be used already or unavailable. The £5,000 employer secondary Class 1 NIC threshold is already used on Joan's salary from her company.*
† Available £500 dividend allowance assumed to be already accounted for.

Note: Were Joan a Scottish advanced rate (45%) taxpayer, then there would be a £228 benefit to drawing a dividend.

…Or nothing at all?

For some private company owners, the ultimate way to limit their tax bill is to choose to leave profits in the business rather than draw them either as dividend or salary. With the top rate of income tax currently at 45% (48% in Scotland) - and marginal rates potentially much higher - there is an obvious argument for allowing profits to stay within the company, where the maximum marginal tax rate is 26.5%.

This strategy could have tax risks in terms of eligibility for CGT business asset disposal relief and IHT business relief. There is also a risk of further reform or abolition of CGT business asset disposal relief or there could be moves to recharacterise accumulated profits as income for tax purposes on liquidation or sale of the company. Further, IHT business relief reform from next April could also have an impact. Money left in the company is also money exposed to creditors, so professional advice should be sought before turning a business into a money box.

EMPLOYEES

Company cars

In 2026/27, the scale charges for company cars will at worst mostly nudge up by one percentage point from 2025/26 levels. The increase harks back to the Autumn Statement 2022, in which:

- The scale percentages for electric (EV) and ultra-low emission cars (less than 75g/km CO_2) were increased by one percentage point in each year from 2025/26 to 2027/28, subject to a maximum scale percentage of 5% for electric cars and 21% for ultra-low emission cars.

- Rates for all other vehicles bands were increased by one percentage point for 2025/26 up to a maximum appropriate percentage of 37% and then fixed for 2026/27 and 2027/28.

The car fuel benefit base figure for 2026/27 is expected to rise by 3.8%. The latest HMRC data showed that in 2023/24 only 40,000 drivers received this benefit, reflecting both that it requires a very substantial private mileage to make financial sense and the tax-incentivised popularity of electric vehicles for company car drivers.

Last year's Budget announced further increases to company car tax from 2028/29, including an increase in the scale percentage for zero emission vehicles to 9% by 2029/30 (compared with 3% in 2025/26 and 4% in 2026/27) and one percentage point rises in the maximum appropriate percentage in both 2028/29 and 2029/30, taking it up to 39%.

A recent change to the EU and UN emission testing rules for plug-in hybrid vehicles (PHEV) resulted in a sharp jump in measured CO_2 emissions for new vehicles which had the knock-on effect of significantly increasing their scale charges. In response, the Budget announced an easement for all PHEVs registered after 31 December 2024 with CO_2 emissions of 51g/km or more with an electric range of at least 1 mile. Such PHEVs will be deemed to have CO_2 emissions of 1g/km, retrospective to 1 January 2025 until the end of 2027/28.

In addition, anyone accessing an eligible PHEV before 6 April 2028 will remain eligible for the 1g/km easement until the earlier of variation or renewal of the arrangement or 5 April 2031.

> ***Planning Point***
>
> If you are changing your car soon, think ahead to what it will cost you in tax terms. It may make sense to accept cash instead of a new car or join the growing band of EV and PHEV drivers.

Pensions

The pensions landscape has altered dramatically in recent years and continues to change. As a reminder:

- In 2023/24 there was a £20,000 increase in the maximum annual allowance and the adjusted income level (to £260,000) for tapering. The minimum tapered annual allowance was increased to £10,000 from £4,000 (at an adjusted income of £360,000 or more). The benefit of these threshold increases has already been eroded by subsequent inflation.

- Automatic enrolment for employees is now in its fourteenth year. In 2026/27 it looks likely that the earnings trigger for membership will remain at £10,000 (unchanged since 2014/15), and the lower and upper limits for qualifying earnings will be continue at £6,240 (unchanged since 2020/21) and £50,270 (unchanged since 2021/22). The freezing of these limits drags more lower paid employees into auto-enrolment while simultaneously reducing the real value of total contributions for those at the higher end of the earnings scale.

  After many calls for contribution levels to be increased to a more realistic level, two years ago, the then government passed legislation giving it the power to lower the minimum age for automatic enrolment to 18 and remove the lower qualifying earnings limit. However, neither the former nor the current government has triggered any changes. Instead, in July 2025, the DWP announced the revival of the Pensions Commission to “explore the long-term questions of adequacy and retirement outcomes”. The Commission is not due to issue its final report until

2027, suggesting that any increase in automatic enrolment contribution levels is unlikely before the next general election.

- The state pension triple lock means that, in April 2026, state pensions will rise in line with the May-July 2025 earnings (including bonuses) annual growth of 4.8%, 1.0% above the rate of annual inflation to September 2025, another element of the triple lock.

- SPA increases have stopped briefly at age 66, with phasing in of the next increase to 67 due to begin in April 2026 and finish in March 2028. The subsequent rise to 68 is currently legislated to happen between 2044 and 2046. However, in July 2025, the government launched a (third) review into when the move to 68 should occur, with a final decision now likely in 2026.

- In line with the rise in SPA, from 6 April 2028, the normal minimum age at which you can draw benefits from a private pension will rise from 55 to 57. The two-year addition will not be phased in – bad news if you were born on 6 April 1973.

- The LTA has disappeared completely. Its demise has been accompanied by a range of other changes, some of which have a similar effect to the LTA.

- The last Budget announced that unused pension funds and most other pension death benefits would be brought into the IHT net from 2027/28, with legislation due in the coming Finance Bill.

Planning Point

The carry forward rules permit unused annual allowances to be carried forward for a maximum of three tax years. Thus, 5 April 2026 will be your last opportunity to rescue unused allowance of up to £40,000 from 2022/23.

Salary sacrifice

Following the previous government's cuts to employee NICs and the 2025/26 increases to employer NICs, it is to be hoped that NICs have settled down at a maximum marginal rate of up to 23.0% of gross pay – 15.0% for the employer and 8.0% for the employee. The corollary is that avoiding NICs can save up to 23.0% of pay. A widely applied example of turning NICs to an advantage is in the use of salary sacrifice to pay pension contributions. Instead of making personal contributions out of your net pay, you accept a lower salary and your employer makes a pension contribution. If the employer passes on all the NIC saving, the pension contribution could be up to 27.8% higher, as the example shows:

A worthwhile sacrifice

	Personal contribution		Salary sacrifice employer contribution (sacrificed amount + NIC saving)	
Tax rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross salary	1,000.0	1,000.0	Nil	Nil
Employer pension contribution	Nil	Nil	1,150.0	1,150.0
Employer NIC (15.0%)	150.0	150.0	Nil	Nil
Total employer outlay	1,150.0	1,150.0	1,150.0	1,150.0
Employee salary	1,000.0	1,000.0	Nil	Nil
Less: income tax	(200.0)	(400.0)		
NICs (8.0%/2.0%)	(80.0)	(20.0)		
Net pay = net pension contribution	720.0	580.0		
Tax relief	180.0	386.7		
Total pension contribution	**900.0**	**966.7**	**1,150.0**	**1,150.0**

However, from 2029/30, salary sacrifice rules for pension contributions will change. Any salary sacrificed above £2,000 per tax year will remain liable to both employer's and employee's NICs.

Planning Point

The capping of salary sacrifice from 6 April 2029 means that you have four tax years remaining in which the £2,000 salary limit will not apply.

RETIREE / AT RETIREMENT

The pension landscape in Autumn 2025

There have been many changes to pensions in recent years, including:

- The abolition of the LTA from 6 April 2024. However, its ghost has continued to haunt the legislation in various complex new limits and special transitional rules.

- An increase in the maximum annual allowance to £60,000 from 2023/24. The was accompanied by a rise from £4,000 to £10,000 in the MPAA, which applies once income has been withdrawn flexibly (e.g. by pension fund withdrawal).

- Further increases to the SPA, both legislated for and planned. For men and women, SPA is currently 66. The next step up to a SPA of 67 will start in the coming April. An SPA of 68 is currently scheduled in legislation to be phased in between 2044 and 2046, but that is unlikely to be the final timing. In July 2025, the government launched a (third) review into when the move to 68 should occur, with a final decision now likely in 2026.

- The rules giving much greater flexibility in drawing benefits from money purchase schemes celebrated their tenth anniversary this year. They have encouraged many people – not always wisely – to turn their entire pension pot into (mostly taxable) cash. However, the increase in long-term interest rates since 2022 and revised views on the pace of improvements to life expectancy have seen an increasing focus on annuities as an alternative to drawdown. For a 65-year old, typical level annuity rates are approximately 7.7% for non-smokers and 8.2% for smokers, with still higher enhanced rates available for some people, depending upon health or lifestyle.

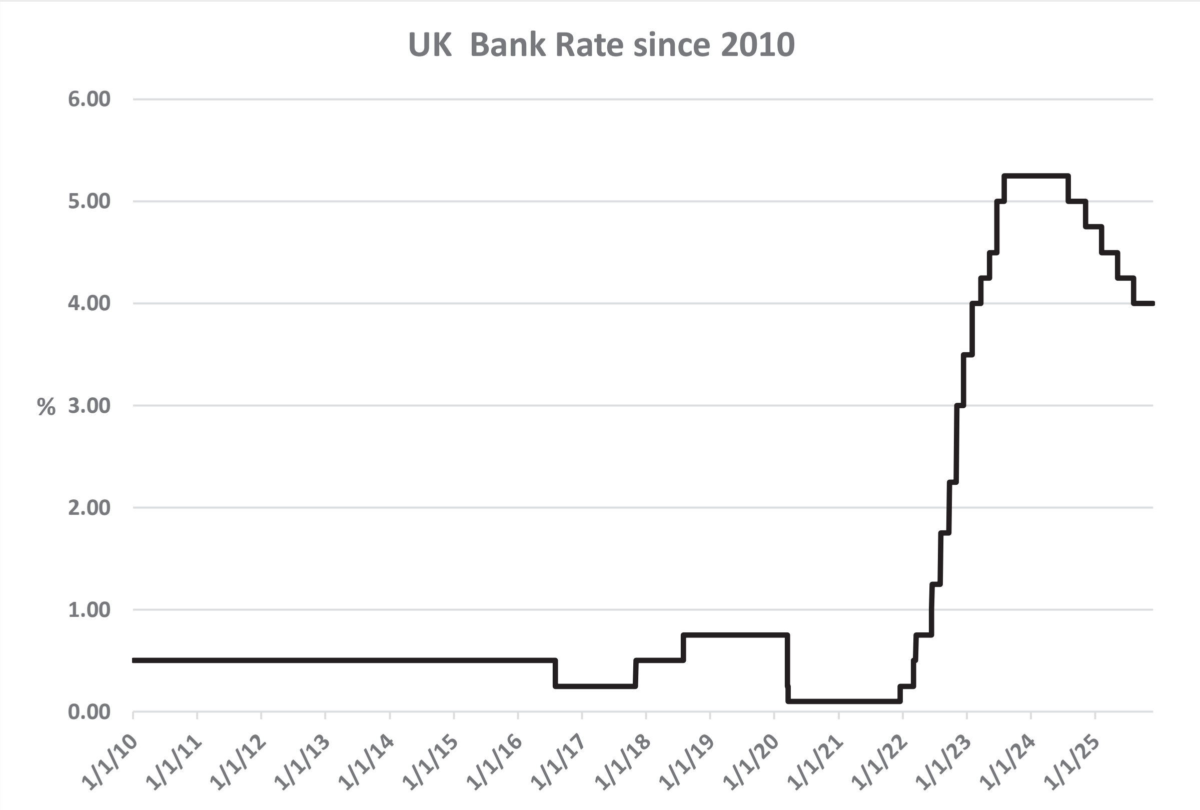
- The single-tier state pension started on 6 April 2016. If you are near to SPA, it is worth checking whether your NICs record will gain you the maximum available. You can also top up *after* SPA, but in that case, there is no backdating of increased pension payments to SPA.

- The triple lock increases the new and old state pension by the greater of earnings growth, CPI inflation and 2.5% and, after suspension for April 2022, was subsequently reinstated. The April 2026 increase will be 4.8%, in line with earnings.

- The Autumn 2024 Budget announced that unused pension funds and most other pension death benefits would be brought into the IHT net from 2027/28, with legislation due in the coming Finance Bill. The Budget announced that, from 6 April 2027, personal representatives will be able to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and pay the IHT due in certain circumstances. Furthermore, the personal representatives will be discharged from a liability for IHT payment on pensions discovered after receiving clearance from HMRC.

> ***Planning Point***
>
> From April 2026, the new state pension will be only about £22 below the personal allowance. Thus, depending upon your exact tax position, virtually all other pension or non-savings income can be treated as attracting tax.

Interest rates: five steps down…



Source: Bank of England

The Bank of England increased its Bank (Base) Rate at fourteen consecutive meetings of the decision-making Monetary Policy Committee (MPC), before pausing at 5.25% for a year in August 2023. Since then, the Bank has cut rates five times, with a sixth cut to 3.75% widely expected by the end of the year.

The cuts in the Bank Rate have impacted on the savings returns offered by banks and building societies. The Bank of England's statistics show that average deposit rates dropped from 2.12% at the end of September 2024 to 1.81%. a year later, well below the 3.6% October 2025 rate of inflation. If getting the best from current interest rates is a concern to you:

- Make sure you take maximum advantage of your PSA and, where possible, your starting rate band.

- The Budget announced that tax rates on interest will rise by two percentage points from 2027/28 to 22%, 42% and 47%.

- Consider cash ISAs, which pay interest tax free. However, do not assume a cash ISA will always deliver a markedly better return than a taxable deposit, especially if you have some PSA remaining. Current market surveys show the top taxable deposit rates remain marginally higher than the top ISA instant access rates. However, as a result of the Budget, from 2027/28 your cash ISA subscription will be limited to £12,000 a year if you are under age 65.

- Regularly check the interest rate on all your deposit accounts. It is especially important to watch accounts with bonus rates or limited terms – once the bonus period or account term ends, returns can look very unattractive. Do not simply wait for the next statement: if you are only earning less than 4.0% on instant access funds, you need to know now. By a curious twist, for most taxpayers, the best NS&I variable offerings remain Premium Bonds, which have a prize fund (tax-free) rate of 3.60%.

- If government-backed fixed term investments appeal to you, it is possible government bonds (gilts) will provide higher *net* returns than NS&I products because much of the return is achieved through tax-free capital gains at maturity. Advice is essential to choose the right gilt.

- Consider investing in UK equity income funds, where yields of 4% and more are available. You will lose capital security, but your initial net income would be higher than from most deposits, even allowing for the two-percentage points increase in dividend tax rate from 6 April 2026. The 2026/27 dividend allowance means that you receive £500 of dividends before paying any dividend tax, regardless of your personal tax rate.

Planning Points

If you have not yet arranged an ISA or invested up to the 2025/26 maximum, think about doing so. If you are unsure where to invest at present, you can always leave your money in a cash fund in a stocks and shares ISA.

Drawing your pension

The Autumn 2024 Budget's announcement that unused pension funds and pension death benefits would fall into the scope of IHT has already prompted some rethinking of strategies for pension fund withdrawals and diluted the argument that it can be better to draw on non-pension assets for retirement income. The new rules do not apply until 6 April 2027, so there is still time to consider and plan for the changes.

> ***Planning Points***
>
> If you are due to start drawing an income from your pension plan, make sure that you take *advice* about your options. While the FCA has required providers to offer pointers to guidance and some default investment options, these do not amount to personal advice: the final decisions rest with you. There is no attempt to integrate your pension arrangements with other aspects of your financial planning, e.g. estate planning.
>
> If you think how long you might live with the cost of a wrong choice, it is clear that getting independent advice is the route to take. This is particularly important if you are considering buying a pension annuity, which now offer much more attractive rates than they did just a few years ago.
>
> Taking an "all asset" or "holistic" approach to planning your drawdown strategy, when whatever counts as "retirement" for you commences, will be extremely worthwhile when you have a range of assets to potentially draw from. Ensuring minimum "tax leakage" on what you draw, and preserving capital in the most tax efficient places, will be essential to securing an optimum outcome. Especially with the upcoming changes to the pension rules, informed advice on this most important of financial planning strategies will be essential.

PARENTS

Child Benefit

The much-criticised High Income Child Benefit Tax Charge (HICBC) – the Child Benefit tax – was revised in 2024/25. The adjusted net income threshold at which the charge is triggered increased to £60,000 and the charge was halved to 1% per £200 of income above that level. Thus, if you or your partner have adjusted net income of £80,000 or more in 2025/26 or 2026/27, there will be a tax charge equal to your total Child Benefit unless you have chosen to stop benefit payments.

The HICBC structure means that you could find yourself facing high marginal rates of tax in the £60,000-£80,000 income band. If you have three children eligible for Child Benefit, in 2026/27 the marginal rate could be as much as 56.3% (61.3% in Scotland, thanks to the 45% advanced rate).

Planning Points

The HICBC is a good reason to check your joint tax planning. If one of you has income above the £60,000 threshold, but the other below, shifting income by, for example, changing investment ownership, could save tax.

JISAs

JISAs were launched in November 2011 with an annual investment limit of £3,600, which has since been increased to £9,000. The Autumn 2024 Budget confirmed that the £9,000 limit will remain until 5 April 2030. JISAs can be invested in cash deposits and/or stocks and shares in any proportion and can usually be arranged for any child aged under 18 who was born after 2 January 2011. A child cannot have both a JISA and a CTF account (which has the same investment limits). It is possible to transfer CTF accounts to a JISA, a move that may result in reduced fees and a wider investment choice.

The first CTF accounts, for children born in September 2002, reached maturity in September 2020. By default, matured CTF accounts have continued to enjoy the current UK ISA tax exemptions as a ‘protected account’. If instructions are given, they can be transferred to an adult ISA, with any such transfer not counting as a contribution for the tax year, unless it is to a LISA (while these continue to be available). According to a recent press release from HMRC, 758,000 18-23 year olds have not claimed their CTF funds. Many CTFs are ‘lost’ with just one payment of £250 having been made by the Government over a decade ago. To trace a CTF, go to https://www.gov.uk/child-trust-funds/find-a-child-trust-fund.

University funding

The maximum tuition fee rose from £9,250 to £9,535 for 2025/26 students in England and Wales, the first increase for some years. In October 2025 the government announced that, in England, fees would rise in line with forecast inflation for the next two academic years, with inflation-linking applying thereafter.

Two years ago, a revised loan repayment system was introduced for English students. This scheme starts loans repayments at a lower earnings threshold (£25,000) than applies to current graduates and will not write off any outstanding loan for 40 years, rather than the previous 30 years. However, the maximum interest rate for the new scheme is RPI (currently running at 4.3%), rather than the RPI+3% which applied under the former loan scheme.

If you have children likely to go to university, it makes sense to consider your funding options. For example, JISAs are a potentially valuable tool to build up a fund by age 18. For those who prefer a greater degree of control over the student's access to the investment at age 18 (while retaining tax efficiency) collective investments held subject to an appropriate trust can look attractive, as could an offshore investment bond.

Despite these tax-efficient pre-funding opportunities, under the latest loan rules it may still make sense to take the student fee loans while at university rather than pay fees from capital. That is because, for the latest loan regime, a maximum RPI interest cost is not excessive and there is always the possibility that some of the debt will be written off after 40 years from the April following graduation.

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