



HOLDING THE LINE

MARCH 2026

Following the drama of last year's Autumn Budget, this year's Spring Statement was reassuringly underwhelming. In the absence of any new policy (as the Chancellor promised), this Statement was predominantly a report of data and forecasts – some of which had already been superseded by the latest global tensions by the time the Chancellor took to the despatch box.

While there are green shoots sprouting in the Chancellor's vision of her economy, the climate remains changeable. Even with a bumper budget surplus in January following an increase in tax receipts, a fall in the rate of inflation, and reduced borrowing, many previously announced tax changes are yet to take effect, meaning that in real terms we are yet to see the full impact of previously announced tax increases. However, the Chancellor insisted that the Government has the right economic plan for the country in an uncertain world.

FISCAL HEADROOM

Fiscal headroom, which is the margin of error for meeting the Government's fiscal targets whilst adhering to its fiscal rules, has increased since November 2025 from £21.7 billion to £23.6 billion. At first glance and compared with recent years, this appears positive. However, headroom remains below historical averages and, perhaps more importantly, the Office of Budget Responsibility's (OBR's) forecasts were prepared before the uncertainty and unrest in the Middle East provoked by the attacks on Iran. If there is a sustained conflict, the fiscal headroom could be rapidly eroded, which could in turn call for further tax increases.

INHERITANCE TAX CHANGES TO APR AND BPR

Since the changes to Agricultural and Business Property Relief (APR/BPR) for Inheritance Tax (IHT) were announced in the Autumn Budget 2024, HM Treasury has since stated that the amount of property covered by the new allowance (therefore qualifying for 100% IHT relief) would increase from £1 million to £2.5 million. This was confirmed in the OBR's economic outlook issued alongside the Spring Statement, which took this policy change into account within its overall forecast.

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From 6 April 2026 and as a result of this change, a married couple may pass on up to £5 million in qualifying agricultural or business property at death without IHT being charged, provided that the property of the first deceased spouse was left to the surviving spouse, therefore being exempt for IHT purposes at that point. Where there is business or agricultural property in excess of the £5 million allowance on the death of the surviving spouse, this excess figure will remain subject to IHT at an effective rate of 20% as previously announced.

The increase in the APR/BPR allowance was announced following a major campaign by farmers and business owners, which began soon after the Autumn Budget 2024 set out the original reforms. The Government stated that the feedback had been considered and that it acted to reduce the number of farms and businesses which would become subject to IHT as a result of the originally planned reforms, whilst ensuring that only the largest estates are impacted.

The policy impact of increasing the APR/BPR allowance to £2.5 million appears to be relatively muted, with the OBR estimating that IHT receipts from April 2026 will only be reduced by £0.1 billion over the medium term compared with previous forecasts. Overall, it is noted that the OBR expects IHT receipts to continue to increase in the period to 2030/31 due to increased equity prices, a growing proportion of deceased estates being subject to IHT, and the overall reforms to the tax announced at the Autumn Budget 2024.

Whilst the increase in allowances for agricultural and business property will no doubt be welcome news for many who would otherwise have faced higher IHT liabilities from April 2026, other IHT allowances remain frozen; namely the £325,000 nil rate band and £175,000 residential nil rate band. As asset values increase and, in many cases, far surpass the real value of these nil bands, and with UK IHT at 40% being one of the highest rates of tax on succession worldwide, effective IHT planning continues to be of vital importance when considering succession and transfers of inter-generational wealth.

INHERITANCE TAX ON PENSIONS

It was announced in the Autumn Budget 2024 that unused pension funds would be included within the charge to IHT on death. Since individuals who are not Long-Term Resident (LTR) are only taxable on assets which have their situs in the UK, the introduction of pension funds into the charge to tax gave rise to the question of where a fund is considered to be situated for tax purposes.

Among a number of amendments to the Finance (No.2) Bill in the Spring Statement, it was clarified that unused pension funds and most lump sum death benefits will be regarded as situated in the country or territory in which the pension scheme is established.

This will exclude foreign pensions from the charge to IHT where the deceased was, on death, not LTR. Broadly, a LTR is someone who has been tax resident in the UK for at least 10 out of the previous 20 tax years.

This provides some helpful clarity for those individuals who are not LTR in the UK, or are planning on ceasing to be LTR in the future, and wish to establish a pension scheme, or already have pension schemes that were established outside the UK. Separately to these IHT considerations, the Income Tax consequences of establishing pension funds in the UK and overseas should still be considered.

THE FISCAL OUTLOOK AHEAD

The OBR forecasts that receipts from Income Tax (excluding self-assessment) and National Insurance contributions are expected to raise £480 billion (15.7% of GDP) in 2025/26, a 11.7% increase from 2024/25. According to the OBR, this rise is driven by employer NICs measures announced at the Autumn Budget 2024 and from strong nominal earnings growth resulting from the controversially frozen tax thresholds. Receipts are then forecast to rise to £600 billion (16.5% of GDP) in 2030/31 with growth continuing to be driven by the frozen tax thresholds.

The OBR also expects a temporary boost to Income Tax receipts between 2026/27 and 2028/29 due to the Temporary Repatriation Facility (TRF) announced as part of the Government's reforms to the taxation of non-UK domiciled individuals. Broadly, the TRF enables individuals who were formerly non-UK domiciled remittance basis users to pay lower rates of tax on income and gains that was previously subject to the remittance basis. The tax rate for qualifying TRF users is 12% in 2025/26 and 2026/27 and 15% in 2027/28. Consequently, the OBR appears to expect that there will be a significant take-up of the TRF by qualifying individuals wishing to benefit from these time-limited special tax rates.

Overall, the OBR forecasts that total receipts from National Accounts taxes (principally Income Tax, NICs, VAT, and Corporation Tax), the so-called 'tax take', is expected to rise as a share of the economy from 34.5% of GDP in 2024/25 to 38.5% in 2030/31, an historic post-1945 high.

The OBR explains that approximately nine-tenths of the overall growth as a share of GDP between 2025/26 and 2030/31 is from PAYE Income Tax with only a small rise in NIC receipts across the forecast. This is because Income Tax rates are more progressive and so receipts are significantly boosted by frozen tax thresholds and earnings growth. NIC rates, by contrast, are regressive at the top end of the earnings distribution, as the marginal rate on employee NICs falls to 2% above the upper earnings limit and employer NIC rates are constant.

Interestingly, the OBR's report also mentions that HMRC has updated the cost of the personal tax threshold freezes announced in the Autumn Budget 2025 to more fully capture the impact on the population for whom the main source of income is the state pension. The new state pension is expected to be higher than the personal allowance from 2027/28.

Updated modelling indicates across all personal tax threshold freezes since April 2021 that the estimated number of people brought into paying tax will increase by 600,000 in 2026/27 and 1 million in 2030/31. Although the OBR only expects this to increase the tax yield of the Autumn Budget 2025 by £0.1 billion in 2030/31, the revised estimate emphasises the effect of frozen tax thresholds, otherwise known as fiscal drag, on bringing large numbers of individuals into the Income Tax net. The OBR does, however, remind us that the Government's stated intentions are that individuals whose only source of income is the basic or new state pension will not pay any Income Tax over this Parliament and that more detail will be set out this year.

Self-assessment (SA) Income Tax is forecast to raise £56 billion (1.8% of GDP) in 2025/26, a 16% increase on 2024/25. Receipts are forecast to rise to £64 billion (2% of GDP) in 2026/27, driven mainly by reforms to the taxation of non-UK domiciled individuals, presumably including from the TRF referred to above.

Further strong growth is expected in 2027/28 due to the reclassification of carried interest into SA Income Tax from Capital Gains Tax, although the overall effect of this change is expected to be fiscally neutral due to increases in Income Tax rates on non-labour components of Income Tax (property, savings, and dividend income) announced in the Autumn Budget 2025. SA receipts are forecast to grow more slowly in the final two years of the forecast (2029/30 and 2030/31).

Another interesting aspect of the OBR's latest report is that tax receipts are forecast to be £12 billion higher than expected in the 2025 Autumn forecast by 2030/31, with approximately 75% of the increase driven by higher than expected equity prices. This is because equity prices are expected to be 8% higher in the first quarter of 2026 than the OBR assumed in November 2025 and to remain 8% higher than previously forecast. This boosts tax receipts, principally Capital Gains Tax, Corporation Tax, IHT, Stamp duty on shares and interest/dividend receipts. The OBR explains that equity prices are highly volatile from year to year and that the increase in tax receipts included in their March 2026 forecast could easily be reversed by a fall in equity prices, outside of the Government's control.

Furthermore, the OBR's report makes it clear that an equity price correction is just one of many risks and uncertainties facing the UK economy and affecting the public finances and that the forecast of the tax-to-

GDP ratio reaching 38.5% of GDP by 2030/31 could be higher or lower.

Given the sweeping tax reforms of the Chancellor's previous announcements, a lighter Spring Statement will come as a relief to many. However, whilst the promise of a single major fiscal event per year has been honoured, the spectre of further tax adjustments in the Autumn Budget 2026 is unfortunately likely to remain.

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