PICK-N-MIX: **ASSORTED TAX CHANGES FOR ALL**

NOVEMBER 2025

BUDGET **BRIEFING**

After months of speculation, the Chancellor of the Exchequer finally announced her second Autumn Budget on 26 November 2025.

With rumours circulating before the announcement as a result of press leaks, economic forecasts or pure conjecture, some of the more radical predictions did not materialise, such as an 'exit tax' for those leaving the UK; a cap on Capital Gains Tax main residence relief for properties valued over £1.5m; or a 1% wealth-style tax on "mansions". Nonetheless, there was something for everyone.

Despite some of the worst-feared tax changes not coming to pass, the 2025 Budget was no less one of the highest tax-raising Budgets in the last decade, with a large assortment of tax measures introduced that surpass the selection which headlined in the Chancellor's live Budget speech.

As expected, the Chancellor increased the freeze on Income Tax and National Insurance thresholds until April 2031, pulling a greater proportion of the population into the higher rates due to fiscal drag. Savings came into the spotlight with limits being placed on salary sacrifice pension arrangements, restrictions on the cash limit of ISAs, and an increase in the Income Tax rates on dividends and property income.

The introduction of the contentiously debated "mansion tax" was confirmed, in the diluted form of a council tax surcharge on properties valued at £2 million and

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above, with property revaluations taking place every five years.

Meanwhile, existing 'look-through' provisions which ensure that UK residential property that is held by non-UK companies are subject to UK Inheritance Tax, will be extended to include 'enveloped' UK agricultural property in their scope.

For business owners, Capital Gains Tax relief on the sale of businesses to employee ownership trusts will fall to 50% from 100% and the conditions for share for share exchange relief will be modified. Businesses will have a new first year allowance and reduced writing down allowance for capital allowances, and businesses offering electric vehicle schemes, as well as private EV owners, will need to consider the implications of the introduction of a cost-per-mile tariff to fund road usage.

On balance, the mixed bag of tax measures included some positive steps, such as an increase for those receiving the full state pension. For businesses, an extension to the permitted value of employee share awards under the EMI scheme provides an opportunity to reward key staff. Another unexpected improvement is that the new £1 million Inheritance Tax exemption on business and agricultural assets will be transferrable between spouses.

Relevant for the internationally mobile, draft legislation has been released making small but important technical changes to the operation of the FIG regime and rules for Temporary Non-Residents, while the Government will consider developing the tax offering to attract high talent individuals from abroad.

For former non-doms, technical changes have been announced to the Temporary Repatriation Facility (TRF) and, surprisingly yet welcome, Inheritance Tax ten yearly charges on trusts settled prior to 30 October 2024 will be capped at a maximum of £5 million every ten years, with exit charges capped at a maximum of £125,000 per complete quarter from 6 April 2025. The draft legislation making these technical adjustments will back-date their effect to 6 April 2025. More detail on these topics will be reported in a separate briefing note.

PERSONAL TAX

Income Tax

Freezing of personal tax thresholds

It has been confirmed that Income Tax and employer's National Insurance Contribution thresholds will be frozen for a further three years, from 2028/29 to 2030/31.

The amounts that have been frozen until 5 April 2031 are as follows:

- Personal Allowance: £12,570
- Higher rate threshold: £50,270
- Additional rate threshold: £125,140
- Employer's ('Class 1 Secondary') National Insurance threshold: £5,000

Since 2018, successive Chancellors have allowed for tax thresholds to be eroded by inflation, and this Budget saw no exception to this trend.

The 'fiscal drag' effect of rising levels of earnings is expected to bring ever greater numbers of earners into the tax system or into higher rates of tax.

Increases to tax rates on property, savings and dividend income

Several changes to the 'savings' components of Income Tax were also announced.

- From 6 April 2026, tax rates on dividend income will be increased by 2%, as follows:

  - Basic rate: 10.75% (from 8.75%)

  - Higher rate: 35.75% (from 33.75%)

The additional rate, which is currently 39.35%, will not be increased. Given that the top rate of UK dividend tax is already one of the highest globally, it is perhaps less of a surprise that this was not also increased.

- From 6 April 2027, the tax rates on property and savings income will also be increased by 2%, as follows:

  - Basic rate: 22% (from 20%)

  - Higher rate: 42% (from 40%)

  - Additional rate: 47% (from 45%)

The effect of these changes will be exacerbated by adjustments made to the Income Tax calculation rules, whereby there will be no option but to deduct various reliefs and allowances from other, non-savings, income in priority, so that the highest rates of tax apply to the property, savings, and dividend income that remains taxable.

Other Income Tax changes

From 6 April 2026:

- Measures will be introduced to remove the process by which employees can claim an Income Tax deduction in respect of additional household costs incurred as a result of being required to work from home.

- A new provision will be introduced which confirms that payments received by zero-hour or similar limited hour contract workers for cancelled, moved or curtailed shifts are taxed as earnings. Regulations will also be introduced so that the payments are charged to Class 1 National Insurance Contributions.

From 6 April 2025:

- For pensioners with total income in excess of £35,000, the amounts they receive in respect of the Winter Fuel Payment (or the Pension Age Winter Heating Payment in Scotland) will be subject to Income Tax, as non-savings income. Subject to certain exceptions, this new charge will apply to payments from winter 2025.

  The charge will be collected through PAYE, unless the taxpayer is required to file a Self Assessment return for other reasons (in which case the charge will be reported and paid through the Self Assessment process).

Increase in State Pension income

The Government has confirmed that State Pension income will be increased by above-inflation amounts, from April 2026, as follows:

- The full ‘New State Pension’ will rise to £241.30 per week, from £230.25 per week, for individuals who reached State Pension age after April 2016.

- The full ‘Old State Pension’ will rise to £184.90 per week, from £176.45 per week, for individuals who reached State Pension age before April 2016.

For pensioners whose sole income is the basic or new State Pension, it has been announced that the Government is exploring the best way for modest amounts of Income Tax to be collected (from 2027/28) without the need to complete tax returns or for ‘Simple Assessments’ to be issued by HMRC.

Salary sacrifice arrangements for pensions from April 2029

From 6 April 2029, the Government has announced that it will cap the amount employees can sacrifice from salary or bonus for pension contributions at £2,000 per year without paying National Insurance Contributions (NICs) .

Employees who contribute up to £2,000 into their pension each year via salary sacrifice will continue to benefit from income tax relief (subject to the usual limits) and national insurance relief. However, employee’s and employer’s NICs will be charged in the normal way on contributions that exceed £2,000. Employers will need to report the total amount sacrificed through their existing payroll software.

Employer pension contributions outside of salary sacrifice arrangements will continue to be exempt from NICs.

For employee pension salary sacrifice arrangements, the NICs liability could be significant, given current employee and employers’ NICs rates can be up to 8% or 2% for employees (depending on their level of earnings) and up to 15% for employers respectively. Indeed, the Government expects this measure to raise approximately £5 billion per year from 2029/30 onwards.

The Government states that 74% of basic rate taxpayers and their employers currently using salary sacrifice arrangements will be unaffected by this change. However, it remains to be seen what behavioural changes will result from this measure, whether the Government will raise as much as it predicts, whether it will act as a pension savings disincentive, and whether pension contributions are accelerated in the next 3 years.

The Government has confirmed that employees who choose salary sacrifice arrangements for tax-free child care or child benefit purposes will still be able to do so.

Alignment of PAYE system for Overseas Workday Relief

From 6 April 2025, individuals who are in their first four years of UK tax residence, following at least a ten year period of non-UK tax residence, qualify for the Foreign Income and Gains (FIG) regime.

An aspect of the FIG regime is that it provides relief, known as Overseas Workday Relief (OWR), for individuals who work in and outside of the UK. OWR means that the individual would not be subject to UK tax on their earnings to the extent that the earnings relate to duties performed outside of the UK. However, the allowable OWR is restricted to the lower of £300,000 or 30% of the individual’s total employment income.

Individuals who qualify for OWR can apply to HMRC, via their employer, to operate UK PAYE tax on their expected UK employment income only, rather than their total employment income, under a Section 690 application. If the application is approved by HMRC, this provides the employee with in-year tax reduction on their employment income.

From 6 April 2026, the PAYE system will be aligned with the OWR limit such that the PAYE relief provided in-year will not be able to exceed more than 30% of the individual’s total employment income (the maximum on which OWR can be claimed).

Individual Savings Accounts (ISA) Reforms

Currently, the ISA allowance is £20,000 per tax year. Taxpayers have the flexibility to use this allowance for investing in a stocks and shares ISA, cash ISA, and Innovative Finance ISA. There are no restrictions on how the allowance is utilised among the aforementioned ISAs.

Income and gains arising within an ISA account are not subject to Income Tax or Capital Gains Tax. This provides the opportunity for individuals to gradually accumulate significant funds or investments in their ISA accounts and receive tax free income and gains on their ISA investments.

The Chancellor announced changes to ISA rules with effect from 6 April 2027 such that the amount that can be invested in a cash ISA is restricted to £12,000 annually. The remaining ISA allowance of £8,000 will need to be invested in non-cash ISAs (e.g. stocks and shares ISA).

The purpose of these reforms as announced by the Government is to develop a “retail investment culture”, with the explanation that investing £1,000 a year in an average stocks and shares ISA every year since 1999 would have delivered a £50,000 better return than if it was invested in a cash ISA.

The Government has confirmed to delay ISA digitalisation (which requires regular onerous reporting from ISA managers) until April 2028 and to maintain the ISA subscription limits until 2030/31.

New Lifetime ISA

The Government has also announced a consultation on reforming the Lifetime ISA in early 2026. Under the current rules, the Lifetime ISA (LISA) can be opened by anyone aged between 18 and 39 to save up to £4,000 annually (this counts towards the annual allowance limit of £20,000), towards either buying a first home with a purchase price of up to £450,000 or for retirement, with the Government adding a bonus of up to £1,000 annually.

The Government intends to publish a consultation in early 2026 on the implementation of a new simpler version of LISAs supporting first time buyers to buy a home. This new product will replace the existing LISA.

Changes to Investor Tax Reliefs (EIS/VCT)

Under the current rules, an individual receives Income Tax relief at a 30% rate (based on the amount invested) for investing in a qualifying Venture Capital Trust (VCT) and for investment in a qualifying Enterprise Investment Scheme (EIS) company.

The Chancellor announced that she would “re-engineer” the VCT and EIS schemes with the aim to support companies not just in their early years but as they continue to grow.

From 6 April 2026, the VCT and EIS annual investment limit (which companies can raise) will be increased to £10 million (from £5 million), and to £20 million (from £10 million) for knowledge intensive companies. Additionally, the lifetime investment limit will be increased to £24 million (from £12 million) and £40 million (from £20 million) for knowledge-intensive companies.

The gross assets test for companies will increase to £30 million (from £15 million) before the issue of shares or securities, and £35 million (from £16 million) after the issue.

However, VCT Income Tax relief for investors will be decreased to 20% from the current rate of 30%.

PROPERTY TAXES

Introduction of high value council tax surcharge ("mansion tax")

From April 2028, homeowners of residential property worth £2 million or more, as valued in 2026, will be liable to a surcharge which is in addition to the existing council tax. The charge will be imposed on property owners rather than tenants, unlike the council tax. The annual surcharge appears to be in the spirit of an ATED charge on individuals, albeit at lower rates.

The annual charge will be:

- £2,500 for properties valued between £2 million to £2.5 million
- £3,500 for properties valued between £2.5 million to £3.5 million
- £5,000 for properties valued between £3.5 million to £5 million
- £7,500 for properties valued over £5 million

The Government will consult on the details of any relief and exemptions determining if any additional support or deferral is required.

Update to Annual Tax on Enveloped Dwellings (ATED)

The ATED legislation will be updated to reflect that claims to relief made in an ATED return can be made without a time limit. Relief is available to companies holding property for qualifying commercial purposes. Penalties will continue to apply to ATED returns not delivered by the filing deadline.

Non-resident capital gains for property rich companies

With immediate effect, the Government has announced anti-avoidance measures relating to Protected Cell Companies (PCCs) that have assets deriving 75% of value from UK land. It will apply to the disposal of an asset or an interest in a cell company, whereby each cell of the company is to be treated as if it were an individual company. It will also clarify legislation for investors. The administrative reforms will apply from 6 April 2026.

INHERITANCE TAX

A number of measures concerning Inheritance Tax (IHT) and trusts were announced, covering anti-avoidance, former excluded property trusts, pensions and Agricultural and Business Property Relief.

Freezing IHT nil-rate bands until 2031

Similar to the freeze in Income Tax thresholds, the IHT nil-rate band and residence nil-rate bands have been frozen at their current levels until April 2031 – a further year compared with last year's Budget. The standard nil-rate band therefore remains at £325,000 (having been frozen since April 2009) and the main residence nil rate band, applying to residential property held in the death estate, remains at £175,000 (having been frozen since April 2020).

This is set to further increase the revenue raised through IHT, with the OBR forecasting a 74% increase in IHT revenue from 2024/25 to 2030/31.

Extension of IHT to enveloped agricultural land

UK agricultural property will, from 6 April 2026, be aligned with the IHT treatment of UK residential property where it is held via an offshore structure. Current IHT provisions ensure tax is charged where UK residential property is held via an offshore structure, which would otherwise be outside the scope of IHT for a person who is not a long term resident (LTR). A person is considered to be a LTR if they have spent more than ten of the past 20 tax years as a UK tax resident. As such, from April 2026 UK agricultural property held in an offshore structure owned by a non-LTR, will also fall within the scope of UK IHT and be regarded as UK situs. Where applicable, APR will continue to be available on agricultural assets brought within the scope of IHT by this change.

Further to the introduction of the residence-based tax regime (FIG regime) from 6 April 2025, the treatment of trusts settled by previously non-domiciled persons follows the long term residence status of the settlor. Where a person ceases to be regarded as LTR, trusts they have settled may suffer an exit charge of up to 6% of the trust's non-UK assets. The Government has therefore announced that legislation will be introduced, effective from 26 November 2025, to prevent trustees bringing non-UK assets to the UK before a change in LTR status and then offshoring them again at a later date, thus avoiding the IHT charge. This does not apply where the taxpayer in question was not considered to be an LTR during 2025/26 or any subsequent tax year.

Finally, restrictions were introduced on the eligibility of gifts to charitable trusts for IHT exemptions. Gifts to UK charities or registered amateur sports clubs are exempt from IHT. Prior to announcements made in the Autumn Budget, gifts to charitable trusts were also exempt. From 26 November 2025 however, gifts made to such trusts which do not meet the wider and more stringent definition of a charity or sports club, will not be IHT exempt. This will also apply to legacies left at death, from 6 April 2026.

Cap on IHT charges for excluded property trusts

The Budget also introduced a cap on the IHT charges applying to former excluded property trusts. These types of trust were those settled by non-domiciled individuals before 30 October 2024 and solely comprised of foreign assets, which therefore fell outside the scope of UK IHT. From 6 April 2025, and where the settlor is now LTR or within the 'tail', IHT charges apply to the trust at the ten-year anniversary of settlement or on an exit event (such as a distribution or on the 'tail' coming to an end). The tax liability due on such events will be capped under new rules.

The applicable cap is £125,000 multiplied by the number of elapsed quarters for the period from 6 April 2025 up to the next ten year anniversary or up to the exit event, with a maximum charge of £5 million for a ten year period. Overall, these measures restrict the IHT burden for such trusts when charges arise and allow time for trustees to consider their future beyond the ten year anniversary charge.

Pension IHT charge from 6 April 2027

As previously announced in the 2024 Autumn Budget, pensions will be brought within the scope of IHT from 6 April 2027. The Government has dropped previous proposals that would have made pension scheme administrators liable to calculate and pay any IHT arising, so the personal representatives of the deceased will be ultimately responsible for any IHT liabilities, as is the case in respect of most other assets.

The measures announced at the 2025 Autumn Budget therefore allow the personal representatives to instruct pension schemes to withhold 50% of the taxable benefits from the respective pension, to pay the IHT arising. Moreover, where a scheme is discovered by the representatives after clearance has been obtained from HMRC and the IHT on a death estate has already been settled, the executors are discharged from an IHT liability.

Transferable allowances for APR and BPR

In respect of Agricultural and Business Property Relief (APR & BPR), the Chancellor announced that any unused sum of the £1 million allowance qualifying for 100% IHT relief will be transferable between spouses and civil partners from 6 April 2026.

Whilst no supplementary documentation has yet been made available, the treatment of the allowance could be similar to that of unused nil-rate bands by deceased spouses, whereby the unused portion can be claimed by the executors of the surviving spouse, upon the second death. This would allow for a combined £2 million worth of qualifying business or agricultural property to be relieved from an IHT charge, with 50% of the excess brought into charge at 40% IHT.

This measure therefore relaxes some of the previous changes to APR and BPR announced at the 2024 Autumn Budget, which did not allow for the new £1 million allowance to be transferable.

NON-UK RESIDENTS

Temporary non-residence amendments

The temporary non-residence (TNR) rules apply where an individual has ceased UK tax residence but resumes UK tax residence without spending more than five consecutive years as a non-resident. Where the TNR rules apply, the individual may be subject to Income Tax or Capital Gains Tax upon their resumption of UK tax residence.

One particular situation where the TNR rules apply is where an individual ceases UK tax residence and then receives a dividend from a close company (or would be a close company if it were UK tax resident) in a period of non-residence. If the individual was caught by the TNR rules, then they would be subject to Income Tax on the dividend upon resuming UK tax residence. There is currently, however, a specific exemption to the rule where the dividend was paid out of post-departure trading profits – i.e. trading profits generated after the individual ceased UK tax residence.

The Government plans to remove this exemption, meaning that from 6 April 2026, all dividends received during a period of TNR will be subject to Income Tax. There will also be revisions to the legislation to specifically allow relief for foreign tax paid in the country of residence at the time the dividend was paid.

Non-resident dividend tax credit abolition

Broadly, non-UK tax residents are subject to Income Tax on their UK source income only. They generally have two options of assessment.

Under the first option, the non-resident may ‘disregard’ their UK investment income (most commonly interest and dividends) and only be assessable on non-investment income such as UK rental income, UK employment income or trading income. The downside of the disregard is that the individual loses their personal allowance.

The second option is for the non-resident to be assessable on all of their UK source income, and (subject to availability and the usual restrictions) retain their personal allowance. Furthermore, they are also able to claim a notional basic rate tax credit of 8.75% against the Income Tax due on their UK dividends.

The Government has announced that from 6 April 2026, they will abolish the dividend tax credit for non-UK residents.

The removal of the notional tax credit will also impact non-UK resident trusts with UK resident beneficiaries and UK dividend income. This is because they will no longer be able to utilise the notional tax credit against Income Tax due on the dividends and are unable to disregard the investment income under the first option above if the trust has UK resident beneficiaries.

Voluntary National Insurance Contributions (NICs) restrictions

It was announced that from 6 April 2026, the Government will limit the ability for individuals abroad to pay voluntary NICs at a cheaper rate to build their state pension. They also plan to increase the initial residence or contributions period to pay voluntary NICs to ten years.

BUSINESS TAX

With the publication of the Corporate Tax Roadmap last year which recognised the need for stability, the impact for businesses of this year’s Budget was expected to be minimal and, with the exception of the changes to salary sacrifice rules on pension contributions, covered above, this has largely played out to be the case.

Capital allowances

Capital allowances allow businesses to write off the costs of capital assets, such as plant or machinery, against their taxable income.

From 1 January 2026, a 40% first year allowance rate will be introduced for main rate qualifying plant and machinery expenditure for both companies and unincorporated businesses, including assets for leasing, but excluding second hand assets and cars. This acceleration of tax relief through the capital allowances regime is mostly likely to be of interest to mixed partnerships that do not qualify for the existing 100% Annual Investment Allowance (AIA) or Full Expensing regimes.

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%, but with AIA and Full Expensing, this change would not be expected to impact many businesses.

The 100% first year allowances for zero emissions vehicles and electric charge-points, which had been due to end on 31 March 2026 / 5 April 2026, has now been extended for one year until 31 March 2027 / 5 April 2027 for Corporation Tax and Income Tax respectively.

Close companies

In early 2026, the Government will consult on a proposal for close companies (a company controlled by five or fewer shareholders or any number of shareholder directors) to report transactions between close companies and their shareholders to HMRC.

Corporate interest restriction

Corporate interest restriction (CIR) seeks to restrict the ability of large businesses to reduce their taxable profits through excessive UK interest costs and encourages alignment of the location of taxable profits with the location of economic activity. CIR is largely only of relevance for companies/groups where their total net UK interest expense exceeds £2 million per annum over a 12-month accounting period.

On administration aspects, several minor aspects of the CIR rules surrounding the appointment of a reporting company (the company which undertakes the CIR reporting for the group), the notification requirement and timing thereof will be amended and largely relaxed. Of greater interest will be a new penalty of £1,000 where a company has not validly appointed a reporting company before a CIR return is submitted.

Administration

Corporation Tax return late filing penalties will be doubled from 1 April 2026. Late filing penalties for a Corporation Tax return will be £200 for a return which is less than three months late and £400 for a return which three months late or more. Where a company has had three successive Corporation Tax return late filings, the penalty will be £1,000 in the case of a late return outstanding for less than three months and £2,000 for a return three months late or more.

With the aim of standardising Corporation Tax Return submissions, the Government will consult in early 2026 on delivery timescales and enforcement for prescribing the content and tagging of the Corporation Tax computation.

R&D and Creative

R&D Advance Assurance

The R&D tax incentive rules have been subject to numerous changes in recent years, alongside increased HMRC enquiry activity, in a bid to reduce abuse of the relief and make it more UK-centric.

Whilst R&D tax incentives are valuable to many companies, genuine potential claimants have been increasingly discouraged from making claims, as they wish to avoid uncertainty and time consuming HMRC enquiries.

In recognition, perhaps, of this uncertainty and following consultation, it has been announced that a targeted advance assurance service will be piloted in Spring 2026, to enable small and medium enterprises to clarify key aspects of their R&D claims before they are submitted to HMRC.

Capital Gains Tax

Employee Ownership Trusts

Employee Ownership Trusts (EOT) are intended to facilitate and encourage employee ownership of businesses. An EOT is set up to acquire a company from its shareholders. The EOT then holds shares in that company for the benefit of the company’s employees.

A major incentive for shareholders to dispose of their shares to an EOT is that the disposal is effectively free of Capital Gains Tax, as gains are deferred against the trustees’ base cost.

For disposals on or after 26 November 2025, it will only be possible to defer 50% of the gain, therefore 50% will be subject to Capital Gains Tax.

It was noted that the cost of the relief has increased significantly beyond the costings undertaken in 2013 when EOTs were introduced, and that half of the relief was going to the largest 10% of the disposals.

The intention is to retain a strong incentive for shareholders to dispose of companies to an EOT, whilst ensuring that some tax is being paid.

Incorporation Relief

Incorporation Relief allows sole traders or partners in a partnership to transfer their business to a company without triggering Capital Gains Tax, provided that the transfer is made in exchange for shares in that company.

At present, Incorporation Relief applies automatically if the conditions are met and no claim is required, albeit the relief can be elected out of.

The relief itself is not changing. But for transfers after 6 April 2026, taxpayers will need to make a claim for Incorporation Relief in their Self Assessment tax return and provide necessary supporting information.

Share Exchanges and Corporate Reconstructions

Share exchanges and corporate reconstructions, such as the insertion of a holding company, can often be achieved in a manner which is tax neutral, provided they are undertaken for bona fide commercial purposes.

However, if this is not the case and tax avoidance is also the main purpose, or one of the main purposes, then HMRC are able to block the application of the tax neutral provisions.

These anti-avoidance provisions are to be modernised, with a view to making them more effective.

The proposed legislation removes the requirement for 'bona fide commercial' reasons and focuses solely on whether the reduction or avoidance of liability to Capital Gains Tax or Corporation Tax is the main purpose or one of the main purposes of the arrangements.

The proposed rules also give HMRC greater flexibility to counteract any reduction or avoidance of tax in a manner which is just and reasonable.

The measure is effective for transactions on or after 26 November 2025. However, if a clearance application under the 'old' rules has been made to HMRC, then the old rules will apply if the proposed transaction is undertaken by the later of 60 days from the Budget or 60 days from receipt of HMRC clearance.

It will remain to be seen how HMRC interpret the application of these revised rules in clearance applications.

A reminder – Business Asset Disposal Relief

Business Asset Disposal Relief (BADR) is a Capital Gains Tax relief which allows for a reduced rate of tax on gains arising from the disposal of qualifying business assets, up to a lifetime limit of £1 million of gains. Most commonly, this might relate to the disposal of shares in an individual's 'personal company'.

At present, the CGT rate is 24%, or 14% if the disposal qualifies for BADR.

A reminder however, that from 6 April 2026, the BADR rate will increase to 18%, which will mean that the reduction in tax rates drops from 10% to 6%. In cash terms, this means that the maximum value of BADR to a taxpayer will drop from £100,000 to £60,000.

Employment and incentivisation

Enterprise Management Incentive

Hiding in the policy paper releases is some rather good news for businesses looking to grant share options to staff under the Enterprise Management Incentive (EMI) regime.

EMI contracts granted on or after 6 April 2026 will allow for the following:

- the allowable value of the options granted to employees will be increased from £3 million to £6 million;
- the gross asset test for the granting company will be increased from £30 million to £120 million; and
- the number of employees for an eligible company will be increased from 250 employees to 500.

These new limits will also be applied to existing EMI contracts that have not expired or been exercised.

A reference is also made to the removal of the EMI notification requirement from April 2027. No details are available on this at the time of writing, but this would seem to be a further relaxation following the abolition of the 92 day reporting rule, with the reporting of EMI option grants currently being required by 6 July following the end of the tax year in which the options were granted.

Benefits in Kind

In other changes, there are administrative changes to allow for a benefit in kind (BIKs) exemption from 6 April 2026 where employers reimburse employees rather than providing direct certain low-value BIKs. Specifically, this will cover eye tests, flu vaccines and home working equipment.

In other BIK announcements, a temporary easement from 1 January 2025 to 5 April 2028 on plug-in hybrid and electric vehicles was announced to prevent their tax charges from increasing due to new emissions standards.

Apprenticeships

With regards to apprenticeships, the age at which SMEs are required to pay the 5% co-investment payment (in respect of funding an apprenticeship) will be increased from 22 to 25 – the precise date for this change has not yet been announced.

Employee Car Ownership Schemes (ECOS)

For the avoidance of doubt, ECOS are not the same as the popular salary sacrifice schemes which are available for employees to acquire electric cars in a tax efficient manner.

Under ECOS schemes, an individual may be sold a vehicle for a loan, often with an arrangement for the employer to buy the car back in the future. As the car is owned by the employee, the benefit in kind would be based on a beneficial loan, rather than under the company car rules. Individuals are also able to claim mileage for business travel.

These schemes are popular in the motor industry and often have legitimate business aims, such as allowing employees in the motor industry to be more familiar with certain cars.

However, it was felt that the schemes were being used to avoid company car benefit in kind charges. Therefore, under previously announced changes, the benefit would arise under the company car rules in some cases, even if the employee owned the car.

This would apply where the employer put restrictions on private use, or there was an arrangement for the car to be bought back or otherwise sold after a period or the employee/ their family were not the registered keeper.

Whilst the rules were due to apply from April 2026, in order to allow greater time for preparation/adaptation, the implementation has been delayed until 2030, with transaction arrangements in place until 2031.

Stamp duty

In order to improve the economic conditions for newly listed companies and encourage greater trading on the secondary market, in respect of transfers made on or after 27 November 2025, an exemption from the 0.5% Stamp Duty Reserve Tax (SDRT) will be introduced for transfers of securities in companies during the three years after a listing (on or after 27 November 2025) on a stock exchange which is a regulated UK market.

In addition, modernisation to the reporting of stamp duty and stamp duty reserve tax on the buying and selling of UK securities is set to be simplified via the introduction of a digital, self-assessment service for a single tax to be known as the Securities Transfer Charge. Legislation will be released in due course.

International tax

There were no seismic changes in respect of international tax matters and the released documents served to provide various minor legislative updates, clarifications, and consultation outcomes.

Most notably, the outcome of the consultation in respect of transfer pricing, permanent establishments and diverted profits tax was released. The key changes being as follows in respect of accounting periods beginning on or after 1 January 2026:

- UK-to-UK transactions will be exempt from transfer pricing where there is no risk of tax loss.
- The UK permanent establishment definition will be amended to align with the latest OECD definition, and the Investment Manager exemption will be updated.
- Diverted Profits Tax will be repealed and replaced with a Corporation Tax charging provision for Unassessed Transfer Pricing Profits.

In other changes, applicable from 2 December 2025, the Government will make provision for interest to be paid on Controlled Foreign Company refunds paid to UK companies where HMRC had recovered amounts under the 2019 European State aid Decision on the Controlled Foreign Company rules and subsequently repaid these amounts under the 2024 regulations.

For the largest global groups (revenue in excess of €750 million) Pillar 2 legislation regarding multinational top-up tax and domestic top-up tax will be updated in the Finance Bill 2025/26 following stakeholder consultation.

Customs duty relief changes

Currently, low value imports (LVIs) into the UK of consignments of goods valued at £135 or less are relieved from customs import duties, although they are still subject to import VAT. As a result of a significant increase in the volume of LVIs in recent years, the Government has announced that this relief will be removed from March 2029 at the latest.

A consultation will run until 6 March 2026 to decide how best to administer the collection of customs duties on high volume LVIs and how this may align with import VAT collection.

VAT and the introduction of E-Invoicing

Further to a consultation and much speculation, the Government has announced that all UK VAT invoices will have to be issued electronically from 1 April 2029. This will involve invoices being issued by the supplier in a specified electronic format. This is a move which will align the UK with many other countries who already have (or are in the process of implementing) such invoicing requirements and is thought to help combat VAT fraud.

The Government will provide further details in due course and will issue an implementation roadmap at the Budget in 2026.

Charity VAT Relief

It has been announced that a new VAT relief will be introduced from 1 April 2026 for businesses donating goods to charity for use by the charity in its charitable services or for distribution to those in need.

There is currently a zero rate VAT relief in place for the donation of goods to a charity for its onward sale to raise funds for the charity, but this is limited to goods donated for the purpose of re-sale by the charity. To date, this has created an anomaly when goods are donated by a business for the charity to use itself to further its charitable activities or indeed to distribute to those in need. This currently results in the donor business having to account for VAT on the deemed supply of the goods.

The Government ran a consultation earlier this year, which Rawlinson & Hunter contributed to in order to raise the implications the current VAT rules have for both donor businesses and recipient charities.

It is good news that this anomaly appears to have been addressed by the announcement of a further VAT relief being introduced in this area. This should assist businesses in making charitable donations without having to consider the resultant VAT cost. However, it should be noted that the relief will be restricted to items with a value of £100 or £200 depending on the type of goods, so it will not cover all items donated to charities.

OTHER CHANGES

Child benefit cap

The current two-child benefit cap for those claiming tax credits and universal credit payments has been lifted, taking effect from April 2026. This is to help with the Government's aim of tackling child poverty.

Image rights

There will be clarification on the tax treatment of image rights relating to an employment. This is to ensure all employment related image rights are subject to Income Tax and both employee and employer National Insurance Contributions as employment income.

The Government plans to legislate for this in the Finance Bill 2026/27 which will take effect from 6 April 2027.

Cryptoassets

Two important changes relating to the taxation of cryptoassets were announced:

- Requiring domestic reporting of UK resident cryptoasset users under the Cryptoasset Reporting Framework (CARF). As previously announced, the Government confirmed it will introduce legislation in the Finance Bill 2025-26 requiring UK Reporting Cryptoasset Service Providers to report on their UK resident customers under the CARF. This is in addition to reporting on non-UK resident customers which is already required under the CARF which enables cross-border information exchanges between tax authorities on transactions of cryptoasset users. The first reports to HMRC are required by 31 May 2027 for information collected from 1 January 2026 to 31 December 2026.

- Cryptoasset loans and liquidity pools. The Government published a summary of responses to the 2023 consultation on the taxation of decentralised finance (DeFi) involving the lending and staking of cryptoassets. The document reveals that HMRC has been working to develop a potential approach where certain qualifying cryptoasset disposals are treated as 'no gain, no loss' (NGNL) transactions. The Government states that itis continuing to assess the merits of this approach and the case for making legislative changes to the rules governing the taxation of cryptoasset loans and liquidity pools.

Charity compliance

Further to the changes announced in 2024 Autumn Budget regarding tainted donations and approved charitable investments, the Government will introduce legislation in the Finance Bill 2025/26 to strengthen the previously announced changes. These will take effect from 6 April 2026.

Tax offer for high-talent new arrivals

The Government will seek views in due course, on how to further develop its tax offer for 'high-talent' new arrivals. This is to ensure that the UK remains a competitive destination for growth-driving global talent which would cover both individuals and businesses.

Making Tax Digital (MTD) exemptions

A digital exclusion from Making Tax Digital (MTD) applies for taxpayers where it would either not be 'reasonable practical' to comply with MTD due to their age, disability, location or other reason or alternatively, they are members of a religious society whose beliefs are "incompatible with using electronic communications or keeping electronic records". There will be secondary legislation be released on the exemptions and deferred start date for some taxpayers.

Reform of Air Passenger Duty for private jets

Following a consultation, it was announced that the Government intends to proceed with extending the scope of higher rate of Air Passenger Duty (APD) to cover all private jets over 5.7 tonnes from April 2027. This is to ensure that those who travel by private jets make a fair contribution to public finances, alongside commercial air passengers.

Electric Vehicle Excise Duty (eVED)

The continued take up of electric vehicles means that demand for petrol and diesel will fall, and consequently tax income from fuel duty will reduce. By 2030, it is forecast 1 in 5 drivers would pay no fuel duty.

Therefore, the introduction of eVED has been announced from April 2028. In a bid to maintain an incentive for drivers to move to electric vehicles, the rate of 3p per mile for electric cars is intended to be half the rate of fuel duty, and half again for plug in hybrids at 1.5p per mile.

The Government will consult on the implementation of eVED but have ruled out a requirement for cars to have trackers or reporting of when and where miles are incurred.

Somewhat controversially, it is intended that eVED will also be payable on mileage driven overseas in UK registered electric cars. Whilst the same is theoretically true of fuel duty, this ignores the fact that drivers driving overseas will typically purchase petrol or diesel locally (on which UK fuel duty would not be payable).

TAX AVOIDANCE AND ADMINISTRATION

Making the tax system fairer; more measures to close the tax gap

Closing the tax gap has been a large focus of the current Government's fiscal policies since they came into power, with the emphasis on "pursuing those who try to bend or break the rules, collecting more unpaid taxes and modernising the tax system".

This Autumn Budget was no exception, with further announcements on policies that are forecasted to raise £10 billion in 2029/30. Such policies include:

- Penalties reform for inaccuracy and failure to notify penalties, with increased penalties for late payment of Income Tax due under Self Assessment and VAT from 1 April 2027.

  There will also be penalties for 'Making Tax Digital' filing requirements from 6 April 2027, presumably to allow for 'teething problems' in 2026/27.

- Requiring tax advisers who interact with HMRC on behalf of clients to register with HMRC and meet "minimum standards"; a move designed to enable HMRC to monitor and exclude tax advisers who are objectively unable to meet HMRC's Standards for Agents or cannot lawfully act as a tax adviser.

  Tax advisers will be required to register from 1 April 2026, though the measures stop short of regulating tax advisers, as originally mooted in the October 2024 consultation.

- Enhanced powers and sanctions against tax advisers who deliberately facilitate non-compliance. From 1 April 2026, HMRC will have additional powers to target such advisers, including:

  - allowing HMRC to request information from tax advisers using a file access notice where there is reasonable suspicion of sanctionable conduct;

  - removing the requirement for tribunal approval before issuing a file access notice, replacing it with a senior HMRC officer approval mechanism – where a file access notice is approved by HMRC it will be appealable to the tribunal;

  - revising the penalties for failure to comply with a file access notice to include where inaccurate information is provided, and allowing HMRC to increase the penalty amounts with tribunal approval;

  - introducing penalties for tax advisers who are found to have deliberately facilitated non-compliance in their clients' tax affairs, calculated based on the tax loss;

  - and a new power allowing HMRC to publish details of advisers where they have been sanctioned.

- Further legislation to crack down on promoters of tax avoidance, giving new powers to stop such activity such as a ban on promoting arrangements that have no realistic prospect of success, and powers to allow HMRC commissioners to specify further arrangements in regulations which may not be promoted, with penalties and a criminal offence for non-compliance.

  HMRC will also be able to issue Promoter Action Notices (PAN) requiring promotes to stop their goods and services and issue Anti-Avoidance Information Notices (AAIN) which allow HMRC to effectively investigate promoter organisations and identify the responsible individuals, with penalties and criminal offences for those who are non-compliant.

  There will be a consultation of the measures in early 2026, with a view to introducing measure in the Finance Bill 2025/26.

- A strengthened reward scheme for HMRC informants to tackle high-value anti-avoidance or evasion, which is modelled on the US scheme. With immediate effect, a reward of up to 30% of the tax collected will be paid to informants where tax of over £1.5 million is recovered.

  There are many restrictions on the eligibility for the reward, which is not unsurprising.

- Investing further in HMRC's debt management teams, with an additional £89 million over the next five years which is in addition to the £262 million announced in the Spring Statement, as well as investing £64 million over the next five years in HMRC's existing partnerships with private sector debt collection agencies.

- Strengthening HMRC powers to tackle fraud within the Construction Industry Scheme.

There are other measures for which we have scant detail at the moment but with proposed consultations to take place in 2026, including:

- Measures requiring taxpayers with Pay As You Earn (PAYE) income and who are also within the Self Assessment tax return system (generally those who have other sources of income outside of employment income) to pay some of their non-employment tax liabilities via PAYE.

  It is clear that the Government are seeking to bring forward tax payments beyond the current Self Assessment deadlines for payments at 31 January and 31 July, with a view to collecting 'real time' payments.

  The Making Tax Digital (MTD) scheme, due to start from 2026/27, will bring in those with rental income and self-employment, but if these measures are introduced, tax liabilities relating to investment income may also be brought forward.

- Enhancing HMRC powers to ensure taxpayer errors in tax returns are corrected.

- Reducing non-compliance from uncertain tax treatments.

- Measures to introduce a new 'recklessness' criminal offence for fraudulently evading direct taxes, to align with existing indirect tax offences.

The Autumn Budget also included a statement regarding offshore anti-avoidance, with commitments to "ambitious reform and substantial simplification of the Personal Tax Offshore Anti-Avoidance Legislation" with any changes aimed to be introduced by 2027/28.

The anti-avoidance legislation in question relates to Settlements legislation, Transfer of Assets Abroad legislation, and Capital Gains Tax legislation relating to offshore trusts and non-resident companies, thus will affect many who have offshore trusts and companies.

Modernising HMRC's outbound digital communications

As part of the reforms, the Government announced further improvements to their digital services that were initially announced as part of their "Transformation Roadmap". The Government's goal is to modernise the way in which HMRC communicates with taxpayers, having set their ambitions of at least 90% of all interactions being digitalised by 2030.

As a reminder, the Transformation Roadmap focuses on improving digital services for individuals and small businesses. This reform was driven by data outlining that 86% of HMRC's stakeholders are willing to engage digitally, and indeed would prefer this option over more dated methods.

HMRC has commented in the past that stakeholders must be reassured that any digital communications are secure and accurate, and we have seen that they are willing to delay services if they are deemed unreliable. The most famous project here being Making Tax Digital, which has been delayed numerous times.

Nevertheless, HMRC is committed to moving to a digital service by 2028-29, whereby all stakeholders will receive correspondence digitally unless otherwise unable to due to being “digitally excluded”. These measures are expected to save £50 million a year by 2029.

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