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FOREWORD

For over two months now the country has been subjected to rampant speculation and rumour to a degree that prompted the Deputy Speaker to comment immediately before the Budget speech; “Like many, I expected better”.

The changes are a somewhat mixed bag, and while free from some of the more extreme policy changes that had been suggested in certain corners (such as reduction in pension tax free lump sums, wealth tax, IHT lifetime giving restrictions), there are still some quite major alterations here to consider.

The ongoing freeze to tax bands and the consequent “stealth tax” will continue to upset many, and the decision to remove the two child benefit cap at a time when working people are suffering a very high tax burden will be controversial in many quarters.

Overall, however, in contrast to the Deputy Speaker, I would say “Like many, I expected worse”.

James Hearsey
27 November 2025

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Further copies of this guide, together with further information concerning the Budget, are available on our website at www.sayersb.co.uk.

Note: This Guide has been compiled from the Chancellor's Budget Statement and Government Press Releases. The legislation necessary to implement these proposals will be contained in a Finance Bill expected to be published shortly. The Bill will then pass through Parliament before becoming law. Until then the Chancellor's proposals should be regarded as subject to amendment. No liability can be accepted for any loss incurred by a person relying solely on the content of this Guide.

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KEY TAKEAWAYS

BUSINESS AND CORPORATE TAX

Corporate tax

With the continued focus on growth, the Chancellor is sticking to stability and predictability in the business tax system. Which essentially means nothing is changing.

As announced in 2024, for this Parliament:

- The main rate of corporation tax is capped at 25% and the small profits rates and thresholds will remain as they are currently (19% if annual profits are below £50k, effective rate of between 19% and 25% if annual profits are between £50k and £250k.)
- Capital allowances remain unchanged, with full expensing and the £1m AIA limit (but note below).
- The new merged R&D scheme goes ahead as previously announced.
- Other tax reliefs and regimes such as Patent Box, Video Games Expenditure Credits and intangible asset reliefs remain.

Corporation tax late filing

Penalties for late filing of corporation tax returns will double from 1 April 2026. Penalties will therefore increase to £200 for returns that are 1 day late and £400 if 3 months late.

Capital allowances

A new 40% First Year Allowance (FYA) will be introduced from 1 January 2026 to provide greater relief to some companies and unincorporated businesses that incur capital expenditure. Full expensing is already in place for companies so this measure will have very limited impact for Corporation Tax payers, although the relief can cover expenditure on assets used for leasing, which full expensing does not. It may be more beneficial to unincorporated businesses, but with an Annual Investment Allowance (AIA) of £1m to use, it is only those businesses spending over £1m on qualifying assets, or those for whom the AIA is unavailable, that will need to claim.

From April 2026, the main rate Writing Down Allowance (WDA) will reduce from 18% to 14%. Again, due to the availability of full expensing and the AIA, this will only impact businesses with significant capital expenditure, or those where the AIA is unavailable.

A 100% FYA remains available for expenditure on new zero emissions cars and EV charge points and this has been extended to 31 March 2027 (or 5 April 2027 for income tax).

Mandatory payrolling of Benefits in Kind

A reminder to all that the reporting and payment of tax on Benefits in Kind (BiKs) will become mandatory from April 2027. Employers will be required to report and pay Income Tax and Class 1A National Insurance contributions in real time. This will remove the year end requirement for a P11D form, with the benefit and tax paid being captured by form P60. In the first year of payrolling, there will be two years' worth of tax paid for the employer, as tax on benefits is currently collected in the subsequent tax year.

Company cars

Electric and zero-emission company cars continue to attract a lower BiK rate, but the appropriate percentage continues to increase. The percentage applied to the list price of the car will be 4% for 2026/27, 5% for 2027/28, 7% for 2028/29 and 9% for 2029/30. The rates for company cars with emissions of 1-50g/km jump from 5% in 2027/28 to 19% in 2029/30.

Expansion of workplace benefits relief

Currently the exemption of certain BiKs such as eye tests, flu vaccines and home working equipment applies only where the employer provides the benefit directly.

This useful change acts to ensure that reimbursements are treated in the same way, removing what was an unfair inconsistency.

Minimum wage/Living wage

From April 2026 the National Minimum Wage for 18-20 year olds increases to £10.85 per hour (£22,568 full time equivalent), while the National Living Wage (21+) increases to £12.71 per hour (£26,437 full time equivalent).

Employers should be careful to ensure that when including unpaid overtime staff salaries do not drop below the minimum wage levels.

Umbrella company PAYE/NIC

As there continues to be significant non-compliance within the Umbrella company space (through which 700,000 workers operate), and with hundreds of millions of pounds in tax lost to the exchequer as a result, the Government have introduced further measures that make both recruitment agencies and end clients joint and severally liable for any unpaid PAYE/NIC.

Our business clients should be very cautious of hiring through umbrella organisations, and should ensure that operators are dealing with PAYE and NIC appropriately.

Employee Ownership Trusts (EOT)

Gains on disposal of shares in a trading company to an EOT were tax free. The idea being to incentivise employee ownership of businesses – the "John Lewis model".
As from 26 November 2025 this relief has been restricted to 50% of the gain only, leaving the other half taxed as normal - which may include relief under Business Asset Disposal Relief. The current government feel a 50% relief remains a big enough incentive to continue to encourage this activity.

Capital Gains Tax : Incorporation Relief

The default position of an automatic claim will change to a default position of not claiming. Gains on disposals of trading businesses, transferred to a limited company, in exchange for shares in that company (incorporation of your trade) can be held over - with tax paid on future sale of the shares.

Historically this relief was automatic with an optional election for the relief to not apply. As from 6 April 2026 the transferor (individual, partners in a partnership and trustees) will need to make an election to claim this relief in their annual tax return - or not - as the case may be.

EIS and VCT changes

With the aim of encouraging investment in UK companies, from April 2026 EIS and VCT company annual investment limits will increase to £10m (£20m for Knowledge Intensive Companies (KICs)). The lifetime company investment limit will increase to £24m (£40m for KICs). The gross assets test, being the asset limit for qualifying companies, will increase to £30m pre-share issue, £35m after issue.

On the downside however, from 6 April 2026 the income tax relief available to investors on VCT investments will reduce from 30% to 20%. EIS investment relief remains at 30%.

Enterprise Management Incentive (EMI) Schemes

The EMI scheme is a share option scheme offered to employees, as an incentive to attract and retain talent in SMEs. Currently, organisations with more than 250 employees and/or gross assets over £30m are excluded from EMI. From 6 April 2026, these limits are increasing to 500 employees and £120m gross assets, significantly increasing the number of companies that can benefit from the scheme.

In addition, there will be some tax amendments to ensure that EMI/CSOP scheme members can participate fully with the new PISCES platform (Private Intermittent Securities and Capital Exchange System), a new stock market that allows for private companies to trade their shares intermittently. This should help ensure existing tax advantages are retained.

PERSONAL TAXATION AND ADMINISTRATION

Changes to income tax rates

It had been widely speculated that there would be some increase to income tax that targeted landlords, pensioners and savers. Pensioners escaped the increase here, with a measure targeting only rental and investment income.

From 6 April 2026:

The tax on dividends will be increased by 2% in the basic and higher rate (to 10.75% and 35.75% respectively), while the additional rate remains unchanged. This applies equally whether shares are a pure investment, or an owner managed company. The practical impact of this is likely to be that it may be more tax efficient to be self-employed than to operate a small company, assuming all profits are required to be withdrawn.

From 6 April 2027:

Both savings income and property income will be subject to a 2% increase across all thresholds to 22%, 42% and 47% for the basic, higher and additional rate tax bands. In consequence of this change, rules will also be updated to require the personal allowance to be set in the first instance against employment, trading or pension income first.

Income Tax bands

The Personal Allowance and all tax bands will remain frozen now for a further three years until 2030/31. However, it has been confirmed that after the freeze expires, the personal allowance and tax bands will increase in line with inflation. Given how far away that change is, it will remain to be seen if it ultimately happens.

Class 1 National Insurance thresholds are also similarly frozen.

Income tax – home working

Home working relief was relatively under-utilised until COVID pushed the flat rate relief into wider consciousness. In the wake of COVID however successive Governments/HMRC have "clarified" that the relief can only be claimed where an employee is required to work from home.

As many individuals seem to continue to claim the relief in any event, the Government have decided that from 6 April 2026 it will no longer be possible for employees to claim home working costs as deductible for income tax purposes at all.

This does not affect the relief granted on payments made by employers to employees in reimbursement of those expenses – if the employer pays the employee, then that payment need not be subject to PAYE/NIC.

Salary Sacrifice

Unlike other pension scheme types, employee salary sacrifice contributions do not currently suffer NIC on the amounts contributed.

Under these changes, from April 2029 only the first £2,000 of employee contributions will be NIC exempt. There are of course many workers (and employers) who will be affected by this change. In practice however, it means salary sacrifice schemes will be treated more like other types of employee work-based pensions for NIC and impacts a minority of taxpayers overall.

In addition, with more than three years until the change comes in, there is plenty of time for further modification.

ISA reform

From 6 April 2027, the overall ISA allowance will remain at £20,000 but for those under 65 the maximum that can be put into a cash ISA will be limited to £12,000 with the remaining £8,000 available to invest in stocks and share ISAs.

There has been previous speculation about potential changes to the ISA allowance so for those concerned there would be a drop in the overall annual allowance, this is relatively good news.

The Chancellor focused on a better return for those who had invested in stocks and shares compared to cash ISAs historically and this reform dovetails with a government strategy to develop a retail investment culture.

Any shift towards investing in shares rather than holding in cash would of course get more of the money into the markets rather than being 'locked' in cash.

State Pensions

With the Personal Allowance being frozen (until 2030-31 with current rules) but State Pensions continuing to rise under the Triple Lock mechanism, increasing numbers of pensioners will become taxpayers even if their only source of income is the State Pension. A strangely absurd situation.

Unlike other pensions, the State Pension is paid without tax being deducted at source under PAYE and accordingly affected pensioners need to file a Self-Assessment tax return. Recently "Simple Assessments" have been issued for what are very modest amounts of tax in an attempt to avoid registering pensioners under Self-Assessment.
The Chancellor's speech mentioned …."we are ensuring that people only in receipt of the basic or new State Pension do not have to pay small amounts of tax through Simple Assessment from April 2027" ….very little further detail was published, save to say the government are exploring ways to achieve this.

Additionally, as previously announced the Winter Fuel Allowance is being clawed back for those with taxable income over £35,000. This will either be done by an adjustment to the tax code in the following year or by inclusion in the taxpayer's Self-Assessment return.

The High Value Council Tax Surcharge

With pre-Budget rumours of a wealth tax circulating, the Chancellor announced a new surcharge on high value properties. From April 2028, residential properties in England valued at £2m or more will incur an annual charge of £2,500. This will be collected alongside council tax. This annual charge will increase through various bands to a maximum of £7,500 for properties valued at more than £5m.

Loan Charge Settlement Opportunity

Legislation was introduced in 2017 to combat schemes that sought to reward employees and contractors by way of loans, typically using employee benefit trusts, with a much-reduced tax rate. This followed various victories in Court for HMRC, including a judgement that resulted in Rangers Football Club declaring bankruptcy.

The new legislation provided the chance for affected taxpayers to reach a settlement with HMRC, but those who failed to reach agreement (for whatever reason) faced extensive tax liabilities including penalties and interest. With mounting evidence that the Loan Charge was excessive and unfair, a review was commissioned with most of its recommendations being incorporated in a new settlement opportunity to hopefully bring matters to a close.

Modernisation and digitisation of Stamp Duty

In an attempt to modernise and simplify current stamp duty on buying and selling UK securities, a replacement to the reporting and payment of Stamp Duty and Stamp Duty Reserve Tax (SDRT) will be introduced allowing taxpayers to self-assess stamp duty and report transactions electronically via a digital service. These changes will be limited to the testing of the digital service duration with detailed rules to be set out at a later date.

MTD for Income Tax

In a welcome relaxation, it has been confirmed that for the first year of MTD (2026/27), there will be no penalties for late filing of MTD for Income Tax returns.

MTD for Income Tax will apply for individuals with more than £50,000 in combined gross business and rental income in 2024/25, and takes effect from 6 April 2026.

INHERITANCE TAX, SDLT & ATED

Inheritance Tax thresholds

The IHT Nil-Rate Band (£325,000), Nil-Rate Residential Band 'RNRB' (£175,000), RNRB taper threshold (starting at £2 million) and the combined allowance for APR and BPR relief (£1 million) have all been fixed for a further year, extending the current thresholds to 2031.

The policy objective of this extension falls under fiscal responsibility and increases the tax take for the government in the year of extension.

Given there has been no increase in the standard IHT nil rate band of £325,000 since 2009 an increase feels long overdue, although many may simply feel relieved there were not more extensive restrictions to the IHT reliefs currently available (e.g. lifetime giving).

Inheritance Tax – Agricultural Property Relief (APR) and Business Property Relief (BPR)

In a welcome amendment, it has been announced that with effect from 6 April 2026 any unused £1 million allowance for the 100% rate of APR and BPR will be transferable between spouses and civil partners. This includes if the first death was before 6 April 2026.

This corrects what was an absurd situation where all other IHT allowances are transferrable, but not the APR/BPR allowance.

Inheritance Tax and Infected Blood compensation payments

This measure extends the existing relief from IHT for receipts under the Infected Blood Compensation Scheme and seeks to ensure compensation payments can be inherited without an IHT charge where the infected or affected person has died before compensation could be paid.

First, where an individual eligible for compensation has already died the first living recipient of the compensation receives an IHT credit which will apply on death. This is retrospective and includes payments made prior to 26/11/25.

Secondly, the first living recipient will also have two years from the date of payment in which they can pass the compensation on without any IHT becoming due (and the gifted amount will retain the IHT credit). If the payment was made before 4/12/25 the two years commence from 4/12/25.

Inheritance Tax unused pension funds and death benefits

Due to take effect from 6 April 2027 Personal Representatives of an estate will be able to ask direct pension scheme administrators to hold back 50% of taxable benefits for up to 15 months to pay towards IHT in some circumstances. They will also be discharged from IHT liabilities discovered on pensions after clearance has been received from HMRC.

These adjustments appear to be aimed at supporting the new 'Personal Representative' led process which looks set to be put into place when the IHT changes to pension funds come into place.

Annual Tax on Enveloped Dwellings (ATED) Out of time claims to relief

Relief to ATED charge can be claimed by entities owning residential property used for business purposes such as a rental property business.

To ensure that relief to ATED charges are allowed to entities owning UK residential property, legislation will be introduced to remove the current 12 month time limit for the submission of relief to the ATED charge.

Penalties will continue to apply to ATED returns not delivered by the filing deadline.

INTERNATIONAL MATTERS

Inheritance Tax – Capping of Certain Trusts' Liability

Following the introduction of a residence-based test for liability to Inheritance Tax from 6 April 2025, non-UK assets of trusts created by non-UK domiciled individuals for the first time became subject to Inheritance Tax if the settlor was a long-term UK resident (that is an individual who has been UK resident in 10 of the previous 20 years).

The original changes resulted in many individuals who had created trusts leaving the UK in order for the trust to avoid the Inheritance Tax liability. Presumably in response to this, it was announced in the Budget that the Inheritance Tax exposure of a trust created before 30 October 2024 will be capped at £5m every 10 years, with the amendment backdated to 6 April 2025.

This is arguably a major concession, allowing for essentially a flat charge of IHT for large historic trusts, benefiting broadly those valued at more than £83m.

Inheritance Tax - Farmland

It was announced in October 2024 that Inheritance Tax relief for agricultural land and property would be restricted from 6 April 2026, with only the first £1m of assets fully relieved from Inheritance Tax with the excess benefitting from relief at 50%.

Presumably in order to prevent attempts to avoid Inheritance Tax as a result of the above changes, Inheritance Tax will be chargeable on shares in non-UK companies holding agricultural land and buildings, in line with the treatment of UK residential property.

This has the potential to have far reaching consequences for non-UK based investors in UK farmland, who previously may have had no exposure to UK Inheritance Tax.

For now at least, commercial property held within non-UK companies remains unaffected.

Non-resident dividend tax credit

The Government have announced a correction to legislation to remove an anomalous relief granted in certain circumstances to non-residents. This relief provided a tax credit to non-resident taxpayers on UK dividend income received. The equivalent relief for UK resident taxpayers was abolished from 6 April 2016, so this is likely well overdue.

Voluntary NICs for non-residents

From 6 April 2026, individuals will no longer be able to pay voluntary Class 2 National Insurance contributions for periods abroad in order to obtain a UK State Pension. Only voluntary Class 3 contributions will be available for tax years 2026/27 onwards.

This change does not affect any voluntary contributions that can be paid for periods abroad before 6 April 2026. If Class 2 NICs abroad are currently being paid HMRC will write from July 2026 to those affected to collect the final Class 2 NIC payment for the 2025/26 tax year on 10 July 2026.

If Class 3 National Insurance contributions abroad are already being paid no changes will be required to payments currently being made.

Any new applications to pay voluntary Class 3 NIC will need applicants to have either lived in the UK for 10 consecutive years and have paid at least 10 years of NIC while in the UK.

Temporary Non-Residence – Certain UK Company Dividends

For a number of years, anti-avoidance legislation has applied to individuals seeking to avoid income tax and CGT by becoming non-UK resident for periods of 5 complete tax years or less ('temporary non-residence'). If the rules applied, then income received during the period of non-residence would be subject to UK tax in the year of return.

Previously, the temporary non-residence rules did not apply to dividends paid by a UK close company (that is one controlled by 5 or fewer shareholders or any number of directors) if the dividend was paid out of profits earned by the company after the individual became non-UK resident ('Post departure profits').

However, the exemption for dividends paid from post-departure profits will be withdrawn from 6 April 2026. As a result, all dividends paid by a close company to a temporary non-resident will be subject to UK tax in the year of return.

Non-Resident Capital Gains Tax (NRCGT)

The NRCGT rules bring into the scope of capital gains tax disposals of UK land and property by non-UK resident individuals and companies. The rules also catch disposals of shares in UK property rich companies.

Anti avoidance revisions to this legislation will ensure the property rich company legislation cannot be sidestepped by using protected cell companies. As from 26 November 2025 the property rich company rules will be applied to each individual cell.

Aligning PAYE and Overseas Workday Relief

This measure will impact employers and qualifying newly resident employees.

It means that employers will need to check if the proportion of income they wish to exclude exceeds 30%. If it does, they will need to limit the in-year relief given to no more than 30% of the employee's income.