



# Autumn Budget 2025 Explained

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# Your hosts

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# Budget highlights

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- Additional 2% income tax surcharge on (most) investment income
- Salary sacrifice arrangements on pensions restricted
- Freezing of allowances for a further three years
- “Mansion tax” on £2 million homes
- Improvements to EMI and EIS rules
- Two-child benefit cap scrapped



# What we'll be covering

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**01** Income tax

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**02** Employment tax

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**03** Trusts

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**04** Inheritance tax

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**05** Capital gains tax

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**06** Business tax and anti-avoidance

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**07** Property tax

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**08** VAT

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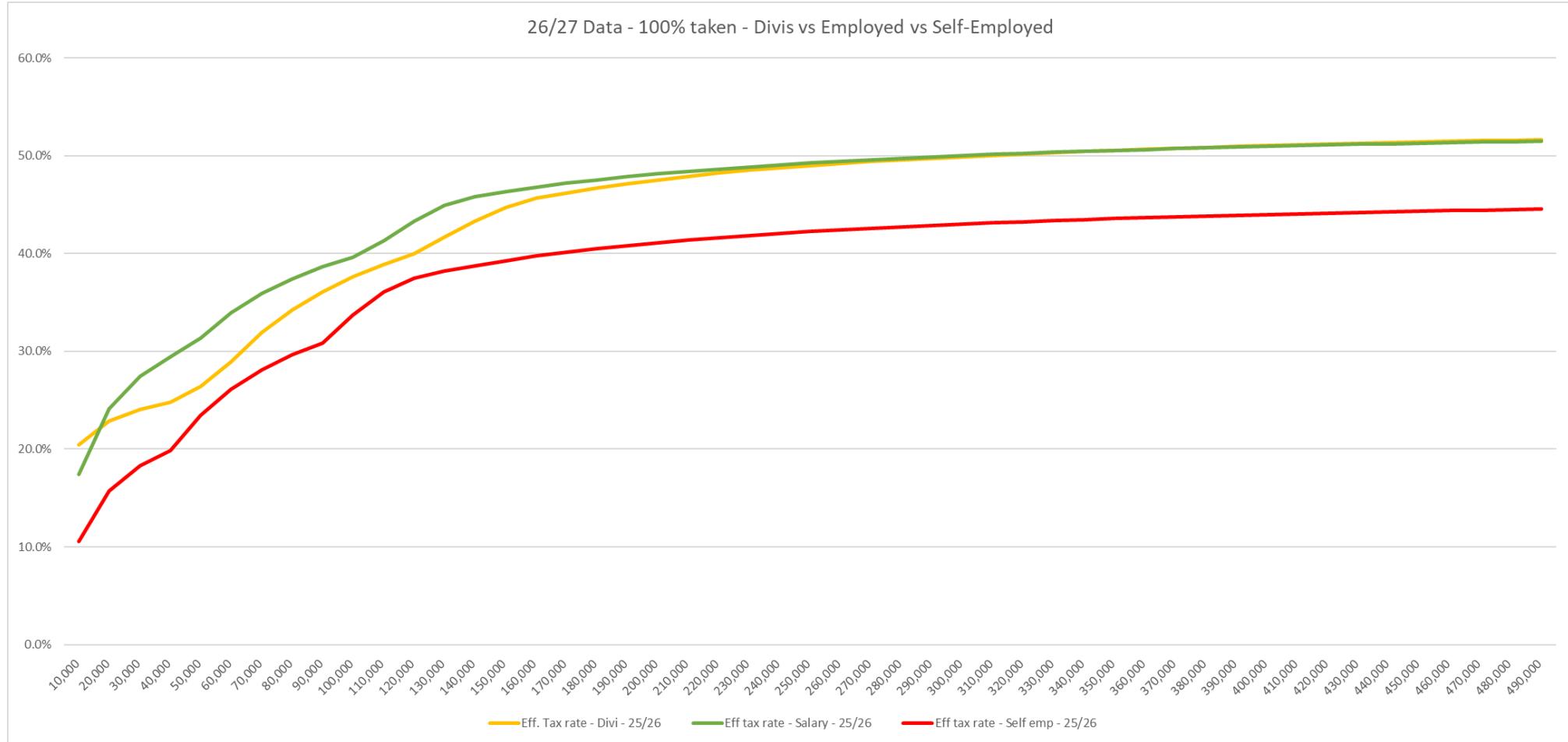
Income tax

# Income tax: increased rates

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- Basic and higher rate tax rates on dividends will increase by 2% from 6 April 2026, while all (basic, higher and additional) rates for property and savings income will increase by 2% from 6 April 2027
- Reliefs and allowances to be offset against non property, savings and dividends income first from 6 April 2027
- Relief for finance costs against property income will be given at the property basic rate of 22%
- Dividend tax credit abolished for non-residents from 6 April 2026
- Taxpayers who prefer to hold cash savings may therefore see a two-fold effect on their savings, with a £8,000 reduction in their cash ISA limit, and a 2% increase in tax rates on savings income
- With the increasing administrative burden of receiving rental income (being quarterly filings under Making Tax Digital for Income Tax, beginning April 2026) and increased income rates on property income, individuals may look to cease lettings and/or favour owning property via corporate structures

# Profit extraction comparison



# Income tax: allowances and NMW

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- Tax-free personal allowance remains frozen, with the freeze now extended for a further 3 years to April 2031
- It has been fixed at its current level of £12,570 since April 2021, meaning that over a decade, an increasing number of taxpayers can expect to be drawn into paying income tax as thresholds fail to keep pace with rising incomes
- From 2027/28, those pensioners who previously only received the state pension which was covered by the personal tax allowance, will now be subject to income tax given their state pensions will exceed the personal allowance
- For individuals aged 21 and over, the National Living Wage will rise to £12.71 per hour from April

# National Living & Minimum Wage – April 2026

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	2025/26	2026/27	Change
National Living Wage: Age 21+	£12.21	£12.71	4.10%
NMW: Age 18-20	£10.00	£10.85	8.50%
NMW: Age 16-17	£7.55	£8.00	6.00%
NMW: Apprentices	£7.55	£8.00	6.00%

# Other points

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## Temporary Non-Residence (TNR) rules

- Removal of concept of 'post departure trade profits' from TNR rules
- All distributions now chargeable to income tax for individuals caught by the TNR rules, irrespective of when the underlying profits arose

## Individual Savings Accounts (ISAs)

- The annual ISA allowance will remain at £20,000
- From April 2027, for individuals aged under 65, only £12,000 of this can be allocated to a cash ISA
- Remainder of £8,000 can only be invested into a stocks & shares ISA
- Those aged 65 and over can continue to contribute the full £20,000 to a cash ISA each year



Picture by Kirsty O'Connor / Treasury

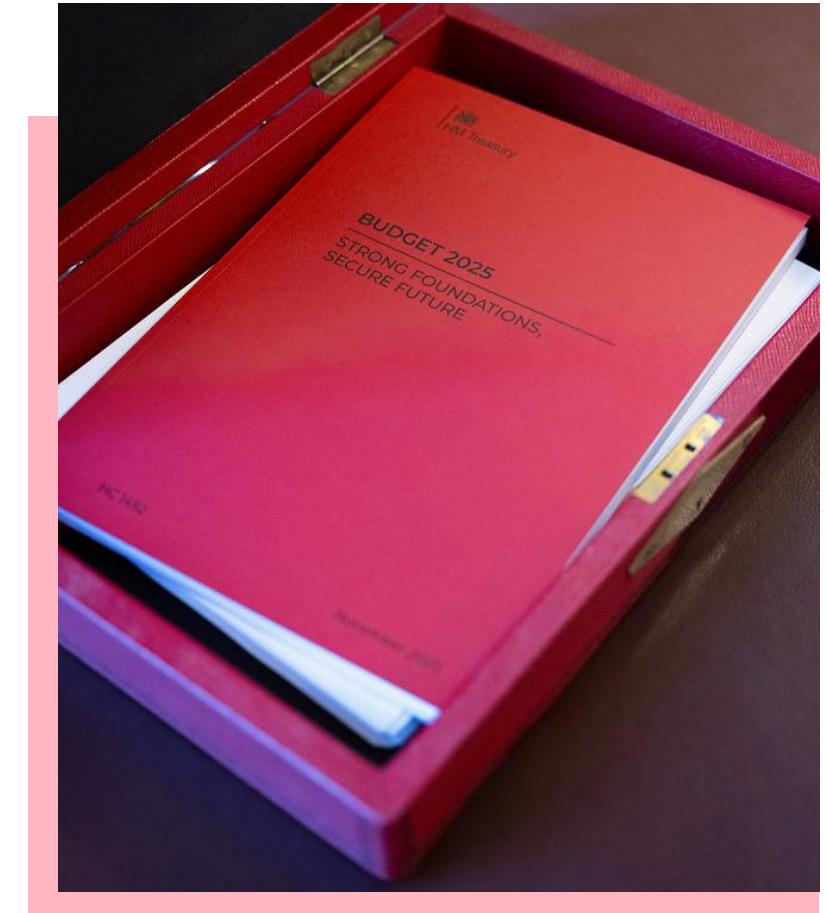
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## Employment tax

# Pensions salary sacrifice

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- From April 2029, salary sacrifice pension contributions exceeding £2,000 per employee will be subject to Employee's and Employer's National Insurance Contributions (NICs)
- Projected to raise £4.7 billion for HM Treasury
- Ends the long-standing employer benefit commonly delivered through pension salary sacrifice
- Ordinary employer contributions (e.g. *not made via salary sacrifice*) will remain exempt from NICs
- 3-year lead-in period gives employers time to assess the impact
- Salary sacrifice pensions remains the most tax and NIC effective way to fund your retirement for the next 3 years



Picture by Kirsty O'Connor / Treasury

# Pensions salary sacrifice: case study

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- Employees on £50,000, £100,000 and £150,000 salary
- Assume a 10% pension contribution funded via salary sacrifice
- Employee NIC rate: 8%
- Employer NIC rate: 15%
- Effective from April 2029

Additional NIC arising due to the new rules:

Salary	10% pension contribution	NICable amount above £2,000	Employer's NIC at 15%	Employee's NIC at 8%	Total NIC
£50,000	£5,000	£3,000	£450	£240	£690
£100,000	£10,000	£8,000	£1,200	£640	£1,840
£150,000	£15,000	£13,000	£1,950	£1,040	£2,990

# Pensions salary sacrifice: next steps

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- Don't panic – these changes are 3+ years away!
- Model the financial impact
- Review salary sacrifice arrangements
- Engage with payroll and pension providers
- Review employment contracts and policies
- Update reward & compensation strategy
- Budgeting & forecasting
- Plan internal & external communications
- Coordinate with HR, finance & tax advisers



# Employment taxes: other measures

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- **Non-reimbursed employment expenses for homeworking** – Removing existing deduction available from income tax for non-reimbursed homeworking expenses
- **Tax treatment of payments for cancelled shifts** – New legislation to confirm tax and NIC treatment of payments made under s.27BP of the Employment Rights Act 1996. This includes shifts cancelled, moved or curtailed at short notice. This measure confirms these payments will be taxable earnings from April 2026 and included in Finance Bill 2025/26
- **Expanding workplace benefits relief** – Tax and NIC exemption for employer-provided benefits is being extended to include *reimbursements* for eye tests, homeworking equipment and flu vaccinations. This will be included in Finance Bill 2025/26 and will take effect from April 2026

# Employment taxes: other measures

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- **Company car tax: plug-in hybrid electric vehicle (PHEV) tax easement** – Temporary benefit in kind relaxation for PHEVs to prevent a significant tax charge arising due to new emissions standards. Effective from 1 January 2025 to 5 April 2028
- **Company car tax: employee car ownership schemes** – At Autumn Budget 2024, the Government announced it would bring ECOS into scope of the benefit in kind rules from April 2026. This is now being delayed to April 2030 to allow more time for the sector to prepare and adapt
- **Voluntary National Insurance Contributions (NICs) abroad** – From April 2026, ability to pay voluntary Class 2 NICs while living or working abroad and maintain an entitlement to a UK State Pension will be removed. From April 2026, UK nationals abroad will only be eligible to pay the higher-priced Class 3 contributions, and only if they meet the new 10-year condition

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## Trusts

# Trusts

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## Employee ownership trust (EOT) relief from capital gains tax (CGT)

- Only half of qualifying gains now exempt
- And no BADR available, giving an effective rate of tax of 12% (previously 0%!)

## Impact of increased income tax rates on discretionary trusts

- From 6 April 2027, trust rate rises from 45% to 47% on property and savings income
- Dividend income remains at 39.35%
- Beneficiaries receive tax credits at these rates
- Grossing-up impact:
  - £5,500 net currently grosses to £10,000 (tax credit £4,500)
  - From April 2027, grosses to £10,377 (tax credit £4,877)

# Trusts

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## Cap on inheritance tax (IHT) charges for historic excluded property trusts

- From 6 April 2025, relevant property charges capped at £5 million per trust per 10-year period
- Applies to 10-year anniversary and exit charges
- Trustees who have already accounted for charges after this date may need to amend returns

## Anti-avoidance: trust asset status

- Applies to exit charges only
- Prevents last-minute changes to asset classification before a charge
- Reliefs (e.g. agricultural & business property relief) require assets to qualify throughout the relevant period
- Offshore transfers before a charge will not avoid IHT

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## Inheritance tax

# Inheritance tax

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## Agricultural & business property relief (APR & BPR)

- £1 million allowance for 100% APR & BPR transferable between spouses / civil partners
- Applies even if first death occurred before 6 April 2026

## Inheritance tax on pension death benefits

- Personal representatives can instruct pension scheme administrators to withhold up to 50% of taxable benefits for 15 months
- Discharge from liability for pensions discovered after HMRC clearance

# Inheritance tax

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## IHT relief for Infected Blood Compensation

- Payments under compensation schemes relieved from IHT if original person died before payment
- First living recipient has 2 years to gift compensation without IHT
- Applies to payments before or after 26 November 2025 and gifts on or after 4 December 2025

## Anti-avoidance measures

- UK agricultural property held via non-UK entities treated as UK-situated from 6 April 2026
  - Charity exemptions restricted to direct gifts to UK charities and clubs:
  - Lifetime gifts from 26 November 2025
  - Gifts on death from 6 April 2026

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## Capital gains tax

# Capital gains tax

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- Headline rates unchanged
- EOT relief halved
- Share-for-share reorganisation rules amended to clarify that no relief available where there is a tax avoidance motive, even if undertaken for bona fide commercial reasons.

# 6.

## Business tax and anti-avoidance

# Corporation tax

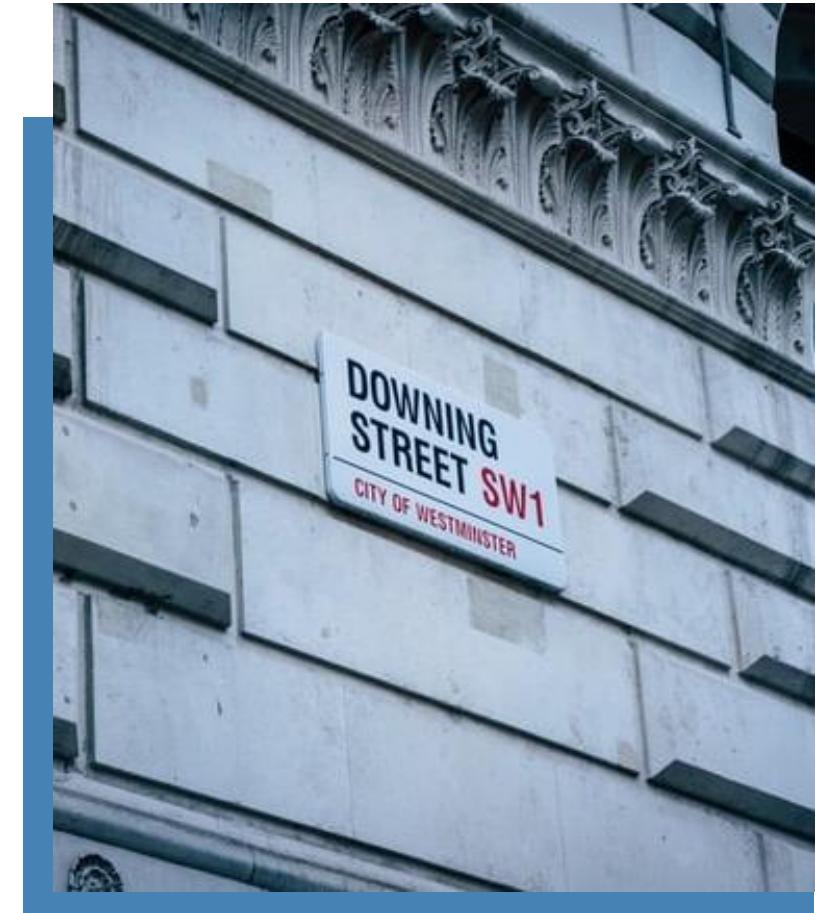
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- Main rate (and section 455 rate?) unchanged.
- Transfer pricing, permanent establishment (PE) and diverted profits taxes (DPT) to be reformed
- Align UK legislation with the OECD Model Convention and Commentary for PEs
- DPT to be replaced by Unassessed Transfer Pricing Profits (UTPP)
- UK to UK transactions to be generally exempt from transfer pricing
- Revised Statement of Practice 1 (2001) relating to the treatment of UK fund managers and their overseas clients which enables non-residents to appoint UK-based investment managers without risk of UK taxation
- Administrative changes to corporate interest restriction rules
- Doubling of (flat rate) late filing penalties for filing dates on or after 1 April 2026

# Capital allowances

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- 40% first-year allowance to be introduced for main pool expenditure from 1 January 2026
- Includes expenditure on assets for leasing and unincorporated businesses
- Most businesses will continue to claim 100% relief via annual investment allowance or full expensing (companies only)
- But from April 2026, writing down allowances in main pool to be reduced from 18% to 14%



# Enterprise management incentives (EMIs)

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## Improvements to tax advantaged share options scheme for employees

- Employee limit increases to 500
- Gross assets limit increases to £120 million
- Company share option limit increases to £6 million
- Maximum holding period increases to 15 years
- All expected to apply from April 2026
- EMI notification requirement to be abolished from April 2027

# Enterprise investment schemes and venture capital trusts

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## Improvements to EIS

- Annual company investment limit raised to £10 million (£20 million for knowledge-intensive companies)
- Lifetime limits also doubled to £24 million and £40 million respectively
- Gross assets limit increases to £30 million before share issue and £35 million afterwards
- Changes apply from April 2026

- Similar increases in VCT investment limits
- But VCT income tax relief to be reduced to 20%

# Anti-avoidance and closing the tax gap

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- Additional focus on disqualification of rogue directors and chasing of unpaid taxes
- Enhanced powers to tackle advisers who facilitate tax non-compliance from 1 April 2026
- Strengthened powers in respect of promoters of marketed tax avoidance schemes
- Image rights payments in respect of employees to be subject to income tax and NIC (from April 2027)
- Consultation of reporting transactions between close companies and shareholders

# Anti-avoidance: loan charge settlement opportunity

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- New settlement opportunity with 50%+ reduction and many will pay nothing
- Maximum reduction capped at 50%
- Flexible payment arrangements:
  - Up to 5 years
  - No late payment interest
- Speak to our tax risk & dispute resolution team

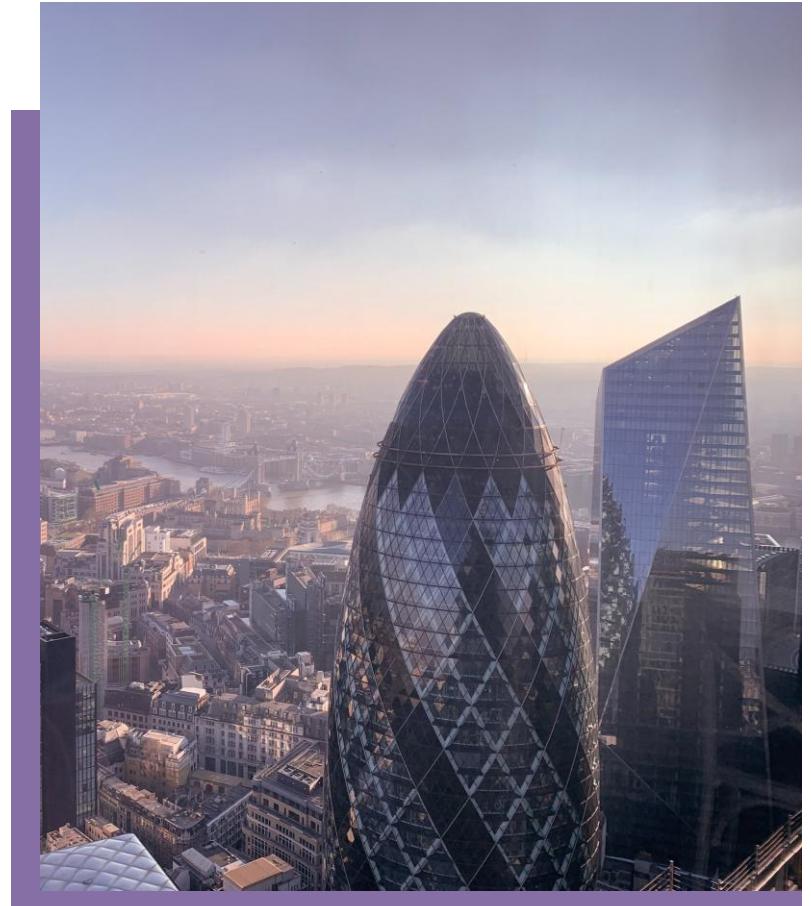
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## Property tax

# Property tax

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- Sector already previously hit by:
  - Removal of furnished holiday letting status and wear and tear allowance
  - Abolition of multiple dwellings relief for stamp duty land tax (SDLT)
  - Restriction of interest relief
- Now subject to 2% income tax charge
- Consider incorporation (now subject to formal claim) or divestment
- But dividends also subject to 2% increase (but not additional rate)



# Property tax: mansion tax

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- From April 2028, a high value council tax surcharge (HVCTS) will be applied to high value properties:
  - £2,500 per year for those worth £2 million or more
  - £7,500 per year for properties valued at above £5 million
- The charge will be based on updated valuations to identify properties above the threshold
- The charges will be levied on property owners rather than occupiers
- Will the cost be passed on to tenants?
- Particularly relevant in the South East
- Rules subject to consultation

# Property taxes: business rates

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- Permanent lower tax rates for more than 750,000 retail, hospitality & leisure (RHL) properties, paid for by higher business rates on properties worth more than £500,000
- A £3.2 billion transitional relief scheme providing support to the largest ratepayers, including airports and hospitality
- A Supporting Small Business scheme to help the smallest businesses, worth over £500 million
- Expanding the Supporting Small Business scheme to businesses who were eligible for RHL relief, which “protects independent pubs and shops as they transition to permanently lower tax rates”

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VAT

# Zero-rate VAT for eligible donations

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- Goods donated by businesses qualify for zero VAT if:
  - Used by the charity in its activities
  - Donated onwards by the charity
- Aims to encourage corporate donations and reduce charity costs
- Actions to take:
  - Review donation policies
  - Ensure proper documentation to benefit from zero rate
- Effective from 1 April 2026



Picture by Simon Walker / HM Treasury

# Reinstated policy on overseas establishments

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- HMRC policy reverts to allow overseas establishments in UK VAT groups (per R&C Brief 7/2025)
- VAT groups may reclaim VAT incorrectly charged over past 4 years
- Actions to take:
  - Submit claims promptly before periods fall outside claim window
  - Review historic transactions and update processes
- Effective from 26 November 2025

# VAT changes for ride-hailing platforms

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- Platforms like Uber and Bolt can no longer use Tour Operators Margin Scheme (TOMS) to reduce VAT
- VAT will apply to the full fare, not just the margin between driver payments and customer fares
- Follows appeals on TOMS applicability under current law
- Actions to take:
  - Review pricing models
  - Update compliance processes well before implementation
- Effective from 2 January 2026

# Mandatory electronic VAT invoicing

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- All VAT-registered businesses must issue electronic VAT invoices for every B2B supply
- Part of Government Digitalisation Strategy to:
  - Streamline VAT compliance
  - Improve accuracy
  - Reduce fraud
- Action to take: prepare systems early for compatibility with e-invoicing standards
- Effective from April 2029

# Thank you

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