

2025



The Spring Statement

Ruskells Limited
The Tall House
29a West Street
Marlow Bucks
SL7 2LS

T: 01628 890773
E: diane@ruskells.com

www.ruskells.com



A delicate balancing act

In her first Budget in October 2024, Rachel Reeves promised that there would only be one 'fiscal event' each year – she would not make significant tax changes more frequently. As she repeatedly said during her Spring Statement, the world changes rapidly: economic and political events can disrupt the forecasts that measure her compliance with her self-imposed fiscal rules. The decision to increase defence spending, reductions in expected economic growth, the risk of US tariffs and rising borrowing costs had combined to remove the 'headroom' that had allowed her to predict that she would balance the books by 2030. If she was determined to keep to the fiscal rules, she would have to close that gap; but if she raised taxes, she would break the promise of just one fiscal event each year.

The Chancellor announced a range of policies to restore the 'headroom', without any significant changes to taxation. There will be cuts to civil service expenditure, to welfare and to foreign aid, making it possible to increase defence spending to 2.5% of GDP by 2027. The welfare reforms are substantial and controversial – for example, the government's own Impact Assessment on the changes to the Personal Independence Payment (PIP) rules states that 370,000 current recipients are expected to lose their entitlement (when they have an award review) and 430,000 future potential PIP recipients will not receive the PIP they would otherwise have been entitled to. The average loss is £4,500 per year.

Reforms to planning rules are expected by the Office for Budget Responsibility to increase GDP growth, helping the Chancellor to meet her targets. There are several problems with this. As the Chancellor says, the world changes rapidly, and a forecast stretching five years into the future, with a very small margin of 'headroom', is likely to need revision again and again to keep meeting the rules. We cannot predict what tax changes might be required in the next Budget in the autumn.

There were a few new tax-related announcements, mainly to do with the administration of tax. The government will 'invest' in more compliance officers and pursue more prosecutions – an increase from 500 to 600 a year. If HMRC could collect all the tax that it believes is due, then the Chancellor would have 'headroom' to spare.

This document sets out brief summaries of the main changes that are coming in each area, as well as highlighting some things that have not changed. If you would like to discuss what it all means for you, we will be happy to help.



Summary of changes

Because this was not a 'fiscal event', the Chancellor did not mention the very significant tax changes that have been announced in the past to come into effect in the future – including some that have been the source of controversy and protest, such as the increases to Employers' National Insurance Contributions coming in April 2025 and the cuts to Inheritance Tax Agricultural and Business Property Reliefs in April 2026. In order to help keep track of what is happening and when, this document summarises the main changes that we already know about, and explains their impact. The following is a quick reminder, and these points are covered in more detail in the pages that follow. Tax rate tables are included at the end of the document.

Changes from April 2025

- New residence-based system of taxation for foreign income and gains with abolition of remittance basis for foreign domiciled individuals
- Scope of IHT depends on long-term residence rather than domicile
- Increases in company car benefits
- All new double cab pick-ups to be treated as cars, not vans
- Increases in Employers' NICs and Employment Allowance
- Increases in CGT rates for gains on Business Asset Disposal Relief and Investors' Relief assets, and on 'carried interest' receipts
- Extension of Agricultural Property Relief to land managed under an environmental management agreement
- Significant changes to business rates reliefs
- Changes to Audio-Visual Expenditure Credit (AVEC)
- Late payment penalties for VAT increased
- Furnished Holiday Lettings regime ends
- Stamp Duty Land Tax thresholds lowered
- Rate of interest on overdue tax and VAT increases by 1.5 percentage points

Later changes

- 'Payrolling' of taxable benefits becomes compulsory – April 2026
- 100% Agricultural Property Relief and Business Property Relief expected to be restricted to first £1 million of an estate, with 50% relief above that – April 2026
- Unused pension pots become liable for Inheritance Tax on death – April 2027
- Making Tax Digital for Income Tax Self-Assessment becomes compulsory for those with qualifying income above £50,000 – April 2026

- MTD for ITSA extended to those with income above £30,000 – April 2027 – and £20,000 – April 2028

Personal Income Tax

Tax rates and allowances 2025/26 (Table A)

The main personal allowance and the 40% threshold will remain at their 2022/23 levels until the end of 2027/28. Price inflation from February 2022 to February 2025 was 17.5% (based on the Consumer Prices Index): if the allowance and threshold had been updated by the same amount, they would be £14,770 and £59,070 in 2025/26 rather than £12,570 and £50,270.

The income level above which the personal allowance is tapered away remains £100,000; it will be reduced to zero when income is £125,140, which is also the threshold for paying 45% tax. In the tapering band, the loss of tax-free allowance creates an effective marginal rate that is higher – 60% on most income, over 50% on dividends, and more again in Scotland because of the higher tax rates there.

The loss of eligibility for tax-free childcare allowances at this level can make £100,000 an even more expensive 'cliff edge'.

High Income Child Benefit Charge (HICBC)

The HICBC continues to apply to the higher earner of a couple where one receives Child Benefit and either of them has income of more than a set threshold. For 2024/25, the threshold was raised from £50,000 to £60,000; the clawback is calculated at 1% of the total benefit for every £200 of income between £60,000 and £80,000, so that the whole benefit is lost when income reaches that upper limit. The government is not proceeding with the idea of basing HICBC on combined family income rather than the income of the higher earning partner.

From summer 2025, employed individuals liable to the HICBC will be able to report their family's Child Benefit payments through a new digital system and will be able to pay the charge through PAYE rather than having to register for self-assessment.



Scottish rates and allowances 2025/26 (Table A)

The Scottish government has the power to set its own income tax rates for Scottish taxpayers for non-savings, non-dividend income. Many Scottish taxpayers now pay a significantly higher amount of income tax than those elsewhere in the UK, although some low earners pay less. Some of the lower thresholds have been raised for 2025/26, but the higher thresholds have been frozen: for example, the 45% rate still starts at £75,000 rather than £125,140, and the Scottish top rate is 48%.

The Welsh government has similar powers for Welsh taxpayers but has not varied the main UK rates.

Dividend income

The dividend allowance exempts some dividend income from tax, although that income still counts towards the higher rate thresholds. For 2024/25, the allowance was reduced to £500 (unchanged for 2025/26). This increases the tax liabilities of those with dividend income above the threshold, and will also require more people to file tax returns to declare tax liabilities that previously would have been covered by the allowance. HMRC receives interest data from banks and building societies, but does not have a system to collect comprehensive information about individual taxpayers' dividend income.

The tax rates on dividend income over £500 remain unchanged: the ordinary rate, paid by basic rate taxpayers, is 8.75%, the upper rate is 33.75%, and the additional rate is 39.35%. These rates apply across the UK.

The 33.75% rate also applies to tax payable by close companies (broadly, those under the control of five or fewer shareholders) on 'loans to participators' that are not repaid to the company within 9 months of the end of the accounting period.

The reduction in the dividend allowance and the previous raising of the tax rates increase the relative attractiveness of holding shares in a tax-free ISA. Dividends arising within an ISA are not taxed and do not count towards the allowance.

Savings income

The savings allowance remains £1,000 for basic rate taxpayers, £500 for 40% taxpayers and nil for 45% taxpayers. The higher interest rates that have been available in recent years are likely to mean that more people will have savings income above these limits and will therefore need to declare it in order to pay tax.

The savings rate band remains at £5,000. Non-savings income is treated as the 'first slice'



of income, using the tax-free allowance and the savings rate band; if any of the £5,000 band is not used by non-savings income, any savings income falling within that band is taxed at 0%.

Foreign domiciled individuals

Individuals who are classed as 'not UK domiciled' (often referred to as 'non-doms') have enjoyed a number of tax advantages in relation to foreign income and gains ('FIG'). If the individual claimed the 'remittance basis of taxation', FIG was taxed only if the money was brought to the UK. Some of these advantages have been restricted in recent years, but the system has been fundamentally reformed with effect from 6 April 2025. In future, taxation will be based on residence status rather than domicile.

The new regime

Individuals who have not been UK resident in the last 10 years, who become UK resident on or after 6 April 2025 and opt into the regime, will be exempt from income tax on most of their FIG for the first four years of residence. After that, they will be taxable on the same basis as other UK residents.

Someone who became UK resident (after 10 years of non-residence) in any of the three tax years before 2025/26 will be able to use the new FIG regime to exempt their FIG from UK taxation for any of their first four years of residence that fall after 2024/25.

Opting in to the FIG regime has some drawbacks (e.g. loss of personal allowance), so advice should be taken before doing so.

Where a remittance basis user has accumulated FIG before 6 April 2025, this will continue to be taxed if it is remitted on or after 6 April 2025. However, a Temporary Repatriation Facility (TRF) is available, which will allow such individuals to elect to pay tax at a reduced rate on pre-6 April 2025 FIG that has not yet been remitted.

This FIG must be identified on the tax return for whichever year the TRF is being used. The TRF is available in 2025/26, 2026/27 and 2027/28, with the rates of tax payable being 12% in the first two

years and 15% in 2027/28. The FIG identified in this way can then be remitted to the UK in that year or subsequent years without any further tax charges.

Under the current Inheritance Tax (IHT) regime, the extent to which foreign assets fall within the scope of the tax depends on domicile status. For UK-domiciled individuals, their worldwide assets are chargeable, whereas the foreign assets of non-doms are outside the scope.

IHT will also move to a residence-based regime from 6 April 2025. UK IHT will apply to worldwide assets when a person has been resident in the UK for at least 10 of the last 20 tax years (or, for those under 20 years old, if they have been UK-resident for the majority of their life).

A person remains fully within the scope of IHT for between 3 and 10 years after leaving the UK (depending on duration of residence). These are complicated rules, and detailed guidance is to be published on GOV.UK in April. Anyone affected by them should take advice and make sure they understand the opportunities and potential pitfalls.

Employees

Company cars and fuel (Table C)

The basis for taxing company cars and fuel provided for private use is set out in the Table. Annual increases in the rates for use of the car have been announced up to 2029/30. The tax charges will continue to be lower on electric vehicles compared to petrol and diesel vehicles in order to incentivise their take-up, but there will be significant increases in the absolute amounts of those tax charges.

For 2025/26, the percentages to be applied to the list price of the car when calculating the car benefit all rise by 1 percentage point. Although this doesn't sound much, for electric cars it will represent a 50% increment on the current taxable benefit (2% becomes 3%). By 2029/30, the benefit will be based on 9% of the list price, 4.5 times what it is now.



The figure used to calculate the benefit of free use of business fuel for private journeys increases to £28,200 in 2025/26 from £27,800.

The taxable amounts for the availability of a van for more than incidental private use, and for an employee's private use of fuel in a company van, normally increase in line with inflation. For 2025/26, the figures become £4,020 and £769 for these benefits. Electric vans remain a tax-free benefit.

Double cab pick-ups (DCPUs)

Vehicles that are classified as 'vans' for tax are more favourably treated for taxable benefits on employees who use them, and also for tax deductions for the employer. DCPUs with a payload of 1 tonne or more have traditionally been treated as vans, but following a court decision this is due to change for newly acquired DCPUs from 1 April 2025 (companies) or 6 April 2025 (sole traders and partnerships). If a new DCPU is available for an employee's private use, the taxable benefit will be calculated in the same way as for a car – based on the vehicle's list price and emissions rating.

DCPUs that were bought or leased before the change will continue to enjoy the current benefit-in-kind treatment until 5 April 2029.

Official rate of interest

The official rate of interest is used to calculate tax charges on beneficial accommodation and loans provided by employers. For many years, it has been fixed at the beginning of each tax year – the absence of changes during the year has made for simpler and more certain calculations. From 6 April 2025, the rate can change during the year and will be reviewed quarterly. Accommodation benefits will still be calculated using the rate on 6 April, but loan benefits will be affected by in-year changes.

The rate is going up from 2.25% p.a. to 3.75% p.a. on 6 April 2025.

Payrolling benefits: April 2026

For some years, accounting for taxable benefits through the payroll – known as 'payrolling benefits' – has been optional: it simplifies year-end PAYE procedures, as payrolled benefits do not have to be reported on a P11D form. From April 2026, payrolling of most benefits will become mandatory. Employers should review their systems in good time to make sure that they are ready.

National Insurance Contributions (NICs)

Class 1 thresholds and rates (Table D)

For paydays on and after 6 April 2025:

- the rate of secondary NICs paid by employers on an employee's earnings above the 'secondary threshold' will increase from 13.8% to 15%; and
- the secondary threshold will reduce from £9,100 to £5,000 per annum.

The reduction in the secondary threshold means employers will have an obligation to send the PAYE full payment submission (FPS) for employees earning above this threshold (£96 per week/£417 per month). Previously the obligation applied where earnings were above the Lower Earnings Limit (LEL), which is the point at which an employee accrues a right to certain State benefits. The LEL is £125 per week/£542 per month for 2025/26.

These changes represent a significant extra cost for businesses and, because of the substantial reduction in the starting threshold, the increase is proportionately greater on lower salaries. For example, the employers' NICs payable on an annual salary of £12,570 (the level of the tax-free personal allowance) increases in 2025/26 from £479 to £1,136 (i.e. a 137% increase); on a salary of £30,000 p.a., the increase is from £2,884 to £3,750 (i.e. 30% more). The increases in the National Living Wage (NLW) and National Minimum Wage, that take effect in April, will also have a knock-on effect on employers' NICs charges.

Employment Allowance

For 2025/26 onwards, the annual value of the Employment Allowance (EA), which gives exemption from employers' Class 1 NICs, is increased from £5,000 to £10,500 per business. This means that a business employing four people full-time on the NLW will not incur employers' Class 1 NICs on their salaries.

The government is also abolishing the rule that EA is only claimable if total employers' Class 1 NICs liability is below £100,000 in the tax year before the year of claim. As a result, many businesses will now qualify for EA for the first time.

Note that other restrictions on claiming EA (e.g. for certain single-director companies and domestic employees such as a nanny) remain unchanged.

It is possible to backdate EA claims for the previous four tax years so, when thinking about eligibility for 2025/26, also consider whether EA could have been claimed for an earlier year.

Class 2 NICs

The self-employed used to establish entitlement to contributory benefits such as the State pension by paying Class 2 NICs. These were compulsory if annual profits exceeded the Small Profits Threshold (£6,845 for 2025/26). Self-employed people with profits above this level now build up entitlement to benefits without paying Class 2 NICs. If profits are below this level, they can do so by paying Class 2 NICs voluntarily at a rate of £3.50 per week (payable annually through self-assessment). This will be cheaper than paying Class 3 voluntary contributions, which are £17.75 per week.

Savings and Pensions



Individual Savings Accounts (ISA)

The investment limits for 2025/26 remain £20,000 for a standard adult ISA (within which £4,000 may be in a Lifetime ISA – unchanged since 2017/18), and £9,000 for a Junior ISA or Child Trust Fund. These limits have been frozen until April 2030.

Pension contributions (Table B)

Before the 2024 Autumn Budget, there were fears that the Chancellor might reintroduce income tax charges on pension pots above a 'lifetime allowance', or limit the amounts that can be drawn tax-free. In the event, no such changes were made; instead, an Inheritance Tax charge on undrawn pensions was announced to be introduced in 2027 (described below under Inheritance Tax). If the Chancellor needs to raise money by the next Budget, there will no doubt be further speculation that this would be somewhere she could impose charges without breaking her manifesto pledges.

The level above which contributions to a registered pension scheme may trigger an Annual Allowance charge remains £60,000.

The maximum amount that can be withdrawn as a tax-free lump sum remains £268,275, unless the person is entitled to 'protection' in relation to the original introduction of the Lifetime Allowance or any of the subsequent reductions of the limit.

Capital Gains Tax

Rates and annual exempt amount

With the exception of Business Asset Disposal Relief (BADR) and Investors' Relief (IR) gains, the rates of CGT for 2025/26 are unchanged at 18% for basic rate taxpayers and 24% for higher rate taxpayers on general assets, and the annual exempt amount is also unchanged at £3,000.

The rates changed on 30 October 2024, the date of the Autumn Budget, which will complicate the calculations for 2024/25 tax returns. For disposals before that, general gains falling within a taxpayer's basic rate income tax band were taxed at 10%, with a 20% rate applying for higher rate taxpayers. The rates were 18% and 24% for chargeable residential property (such as second homes and rental properties).

Anyone with gains of more than the exempt amount has to report them. If gains are lower than the exempt amount, full details only have to be given in the CGT pages of a tax return if the individual's total proceeds in the year from chargeable disposals exceed £50,000 (ignoring those disposals fully covered by main residence relief).

BADR/IR

The lifetime limit for gains qualifying for BADR remains £1 million. The rate of CGT on such gains has been 10% for many years; it rises to 14% for 2025/26 and to 18% for 2026/27.

IR has also allowed a 10% tax rate to qualifying investors in qualifying companies where they are neither employees nor directors. The lifetime limit for qualifying gains was cut from £10 million to £1 million from 30 October 2024 and the rate of tax will rise in line with BADR.

There are anti-forestalling rules that may prevent taxpayers benefitting from the previous lower rates, where contracts are entered before the dates of change and do not complete until afterwards.

Carried interest

From 2025/26, the rate of CGT on carried interest receipts of investment managers will increase to a flat rate of 32% for individuals, estates and trusts. From 2026/27, carried interest will be brought within income tax, subject to a multiplier of 72.5% in some cases.

Inheritance Tax

Rates

The IHT nil rate band remains fixed at £325,000 until the end of 2029/30. Holding the threshold at the same amount for 21 years (from 6 April 2009)

will bring far more people into the scope of the tax. However, the £175,000 'residential nil rate band enhancement' on death transfers (also fixed until 2029/30) can reduce the impact where it applies.

A married couple may now be able to leave up to £1 million free of IHT to direct descendants or their spouses (£325,000 plus £175,000 from each parent), but the rules are complicated, and the prospect of these nil rate bands being fixed for the next 5 years increases the importance of proper IHT planning.



Extension of APR: 2025/26

From 6 April 2025, Agricultural Property Relief will be extended to land managed under an environmental management agreement with, or on behalf of, the UK government or other approved responsible bodies.

Restrictions on reliefs: 2026/27

Agricultural Property Relief and Business Property Relief can, at present, provide a 100% deduction from the value of qualifying assets. From 6 April 2026, it is proposed that 100% relief will only apply to the first £1 million of total value of agricultural and business property in an estate. Above that value, the relief will be restricted to 50%. This change has not yet been legislated and may be subject to some revision over the next twelve months, but will have a major impact on IHT planning for agricultural and trading businesses.

The government has recently confirmed that any IHT payable on APR or BPR property as a result of these changes will be eligible to be paid in 10 annual interest-free instalments. That is a useful relaxation, but is unlikely to significantly diminish the protests from farmers and others over the removal of the unlimited 100% relief.

Shares quoted on certain markets of recognised stock exchanges, such as the Alternative Investment Market (AIM) of the London Stock Exchange, have been eligible for 100% relief once they have been owned for two years (provided the company is a qualifying trading business). This relief will be restricted to 50% for any such shares, regardless of total value, from 6 April 2026.

Extension to pension assets: 2027/28

As announced in the Autumn Budget, from 6 April 2027 unused pension funds and death benefits payable from a pension into a person's estate will become chargeable. The IHT exemption of pension pots has been a significant factor in estate planning for 10 years, and it will be important to review any plans in the two years before the change takes effect.

Business rates

During COVID-19, temporary business rates relief was introduced to support the retail, hospitality and leisure (RHL) sectors. This short-term measure was extended several times, but the current 75% relief is due to end on 31 March 2025.

In the Autumn Budget, the government announced plans to bring in permanently lower business rate multipliers from 2026/27 for RHL properties with rateable values under £500,000. For properties over this rateable value a higher multiplier will apply. This will, for example, affect the majority of large distribution warehouses used by online companies.

To provide support in the interim, business rates relief will be extended from April 2025 but reduced to 40% and capped at £110,000 per business. Many high street businesses, pubs, restaurants and shops may see higher business rates as a result.

The small business multiplier will be frozen for 2025/26 at 49.9p, while the standard multiplier will be updated by inflation to 55.5p.

Corporation Tax

Rate of tax

The Corporation Tax rate is unchanged at 25% for companies with profits over £250,000. The 'small profits rate' remains 19% for companies with profits of up to £50,000. Between £50,000 and £250,000 there is a tapering calculation that produces an effective marginal rate of 26.5% on profits between these limits, but an average rate on all profits of between 19% and 25%. The limits are divided between companies that have been under common control at any time in the previous 12 months, whether UK resident or not.

The limits and rates will remain fixed until at least 31 March 2027.

Capital allowances for plant and machinery

In 2023, 'full expensing' (100% relief for the cost in the year of purchase) was introduced for most new and unused plant and machinery bought by companies. It is not currently available to companies

that buy plant to lease out to other businesses and this will not change 'until fiscal conditions allow'.

100% relief for the purchase of electric cars and EV charging points will continue to be available until 31 March 2026 (companies) or 5 April 2026 (income tax traders).

Film and High-end Television Productions

From 1 April 2025, film and high-end TV productions can claim an enhanced 39% rate of Audio-Visual Expenditure Credit (AVEC) on UK visual effects costs, which will be exempt from AVEC's 80% cap on qualifying expenditure. This additional credit applies to expenditure incurred on or after 1 January 2025.

Claims require a final certificate from the British Film Institute, so claims can only be made in the accounting period in which the production is completed (or subsequent periods). For interim periods, companies can claim the 34% AVEC rate on qualifying costs, including visual effects.

This measure was announced at Spring Budget 2024.



Double cab pick-ups (DCPUs)

The reclassification of some DCPUs as vans, described above in relation to taxable benefits on employees, will also have an effect on taxation of business profits. They will no longer be eligible for 100% relief in the year of purchase: instead, they will be eligible for the same allowances as other cars (18% or 6% writing down allowances, depending on emissions rating). Where a contract to acquire a DCPU is entered into before 1 April (companies) or 6 April (income tax traders), the 'old rules' will continue to apply, as long as the expenditure is actually incurred by 1 October 2025.

DCPUs with an emissions rating of more than 50g/km which are leased after April 2025 will be subject to a disallowance of 15% of the rental charge in the accounts. From 1 October 2025, this will also apply to leases that commenced before April 2025.

Advance clearances

Research & Development expenditure has for some years been eligible for significant tax-based incentives. These have in turn been exploited by some people making unjustified claims, and HMRC has recently introduced a 'disclosure facility' for taxpayers to rectify past errors. In the Spring Statement, the government announced a consultation on widening the use of advance clearances for R&D claims to help reduce error and fraud, provide certainty to businesses, and improve 'the customer experience'.

The government also published a consultation on proposals for a new process to provide increased tax certainty in advance for 'the very largest and most innovative investment projects, given their scale, complexity and range of tax implications'.

Value Added Tax

Registration threshold

The VAT registration and deregistration thresholds remain £90,000 and £88,000.

Late payment penalties

The Spring Statement included the announcement that late payment penalties for VAT will increase from April 2025. Tax that is paid 15 days late will be subject to a 3% surcharge (currently 2%); tax that is paid 30 days late will be subject to a further 3% (currently 2%); and after 30 days, a further late payment penalty will be added at a rate of 10% per annum (currently 4% p.a.).

These penalties are in addition to interest on overdue VAT, which is now charged on any VAT paid late from the due date until payment. The rate of interest will increase in April 2025 from 2.5% above the Bank of England base rate to 4% above the base rate.

Property Taxation

Furnished holiday lettings (FHL)

For many years, income from FHL has been treated as a trade for income tax purposes, enjoying a number of advantages over general property rental. A FHL has had to satisfy a number of conditions about availability for letting, actual periods let during the year and length of stays; if it qualified, the advantages included unlimited relief for finance costs, capital allowances, and CGT business reliefs on disposals.

As announced in the March 2024 Budget, FHL treatment will be abolished from 6 April 2025. Some of the key consequences are as follows:

- The finance cost restriction rules for residential lettings will apply, so that relief for interest (and other matters such as arrangement fees) incurred to acquire properties will not be deductible as a cost of letting. Relief will be restricted to a tax reducer at the basic rate of income tax. Just as when this measure was introduced for normal residential letting, it may increase significantly the amount of tax paid, unless all income (after adding back finance costs) falls within the basic rate band.

Note that the higher tax liability each year will also impact payments on account under self-assessment, while the adding back of finance costs each year may unexpectedly cause extra tax liabilities too, for example due to:

- Restriction on personal allowance if income goes above £100,000
 - High-Income Child Benefit Charge if income goes above £60,000
 - Capital allowances of 100% of expenditure will cease to be available on the first installation of fixtures and fittings (e.g. beds or tables); instead, replacement of existing fixtures and fittings will qualify for relief, but only to the extent that the asset is not enhanced.
- As a transitional rule, if any expenditure has not been fully relieved by 5 April 2025, capital allowances can continue to be claimed on the unrelieved expenditure at 18% or 6% of the remaining balance each tax year.
- Any losses in a FHL business at 6 April 2025 will be able to be carried forward to set against any property income in the future (although UK and overseas property businesses must be kept separate); previously, a FHL business had to be segregated from a normal letting business.
 - CGT reliefs will not be available on disposals of FHLs after 5 April 2025. However, where the FHL business ceased on or before that date, BADR may be available on a disposal of the properties within 3 years. The abolition of FHL status does not count as a cessation of the business for these purposes.
 - CGT reliefs will not be available on disposals of FHLs after 5 April 2025. However, where the FHL business ceased on or before that date, BADR may be available on a disposal of the properties within 3 years. The abolition of FHL status does not count as a cessation of the business for these purposes.

Anti-forestalling rules apply from 6 March 2024 to prevent taxpayers attempting to preserve the effect of the FHL rules on future capital gains by entering into unconditional sale contracts before the change in status that do not complete until after that change.

Stamp Duty Land Tax (SDLT)

A temporary reduction in the normal SDLT rates expires on 31 March 2025. Up to that date, the first £250,000 is charged at nil; from 1 April 2025, the band from £125,001 to £250,000 will once again be charged at 2%. There is also a reduction in the thresholds for first-time buyer relief: from 1 April 2025, the nil rate will apply to the first £300,000 of a property costing up to £500,000, down from the first £425,000 of a property costing up to £625,000.



Annual Tax on Enveloped Dwellings (ATED)

ATED applies to residential property worth above £500,000 that is owned through companies and other corporate structures, unless the situation qualifies for a relief. The rates increase automatically each year with inflation and will do so on 1 April.

Other measures

Unincorporated businesses

Two important changes occurred for 2024/25, which will be relevant when filing the tax returns for that and future years.

1. Businesses are assessed on the profits arising in the tax year, rather than on the profits of an accounting period ending in the tax year. 2023/24 was the transition year from the old to the new basis of assessment; businesses that did not have a 31 March or 5 April year-end may well have generated additional 'transition' profits that year because of this change. These are spread equally over 5 years beginning in 2023/24, unless an election is made on the tax return to bring some or all of them into charge in an earlier year.
2. From 2024/25, 'cash basis' is the default method of calculating trading profits, with traders able to opt to use the accruals basis instead. Calculating taxable profits on the

cash basis involves comparing income received and expenditure paid, rather than invoiced or accrued.

Up to 2023/24, using the cash basis meant that a number of special rules applied for trading businesses (e.g. a maximum deduction of £500 for interest and losses only being able to be carried forward). These special rules were abolished for 2024/25, so that trading businesses using the cash basis have the same reliefs available as those using the accruals basis.

Note that certain businesses are not permitted to use the cash basis, including those using profit averaging (which may be available to, for example, farmers and creative artists).

Most unincorporated property businesses also use the cash basis, unless they opt out of it. The key difference to the rules for trading businesses is that the entry and exit turnover thresholds are both £150,000; above this, the accruals basis must be used.

MTD ITSA: from April 2026

Making Tax Digital for Income Tax Self-Assessment (MTD ITSA) will involve digital quarterly reporting of results to HMRC, together with an end of year finalisation process. This is potentially a great deal more onerous than simply submitting an annual tax return.

The date on which a person will have to comply with MTD ITSA depends on the level of 'qualifying income', which includes the gross turnover before deducting expenses from sole trader business income, UK property rental income, and overseas property income if it is taxable in the UK. It does not include employment income taxed under PAYE, pension income, savings and dividend income or capital gains. Partnership income is excluded for the moment, but partnerships will be brought into MTD ITSA in due course.

As previously announced, individuals will need to follow the requirements if they are self-employed or a landlord from:

- 6 April 2026, where qualifying income exceeds £50,000; or
- 6 April 2027, where qualifying income exceeds £30,000

One of the few tax announcements in the March 2025 statement added those with qualifying income of £20,000 to MTD ITSA from 6 April 2028. The Budget forecasts assume that this will raise a further £120 million in tax in 2029/30, which is based on the assumption that the new system will reduce

errors that the government believes are currently predominantly made in the taxpayer's favour.

HMRC has confirmed how it will work out whether the threshold for registering under MTD ITSA has been breached. To decide when an individual needs to register for MTD for a tax year, HMRC will look at the tax return that should have been submitted in the January before the tax year being considered.

For 2026/27, HMRC will look at the 2024/25 tax return (which should be submitted by 31 January 2026) to check if qualifying income exceeds £50,000.

For 2027/28, HMRC will look at the 2025/26 tax return (which should be submitted by 31 January 2027) to check if qualifying income exceeds £30,000.

MTD late payment penalties

The late payment penalties described above under VAT will also apply to late payments of income tax under MTD ITSA, once a taxpayer has been brought within that system.

Filing requirement

For 2023/24, taxpayers with incomes over £150,000 were automatically required to file a self-assessment tax return. The 2023 Autumn Statement included an announcement that those whose tax is all paid under PAYE will be removed from this requirement from 2024/25, and HMRC may have sent letters to taxpayers informing them that no further tax returns are required under self-assessment. However, as mentioned above, increases in interest rates on savings and reductions in both the CGT annual exempt amount and the dividend allowance are likely to have the opposite effect – more people will have non-PAYE tax liabilities that have to be reported to HMRC. It is the taxpayer's responsibility to realise that HMRC's letter does not remove their obligation to report taxable income.

Interest on unpaid tax

HMRC interest rates are set in legislation and are linked to the Bank of England base rate. There are two rates:

- late payment interest, set at base rate plus 2.5%; and
- repayment interest, set at base rate minus 1%, with a lower limit of 0.5% (known as the 'minimum floor')

HMRC currently charges interest at 7% p.a. on tax that is paid late and credits a taxpayer with 3.5% p.a. on repayments of tax (as the base rate is 4.5%). The late payment interest rate is intended to encourage prompt payment.

As announced at the Autumn Budget, to further incentivise timely payment, the rate of interest on late payments will increase by 1.5 percentage points

from 6 April 2025 to base rate plus 4%. There is no such increase in the repayment interest rate.

Compliance action

The Spring Statement included an announcement of 'investment' in HMRC's debt management and compliance capacity – extra staff to chase unpaid tax and to look for undeclared tax. This is forecast to bring in an extra £3 billion in tax over the next five years.

The government is also proposing other measures to crack down on non-payment and evasion of tax, including increasing the number of prosecutions for tax fraud, the introduction of a much more generous reward scheme for tax 'whistleblowers', and measures to tackle 'phoenixism' – companies become insolvent owing tax, and then reappearing under a different guise shortly afterwards.

National Minimum/Living Wage (NMW/NLW)

From 1 April 2025, the NLW will rise from £11.44 per hour to £12.21, with comparable increases to the other rates that apply to younger workers and apprentices.

Vehicle Excise Duty

It was announced a year ago that, from 1 April 2025, registered keepers of electric, hybrid and low-emission cars will have to pay Vehicle Excise Duty in the same way as keepers of petrol and diesel cars. There are different rates depending on the age and type of vehicle, but the standard charge of £195 will apply to many cars which previously were not liable for duty.



Information contained on this document has been prepared as a way of summarising measures announced by the Government and HMRC as at the date of publication for the benefit of our clients. No responsibility is accepted for completeness on the part of this firm, its partners and/or employees. Modifications and clarifications may follow.

Income Tax Rates and Allowances (Table A)

Main allowances	2025/26	2024/25
Personal Allowance (PA)*†	£12,570	£12,570
Blind Person's Allowance	3,130	3,070
Rent-a-room relief §	7,500	7,500
Trading income allowance §	1,000	1,000
Property income allowance §	1,000	1,000

* PA will be withdrawn at £1 for every £2 by which 'adjusted income' exceeds £100,000. There will therefore be no allowance given if adjusted income is £125,140 or more.

† £1,260 of the PA can be transferred to a spouse or civil partner who is no more than a basic rate taxpayer, where both spouses were born after 5 April 1935.

§ If gross income exceeds this, the limit may be deducted instead of actual expenses.

Rate Bands	2025/26	2024/25
Basic Rate Band (BRB)	£37,700	£37,700
Higher Rate Band (HRB)	37,701-125,140	37,701-125,140
Additional Rate (AR)	over 125,140	over 125,140
Personal Savings Allowance (PSA)		
– Basic rate taxpayer	1,000	1,000
– Higher rate taxpayer	500	500
Dividend Allowance (DA)	500	500

BRB and AR threshold are increased by allowable personal pension contributions and Gift Aid donations.

Tax Rates	2025/26			2024/25		
Rates differ for General, Savings and Dividend income within each band:						
	G	S	D	G	S	D
	%	%	%	%	%	%
Basic	20	20	8.75	20	20	8.75
Higher	40	40	33.75	40	40	33.75
Additional	45	45	39.35	45	45	39.35

General income (salary, pensions, business profits, rent) usually uses personal allowance, basic rate and higher rate bands before savings income (mainly interest). To the extent that savings income falls in the first £5,000 of the basic rate band, it is taxed at nil rather than 20%.

The PSA taxes interest at nil, where it would otherwise be taxable at 20% or 40%.

Dividends are normally taxed as the 'top slice' of income. The DA taxes the first £500 of dividend income at nil, rather than the rate that would otherwise apply.

High Income Child Benefit Charge (HICBC)

1% of child benefit for each £200 of adjusted net income between £60,000 and £80,000.

Income Tax – Scotland	2025/26		2024/25	
	Rate	Band	Rate	Band
Starter Rate	19%	£2,827	19%	£2,306
Basic Rate	20%	2,828 – 14,921	20%	2,307 – 13,991
Intermediate Rate	21%	14,922 – 31,092	21%	13,992 – 31,092
Higher Rate	42%	31,093 – 62,430	42%	31,093 – 62,430
Advanced Rate	45%	62,431 – 125,140	45%	62,431 – 125,140
Top Rate	48%	over 125,140	48%	over 125,140

The Scottish rates and bands do not apply for savings and dividend income, which are taxed at normal UK rates.

Registered Pensions (Table B)

	2025/26	2024/25
Annual Allowance (AA)	£60,000	£60,000

Annual relievable pension inputs are the higher of earnings (capped at AA) or £3,600.

The AA is usually reduced by £1 for every £2 by which relevant income exceeds £260,000, down to a minimum AA of £10,000.

The AA can also be reduced to £10,000, where certain pension drawings have been made.

The maximum tax-free pension lump sum is £268,275 (25% of £1,073,100), unless a higher amount is "protected".

Car and Fuel Benefits (Table C)

Cars

Taxable benefit: List price multiplied by chargeable percentage.

CO ₂ emissions g/km	Electric range Miles	2025/26	2024/25	
		%	All cars	%
0	N/A	3		2
1-50	>130	3		2
1-50	70 - 129	6		5
1-50	40 - 69	9		8
1-50	30 - 39	13		12
1-50	<30	15		14
51-54	N/A	16		15

Then a further 1% for each 5g/km CO₂ emissions, up to a maximum of 37%.

Diesel cars that are not RDE2 standard suffer a 4% supplement on the above figures but are still capped at 37%.

Car Fuel

Where employer provides fuel for private motoring in an employer-owned car, CO₂-based percentage from above table multiplied by £28,200 (2024/25: £27,800).

National Insurance Contributions (NICs) 2025/26 (Table D)

Class 1 (Employees)	Employee	Employer
Main NICs rate	8%	15%
No NICs on first	£242pw	£96pw
Main rate charged up to*	£967pw	no limit
2% rate on earnings above	£967pw	N/A
Employment allowance per qualifying business	N/A	£10,500

*Nil rate of employers' NICs on earnings up to £967pw for employees aged under 21, apprentices aged under 25 and ex-armed forces personnel in their first twelve months of civilian employment.

Employers' NICs (at 15%) are also due on most taxable benefits (Class 1A) and on tax paid on an employee's behalf under a PAYE settlement agreement (Class 1B).

Class 2 (Self-employed)		
Flat rate per week if profits below £6,845 (voluntary)		£3.50
Class 3 (Voluntary)		
Flat rate per week		£17.75
Class 4 (Self-employed)		
On profits £12,570 – £50,270		6%
On profits over £50,270		2%

Employees with earnings above £125 per week and the self-employed with annual profits over £6,845 (or who pay voluntary Class 2 contributions) can access entitlement to contributory benefits.