

dodd&co

Chartered Accountants,
Business & Financial Advisers

Autumn

Budget

2025

*What will the
changes mean
for you?*

Carlisle 01228 530913

Penrith 01768 864466

doddaccountants.co.uk



Summary

After months of the government “rolling the pitch” (please don’t mention the Ashes first test!) that their second Budget would be as bad as their first in terms of increasing taxes, the government today finally delivered a whole range of tax increases (although the OBR actually beat them to it by accidentally publishing the details prior to the Budget statement!).

Rather than introducing many new tax raising measures, a far simpler approach would have been to increase income tax by 2%, but after a U-turn on the U-turn, this option has been thrown back into the long grass. Having said this, by extending the freeze in the income tax thresholds for a further three tax years (which is the largest tax raising measure announced today) the Chancellor risks facing criticism that the government’s election manifesto to not raise income tax on working people has been broken (and certainly contradicts what the Chancellor said at last year’s Budget when she dismissed this option).

Whilst income tax rates across the board were not raised, the government have increased income tax rates by 2% in relation to income that arises from dividends, interest and rental property.

Businesses and employees will be very disappointed with today’s announcement on salary sacrifice and pension contributions which will again result in higher NIC costs (£4.7 billion per year). The only silver lining is that the change will not commence until April 2029, as opposed to being introduced next year.

One welcome announcement on inheritance tax for owner-managed businesses and farmers is that the £1million allowance for Business Property and Agricultural Property Reliefs will now be transferable to a surviving spouse or civil partner (in an identical way to the £325k nil rate and £175k residence nil rate bands) but they will understandably question why it has taken the government a year to make this sensible change. In addition, many of these businesses will have hoped that the £1million allowance would be increased to the rumoured £5million level, but disappointingly it wasn’t, which will leave many of these businesses with the worry of how to preserve their business for future generations.

They say that “things come in threes” – let’s hope that this is not true with next year’s Budget and yet more significant tax increases!

Income Tax & NIC

Income Tax Thresholds

Income tax and NIC thresholds were frozen for a further 3 years and will remain at their current levels until April 2031.

The tax-free personal allowance will therefore remain at £12,570 with basic rate tax being triggered above this level. Higher rate tax will kick in at £50,270 and additional rate tax will be levied from £125,140. The tapering of the personal allowance between £100,000 and £125,140 also remains untouched.

Income Tax Rates

The standard 20% basic rate, 40% higher rate and 45% additional rates of tax have not been changed for earned/pension income.

Dividend income, property income and savings income however have been targeted, and these tax rates will, in main, increase by 2% as detailed below.

The rates of tax charged on dividend income will be increased from April 2026. Basic rate dividend tax will increase by 2% from 8.75% to 10.75% and higher rate dividend tax will also increase by 2% from 33.75% to 35.75%. Bizarrely additional rate dividend tax will remain at 39.35%.

The tax charged on property and savings income will, from April 2027, increase by 2% across the board, therefore creating a 22% basic rate, 42% higher rate and a 47% additional rate.

National Insurance Contributions (NIC)

NIC thresholds and rates remain untouched after last year's significant increase to employers national insurance in particular.

The NIC savings that are associated with salary sacrifice on employee pension contributions however will be capped from April 2029, please see more below.

Salary Sacrifice Pension Contributions

A restriction on national insurance (NIC) relief obtained through salary sacrificing employee pension contributions was announced to come into effect from April 2029.

From April 2029, only the first £2,000 of employee pension contributions paid through salary sacrifice will benefit from national insurance (NIC) savings. Currently all pension contributions paid through salary sacrifice are free from both employer and employee NIC.

Going forward any such employee contributions over £2,000 will be subject to both employers and employees national insurance. For the avoidance of doubt, they will still be exempt from income tax.

What is somewhat surprising is that the announcement seems to confirm that the employer element of all pension contributions will continue to be free from NIC.

The government therefore seems to be targeting the employee element only of any workplace pension arrangement and not all employer pension contributions in general as some may have feared.

It is not yet clear how these changes will impact owner managed businesses where directors choose to make employer pension contributions from their own limited company.

Inheritance Tax

Thresholds & Exemptions

The nil rate band threshold of £325,000 and the residential nil rate band threshold of £175,000 will remain in place until April 2031 (previously until April 2030). For a couple (married or civil partnership), this means that there is potentially £1 million of taxable estate before Inheritance Tax is payable. Transfers between spouses and civil partners will continue to be exempt from Inheritance Tax. Transfers to individuals more than 7 years before death will continue to fall outside the scope of inheritance tax in the normal way.

Reforms to Agricultural Property Relief and Business Property Relief

In the October 2024 Budget the government announced reforms to agricultural property relief and business property relief from 6 April 2026, whereby the 100% rate of relief will continue for the first £1million of combined agricultural and business property and it will be 50% thereafter. The government will also reduce the rate of business property relief available from 100% to 50% in all circumstances for shares designated as “not listed” on the markets of recognised stock exchanges, such as AIM.

The £1 million is a lifetime allowance (similar to the BADR allowance for capital gains tax) and will apply for transfers on or after 30 October 2024 if the donor dies on or after 6 April 2026.

Budget 2025 has announced that any unused £1 million allowance for the 100% rate of agricultural property relief and business property relief will be transferable between spouses and civil partners, including if the first death was before 6 April 2026. This will take effect from 6 April 2026.

Assets automatically receiving 50% relief will not use up the allowance.

The allowance covers the following transfers:

- property in the estate at death
- lifetime transfers to individuals in the 7 years before death (“failed potentially exempt transfers”)
- chargeable lifetime transfers where there is an immediate lifetime charge, so for example when property is transferred into trust

Where the rate of relief for the agricultural property or business property is at 50%, for example quoted shares in company giving the transferor control, the rate of relief will not be affected by the new allowance.

The combined allowance for the 100% rate of agricultural property relief and business property relief will be fixed at £1million until 5 April 2031.

Infected Blood Compensation Scheme

All payments from the infected blood scheme will be given exemption from IHT. This includes cases where the original infected or affected person eligible for compensation has died before the compensation is paid. First living recipients of compensation payments will receive an IHT credit to

pass on the value of the compensation following their own death without an IHT charge and also have two years in which to gift some or all of the compensation payment without an inheritance tax charge.

Inheritance Tax on Pensions

Following the announcement in the October 2024 Budget that unused pensions will be brought into the scope of Inheritance Tax from April 2027, the government has announced that personal representatives will be liable to report and pay Inheritance Tax on pensions from 6 April 2027.

It also confirms that all death in service benefits payable from a registered pension scheme will be excluded from the value of an individual's estate for Inheritance Tax purposes.

Capital Gains Tax (CGT)

The headline change to CGT announced by the Chancellor was in relation to sales of company shares to Employee Ownership Trusts (EOTs).

EOTs were introduced in 2014, allowing owners of trading companies to benefit from full CGT relief where a controlling interest was sold to an EOT (the relief is strictly only a deferral as the inherent capital gain is 'held over' such that the trustees of the EOT acquire the shares at a cost equivalent to that of the vendor for CGT purposes). The EOT then holds the company shares for the benefit of the company's employees.

Following increases to CGT rates, EOTs have become an increasingly popular option for business owners looking for an exit strategy, given the potential for realising the value in their company shares without any CGT liability.

From today, 50% of the gain realised on a disposal to an EOT will be immediately subject to CGT (with the remaining 50% of the gain deferred). It is important to note that Business Asset Disposal Relief will not be available where the 50% relief has been claimed on a sale to an EOT, meaning the CGT rate applicable to the 50% of the gain which is taxable will be 24% in most cases (i.e. an effective overall rate of 12%).

Corporation Tax

In keeping with the government's Corporation Tax Roadmap, which was part of their election manifesto, the current rates (of 19% and 25%) continue to remain unchanged.

There were a number of changes contained within the detailed Budget notes, primarily of an administrative nature and include the following:

- The government will double the penalty for companies submitting a Corporation Tax Return late from 1 April 2026.
- The government will consult in early 2026 on delivery timescales and enforcement for prescribing the content and tagging of the Corporation Tax computation.
- The government will publish a consultation in early 2026 to explore introducing new requirements to report transactions (primarily loans) between close companies and their shareholders to HMRC.
- The government will legislate in Finance Bill 2025-26 to simplify taxation of related party transactions, non-resident companies trading in the UK, and profits diverted from the UK, for chargeable periods beginning on or after 1 January 2026.
- Targeted research and development (R&D) advance assurance service. The government will pilot a targeted advance assurance service from Spring 2026, enabling small and medium-sized enterprises to gain clarity on key aspects of their R&D tax relief claims before submitting to HMRC. The government is also publishing a summary of responses to the advance clearance consultation.
- Advance Corporation Tax (ACT) reform and consultation. The government will legislate through statutory instrument to repeal the shadow ACT rules with effect from 1 April 2026, and will consult on the future of the remaining ACT regime in early 2026.
- Corporate Interest Restriction (CIR). The government will legislate in Finance Bill 2025-26 to simplify administration in relation to reporting companies under CIR. Most of the changes take effect for periods ending on or after 31 March 2026.
- Corporate Interest Restriction (CIR). The government will also legislate in Finance Bill 2025-26 to make technical amendments to CIR in respect of relief for certain capital expenditure. The changes take effect for periods ending on or after 31 December 2021.

Capital Allowances

The Government will introduce a new 40% First Year Allowance for main rate expenditure - including most expenditure on assets for leasing and expenditure by unincorporated businesses – from 1 January 2026.

From 1 April 2026 for Corporation Tax and 6 April for Income Tax, main rate writing-down allowances will reduce from 18% to 14%.

The current capital allowances regimes for Full Expensing and Annual Investment Allowance will continue in their current form.

The Government will extend for a further year the 100% First Year Allowances (FYA) for qualifying expenditure on zero emission cars and the 100% FYA for qualifying expenditure on plant or machinery for electric vehicle (EV) chargepoints. The FYA will now be in place until 31 March 2027 for corporation tax purposes, and 5 April 2027 for income tax purposes.

Council Tax & Business Rates

Council Tax

The Government is aware that Council Tax falls disproportionately on those living in less expensive properties and it was suggested that 'a typical family home across England currently pays more per year than a £10 million property in Mayfair'.

As a result of this, for the most expensive properties in England, a new High Value Council Tax Surcharge (HVCTS) is to be introduced from April 2028 where residential properties are worth more than £2 million. These charges will be assessed on property owners rather than the occupiers and is expected to impact on less than 1% of residential properties.

The HVCTS will start at £2,500 per year for residential properties valued at over £2 million increasing to £7,500 for residential properties valued at over £5 million.

Business Rates

The Government is committed to supporting the retail, hospitality and leisure (RHL) industry and in order to do this, from April 2026 they are introducing two permanently lower business rates multipliers for RHL properties with rateable values of less than £500,000.

This measure is expected to benefit over 750,000 RHL properties including shops and pubs and aims to support the high street. This is to be funded by increasing the business rates for properties with rateable values of over £500,000 (the top 1%).

The Government estimates that over 50% of ratepayers will see no increase in their business rates with 23% seeing their bills going down. For ratepayers seeing an increase, there will be new support packages available which include 'Transitional Relief' and the 'Small Business' schemes.

The Small Business Rates Relief grace period is to be extended from one year to three years and is expected to support businesses expanding into a second property and will be eligible from today.

The Government is also introducing a 10-year 100% business rates relief for electric vehicle only forecourts.

VAT, Duties & Levies

VAT Relief on Goods Donated to Charities

A new VAT relief will be introduced from 1 April 2026 to encourage donations of goods to charities. At present if a business makes a donation of goods to a charity, they must account for output VAT on the goods donated.

Under the new rules, donations of goods up to £100 for general goods or up to £200 for key items which address digital poverty and household hardship (such as white goods, computers, mobile phones or tablets) appear to be exempted from the output charge, provided that the charity the goods are donated to is registered with HMRC and/or the Charity Commission/OSCR. More details on this are to follow.

Electric Vehicle Duty

An extra vehicle excise duty of electric/plug in hybrid cars will be introduced, although not until April 2028. It will be based on the number of miles driven in a year and declared and paid alongside the existing annual vehicle excise duty. The taxpayer will need to declare the number of miles they expect to drive in the forthcoming year, and pay duty based on this. Then the actual mileage will be submitted at the end of the year and any over/underpayment calculated, with balances due to the DVLA being payable then, and overpayments being carried forwards to future years. The submitted mileage will be checked to data available to the DVLA, such as data submitted when the car is MOTd.

Whilst the system sounds cumbersome, the rate of tax is 3p/mile for fully electric cars or 1.5p/mile for plug in hybrids, so for many drivers the tax charge might be quite modest.

VAT Digitalisation

Although details are currently limited, from April 2029, businesses will be obliged to issue all VAT invoices as e-invoices. This appears to fit with the move towards digitalisation of taxes. Further details on this will come in the 2026 budget.

Taxis

Whilst there had been some concern that the budget would amend VAT regulations to draw more taxi fares (even those charged by small self-employed taxi drivers who individually are under the VAT registration threshold) into being subject to VAT, this fear was not realised.

Some targeted anti-avoidance measures are to be brought in from 2 January 2026 to stop operators taking advantage of a scheme called the Tour Operators Margin Scheme, which depresses the amount of income on which they pay VAT. This is essentially aimed at large operators such as Uber.

Gambling Duties

Bingo duty (currently 10% of profits) will be abolished from April 2026, but Remote Gaming Duty will increase from 21% to 40%, and a new Remote Betting Duty of 25% will be introduced (but will not be levied on horse racing, which will remain at 15%).

This tax reform is aimed at minimising what the government see as the harms created by remote gambling.

Alcohol and Fuel Duties

Alcohol duty will see an increase in line with inflation on 1 February 2026, but the 5p fuel duty cut will remain in place until the end of August 2026.

Pensions & Investments

Pensions

There is no change to tax relief or limits with regards to contribution or benefit limits.

However, salary-sacrificed pension contributions above an annual £2,000 threshold will no longer be exempt from NI contributions (NICs) from April 2029. Salary-sacrificed pension contributions above £2,000 will be treated as ordinary employee pension contributions in the tax system and therefore be subject to both employer and employee NICs, while ordinary employer pension contributions will remain exempt from NICs.

State pension - confirmation of the triple lock is not a surprise but will be welcomed by pensioners. This means the basic and new state pension will rise by 4.8%, an average increase of £440 and £575 per year respectively. Under the triple lock, the state pension increases each year by either 2.5%, inflation, or average earnings growth - whichever is the highest figure. The full new state pension should rise to around £241 per week or £12,534 a year from April. This means the new state pension at full rate will now be utilising most of the personal allowance, which for example means all other pension income will be pushed into taxation.

Pre-1997 pensions in the PPF (Pension Protection Fund) are to benefit from indexation. The changes to indexation of pre 1997 pensions in the Pension Protection Fund will be welcomed by many. It will be a costly exercise but for those who lost so much because of failed schemes this will be a real boost to their retirements.

Investments

ISA allowance - The annual amount that can be saved into a cash ISA will be reduced from £20,000 to £12,000 from April 2027 if you are under 65. From April 2027 the overall annual ISA limit will remain at £20,000 with £12,000 allocated to cash and £8,000 to stocks and shares. The £20,000 cash ISA limit will continue to apply if you are 65 or older. The intention of the change is to encourage people to put more of their money into Stocks and Shares ISAs.

The government is set to consult on Lifetime ISA reform in early 2026, with plans to scrap the product. It will replace the product, which was introduced in 2017, with a simpler ISA product to support first time buyers to buy a home.

From April 2026, the income tax relief on Venture Capital Trusts (VCTs) will be reduced from 30 per cent to 20 per cent. The changes came alongside a government commitment to increase the VCT and EIS (Enterprise Investment Scheme) company investment limit to £10million and £20million for knowledge intensive companies and also an increase of the lifetime company investment limit to £24million and £40million respectively.

Stamp Duty Reserve Tax

The Chancellor announced a new 'UK Listing Relief' which means that the acquisition of shares in companies newly listed in the UK will be exempt from the usual 0.5% SDRT charge. It will apply for three years from the date that the company lists in the UK.

This relief comes into effect from 27 November 2025.

If you have any queries on the Autumn Budget 2025, please do not hesitate to contact one of our tax specialists on 01228 530913 or 01768 864466.

Dodd & Co Wealthcare is a trading style of DW 2020 Limited. DW 2020 Limited is a company registered in England and Wales. Company number: 12369622. DW 2020 is authorised and regulated by the Financial Conduct Authority FRN 921450.