



**Forbes Dawson**  
THE TAX SPECIALISTS

# Autumn Budget 2025

Forbes Dawson's Top 10

## **AUTUMN BUDGET 2025 – The Buffet Budget**

In the build up to what could prove to be a pivotal second Autumn Budget, the Chancellor had been at pains to prepare the nation that some hard choices lay ahead. The Government's failure to deliver meaningful growth (so far), an inability to reduce a spiralling welfare budget and a seemingly unshakable belief in the virtues of delivering 'net zero' at any cost, had left the Chancellor staring into the proverbial abyss, with the inevitable conclusion that taxes would need to be raised.

The challenge though remained, how? Raising rates alone does not necessarily translate into an increase in revenue raised, due to the ability of the taxpayer to react and change behaviour, such as where to live, what to buy or sell and how hard to work. Will this budget manage to crack the code by raising revenue and avoid triggering a downward spiral of stunted economic activity, flight of people and capital and falling tax revenues?

Before the Chancellor had even stood up, we were treated to an early peek at the smorgasbord of delights on offer. There was some of the same-old, same-old: freezing of personal tax bands (for three more years) and cutting of reliefs but also some actual tax rises, with income tax rates increasing. However, in an effort to prove that she is still a faithful and sticking to at least one manifesto pledge, those increases only targeted savers, landlords and business owners who fall outside of the protected class of 'workers'.

The calls for a wealth tax were watered down into a 'mansion tax' levy on high value homes, but not until 2028, while inheritance tax and CGT avoided another hit, with no major changes to the measures previously announced. This means it's broadly 'as you were', in terms of estate planning, although saving for retirement did get more expensive for some, with a cap on the NIC saving on pension salary sacrifice, a cut to the cash ISA limit and the additional tax on investment income.

We hope you enjoy reading, and if there are any tax topics covered here, or in general, that you would like to discuss please get in touch with your usual FD contact.

## INCOME TAX RATES

### 2% increase in tax rates for property income, interest and dividends

- The tax rate on dividend income will increase by 2% for the basic and higher rate bands (the additional rate will remain unchanged). The change to the rates will apply from 5 April 2026.
- The tax rate on interest income will increase by 2% across all income tax bands, from 5 April 2027.
- Tax rates on property income will also be 2% higher across all tax bands, also from 5 April 2027, with this now forming a distinct category which might vary independently going forward. The rate of finance relief on mortgage interest will also increase from 20% to 22%

There is no change to the respective allowances available against these specific categories of income.

A consequential impact of the change to the basic rate of tax on interest is that withholding tax on payments to individuals and non-resident companies (which is still at the basic rate) will also increase.

## OUR VIEW

These increases illustrates how the Government continue to differentiate the 'workers' from those receiving what they would consider to be 'unearned' income.

Landlords have come under constant attack over the last few years and the only option for some will be to sell up, or increase rents. Those that are happy to continue operating may look to incorporate their rental businesses if they can do so tax efficiently, although HMRC will continue to police this closely with additional self-assessment disclosure requirements for incorporation relief also announced today.

The impact on withholding of basic rate tax at source re-emphasises the importance for non-residents to ensure that they make the relevant claims under a double tax treaty to reduce the rate of tax withheld wherever possible.

## TAX ON INDIVIDUAL SAVERS

The anticipated reduction in the cash ISA limit was announced, effective from 6 April 2027. Whilst the overall ISA tax-free allowance will remain at £20,000 when invested in stocks and shares, the allowable amount for the cash ISA will be cut by £8,000 to £12,000 per annum. The over 65s will continue to enjoy the full £20,000 for cash ISAs.

Annual subscription limits will all remain the same for:

- Lifetime ISAs (£4,000);
- Junior ISAs and child trust funds (£9,000).

Dividends, interest and capital gains will continue to be entirely tax-free in ISAs.

## OUR VIEW

With the announced increase to the tax rates applicable to both interest and dividend income, the benefits of investing through an ISA wrapper have increased.

The reduction in the available amount that can be invested in cash is designed to push more people into making investments, which will ultimately, hopefully, offer them a better return.

The ability for the over 65s to continue to invest more cash in a tax-free environment reflects that older investors may have a lower risk appetite and have a greater need for liquidity into retirement.

## THE MANSION TAX

Dubbed 'the mansion tax', from 6 April 2028, the new 'high value council tax surcharge' will impose an annual charge on luxury properties. Ranging from £2,500 for the 'cheapest' mansions (valued at £2m to £2.5m) up to £7,500 (for properties worth more than £5m).

The Government has also announced consultations regarding deferral and support mechanisms for those who may have difficulty paying (potentially farmers or other cash-poor, asset-rich individuals).

Interestingly, the OBR forecasts the new tax is expected to raise £400m a year in tax revenue. However, over time they expect house prices to group together below the boundary limits, potentially stagnating property prices. The OBR also states that tax revenues from other property taxes (stamp duty land tax and CGT) may reduce as a result, and therefore, there is a "high degree of uncertainty" regarding the tax revenues collected from this measure.

The new mansion tax will also use 2026 valuations to determine whether the tax applies to a property, unlike existing council tax bands (which are based on 1991 values) and so we expect to see a lot of appeals against these valuations.

## OUR VIEW

On the face of it, this new tax will be a blow for wealthy individuals, who may already be feeling unwelcome in the UK.

However, as this is a new tax we will need to see the detailed legislation to understand precisely how it will impact the property market.

Any future property acquisitions may trigger revaluations and so individuals may now have a disincentive to relocate where the acquisition price is greater than £2m. On the other hand, high-net worths considering leaving the UK, may decide to bring forward sales, rather than retain the property and pay the charge. Perhaps someone, somewhere, will grab a bargain.

Finally, landlords renting out these properties will be further disincentivised alongside the 2% income tax increase that will now be payable on rental income.

## PENSION SALARY SACRIFICE CAP

Currently, many employees utilise salary sacrifice arrangements to contribute to their pensions, whilst benefitting from reduced income tax and NIC. The benefits are enhanced when employees reduce their income below key levels, such as £100,000, where their Personal Allowance is tapered away.

From April 2029, the government will be imposing a £2,000 cap on an employee's pension contributions via salary sacrifice. Contributions within this cap will be exempt from NI contributions. Any employee contributions in excess of £2,000 will be subject to employer and employee NIC. Though, there will remain no income tax payable in such arrangements.

Prior to these changes being implemented in April 2029, employers will be required to make the necessary changes to its salary sacrifice arrangement to ensure NIC applies on contributions above £2,000.

This change is not expected to impact the average basic rate taxpayer, who is for the most part protected by the exempt amount. However, a lower income individual who is making large contributions will be significantly hit by these changes, due to the higher NIC rates at the basic rate. Higher earners will feel the effects less, due to lower NIC rates at high levels of income.

## OUR VIEW

This is a real blow to employees and employers alike. Making pension contributions more expensive undermines the long-standing Government message that workers should develop the habit of saving for retirement from the start of working life. Falls in take-home pay will also discourage saving generally.

Many employers also pass on the benefit of the employer NI saving on reduced salary sacrificed to their employees – often directly into their pension pots.

From an employer's point of view, this will only increase the cost of employment, further disincentivising a business looking to take on more employees.

Companies may still make direct discretionary contributions with full tax relief.

## **INHERITANCE TAX ('IHT') ALLOWANCE FOR BUSINESSES AND FARMS**

After the shakeup to Agricultural Property Relief ('APR') and Business Property Relief ('BPR') in the 2024 Autumn Budget, the Chancellor stayed relatively quiet on IHT today. However, she did confirm that the £1m APR/BPR allowance will be transferable between spouses and civil partners.

This means that, on first death, any unused APR/BPR allowance will not be wasted and instead will be available for the surviving spouse/civil partner to use against their estate. This brings the allowance in line with other IHT reliefs, such as the nil rate band, which are already transferable between spouses and civil partners.

The transfer is still available when first death occurs before 6 April 2026 (before the £1m allowance is introduced), as prior to this date 100% relief would have been available.

However, the Chancellor did confirm that the allowance will remain at £1m until at least April 2031, extended from April 2030, rather than increasing with inflation. Similarly, the IHT nil rate band and residence nil rate band will also remain fixed until April 2031.

## **OUR VIEW**

Couples can undertake succession planning with the comfort that they will have a guaranteed £2m APR/BPR allowance between them.

It will slightly simplify IHT planning (which is complex enough!), as it is no longer necessary to ensure £1m of APR/BPR assets are kept in each spouse's/civil partner's estate. This can be tricky when market values are not constant. Instead, the spousal exemption can be relied upon on first death.

Perhaps surprisingly, no further IHT reforms were announced. Despite rumours surrounding the introduction of a lifetime gift limit or an extension to the seven-year rule (where gifts remain within the scope of IHT), the Chancellor has decided not to attack IHT further this Budget – a choice which will no doubt be welcomed by many!

## EXPANSION OF ENTERPRISE MANAGEMENT INCENTIVE ('EMI') SCHEMES

In an effort to boost investment in innovative UK businesses, the Chancellor announced significant increases to the company eligibility limits for EMI schemes.

EMI share option schemes are specifically designed for smaller, private trading companies who wish to recruit and retain key employees. They provide individual employees with significant tax benefits and are much more flexible than other HMRC approved share arrangements.

EMI schemes give an employee an option (i.e. the right) to buy shares in the company at an agreed price, typically linked to a future event, for example, a sale of the company.

### Policy changes

The changes increase the following EMI eligibility limits from 6 April 2026:

- Gross assets limit from £30m to £120m
- Maximum number of employees from 250 to 500
- Maximum value under the EMI options from £3m to £6m

## OUR VIEW

EMI schemes are extremely tax efficient for both the employee and the company. Therefore, the expansion is welcome as this encourages more employee share ownership into the companies they help to grow, with the incentive of CGT treatment on disposal of those shares. This should help companies to recruit and retain talent.

Nevertheless, it is disappointing that the categories of qualifying activities do not appear to have been expanded also.

Alongside the EMI changes there were also increases to the qualifying limits for the Venture Capital Trust ('VCT') scheme and Enterprise Investment Scheme ('EIS').

Some bad news for future investors into VCT schemes, was that the available income tax relief will be reduced from 30% to 20%.

## CHANGES IMPACTING NON-RESIDENTS

The 'temporary non-residence rules' ('TNR') seek to prevent individuals avoiding income tax and CGT whilst living abroad for short periods of time. There was previously no charge to tax if a dividend was received out of 'post departure trade profits' (that accrue to a company after an individual has left the UK). This concept has now been removed and all distributions received from a close company whilst temporarily non-resident will now be caught by the TNR rules.

Non-UK residents with both UK dividend and rental income are able to choose the better of two alternatives; either

- (i) the entirety of their UK source income is assessed, with the ability to offset their Personal Allowance, and their UK dividends are granted a tax credit at the basic rate, or
- (ii) only their UK rental, employment or partnership income is taxable, however they cannot claim their Personal Allowance.

The dividend tax credit under option (i) has now been abolished.

## OUR VIEW

The big news regarding changes to non-resident taxation came in the last Autumn Statement, and the Chancellor chose not to make any further major changes until the impact of those measures has bedded in.

The measures announced today tighten those rules.

The changes to non-UK resident taxation are relatively niche but will impact an increasing number of people as more and more people may seek to exit the UK.

## CHANGES TO CAPITAL ALLOWANCES

The Government has announced several changes to capital allowances as part of the 2025 Budget. Most notably, a new 40% First Year Allowance ('FYA') for main rate expenditure will be introduced, enabling more businesses to claim tax relief upfront. This measure will apply to qualifying expenditure incurred on or after 1 January 2026 for companies and unincorporated businesses.

In addition, the Government will reduce the main rate of writing-down allowances ('WDA's'). From 1 April 2026 for companies within Corporation Tax, and 6 April 2026 for unincorporated businesses (sole traders), the rate will fall from 18% to 14%.

No changes have been made to other capital allowance schemes, including the full-expensing regime for companies or the existing first-year allowances regime for electric vehicles. The £1m Annual Investment Allowance also remains in place, continuing to provide immediate 100% tax relief on qualifying expenditure.

The main rate of corporation tax remains frozen at 25%, with both the small profits rate and the marginal rate also remaining unchanged.

## OUR VIEW

Whilst the changes to the main rate of WDA will impact the level of tax relief that companies and sole traders are able to deduct against their taxable profits, the overall impact of this reduction is likely to be diminished by the introduction of the new 40% FYA.

This is most likely to be beneficial for unincorporated businesses and the leasing sector who are currently unable to claim full-expensing on new and unused items.

Business owners should also, where possible optimise the timing of their claims before the WDA reduction takes effect.

## EMPLOYEE OWNERSHIP TRUSTS (EOTs)

Relief from CGT on the disposal of a controlling interest in a trading company to the trustees of an Employee Ownership Trust ('EOT') has been halved from 100% to 50%.

To date, business owners have enjoyed such disposals completely free from CGT. The gain is held over to fall into charge on any future share disposal by the trustees of the EOT.

With immediate effect, 50% of the gain on a share disposal will become chargeable to CGT on the vendor, with the remaining 50% continuing to be held over.

Business Asset Disposal Relief ('BADR') and Investors' Relief will not be available to reduce the rate of CGT on the chargeable gain.

This means that vendors will be subject to an effective rate of CGT of 12% on a disposal to an EOT i.e. half of the main rate of CGT of 24%.

## OUR VIEW

It is unsurprising that the Government have targeted the tax-free gains on sales to EOTs in this way.

Last year, measures to tighten up the EOT rules were designed to encourage business owners to be motivated by the longer-term benefits of an employee ownership model, rather than the generous tax break.

This has now been taken a step further and with the benefits of BADR continuing to dissipate, a 12% effective rate of CGT remains attractive.

## ELECTRIC AND HYBRID CAR TAX CHANGES

From April 2028, the government will introduce a new mileage-based road tax for electric and plug-in hybrid vehicles. Under the proposal, electric vehicle drivers will pay 3p per mile, while hybrid drivers will pay a lower rate of 1.5p per mile.

These charges will apply in addition to existing Vehicle Excise Duty, under which electric cars currently pay half the fuel-duty equivalent applied to petrol and diesel vehicles, and plug-in hybrids pay a further reduced rate of half the electric-car duty. This is designed to help recover falling fuel-duty revenues as the transition away from traditional petrol and diesel vehicles accelerates.

Also included are measures intended to support continued uptake of electric vehicles within businesses. A 10-year, 100% business rates relief will apply to eligible electric vehicle charging points, meaning qualifying sites will face no business rates liability for a decade.

The 100% first-year allowances for qualifying expenditure on zero-emission cars and on plant and machinery for electric charge points has been extended. These allowances will now run until 31 March 2027 for corporation tax purposes and 5 April 2027 for income tax purposes, helping businesses accelerate investment in electric vehicle infrastructure.

## OUR VIEW

The changes introduced signal a shift towards reshaping how low-emission transport is incentivised and funded.

Businesses which are operating electric vehicle fleets should begin to assess the long-term cost impact, particularly where mileage is high.

At the same time, the extended first-year allowances and decade long business rates relief for charging infrastructure provide incentives for companies to continue investing in electric vehicles in a tax-efficient manner.

However, the speed of transition to net zero may take a hit, as these changes can be seen as a disincentive to purchasing electric vehicles.

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[www.forbesdawson.co.uk](http://www.forbesdawson.co.uk)

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