

Forbes Dawson
THE TAX SPECIALISTS



2025/26
Personal Tax
Year-End Planning Guide

Contents

Tax planning checklist	3
Foreword by Laura Hutchinson	4
ISAs	5 - 7
EIS / SEIS / VCT	8 - 9
Income tax - Utilising all available allowances	10 - 11
Current tax rates	12
Pensions	13 - 14
Property taxes	15
Capital gains tax	16
Inheritance tax	17 - 18
Inheritance tax – BPR and APR	19 - 20
Making tax digital	21 - 22

Pre-5 April 2026 tax planning check list

As the 2025/26 tax year comes to an end, we consider what action you could take ahead of 5 April 2026 to maximise tax reliefs and allowances to reduce your tax bill. The checklist below summarises the actions that you should consider. Always take tax advice before implementing.

1	<p>Capital gains tax ('CGT') planning</p> <p>Have you used your CGT annual allowance or generated capital losses to cover gains?</p> <p>Will the planned BADR qualifying disposal exchange before 6 April 2026 to attract the 14% rate of tax on up to £1m of gains?</p>	
2	<p>Pension contributions</p> <p>Have you utilised your Annual Allowance for pension purposes, as well as using any brought forward unutilised amounts?</p>	
3	<p>Tax efficient investments</p> <p>Have you and your family made your maximum ISA contribution of £20,000 per adult for 2025/26?</p> <p>Have you considered using your EIS / SEIS / VCT investment allowances? The rate of income tax relief is reducing for VCTs from 6 April 2026.</p>	
4	<p>Maintaining your personal allowance</p> <p>If your income is just over £100,000, have you considered reducing your taxable income with pension contributions or charitable donations?</p>	
5	<p>Dividends</p> <p>Have you declared dividends of at least £500 to utilise all shareholders' dividend allowances? Should you consider more dividends now to avoid the 2% increase from 6 April 2026?</p>	
6	<p>Inheritance tax ('IHT')</p> <p>Have you made any annual gifts for IHT, or thought about creating trusts, particularly with BPR assets? Are your wills up to date?</p>	



Foreword by Laura Hutchinson

Tax policy has made headline news over the last 12 months, due to the widespread furore over the inheritance tax ('IHT') changes announced by the government in the October 2024 Budget. The changes to Agricultural Property Relief ('APR') and Business Property Relief ('BPR') have caused the most consternation. These IHT allowances – which were previously unlimited – will be significantly curtailed from 6 April 2026, effectively resulting in a 20% IHT charge on the value of business and agricultural assets over and above the £2.5m allowance.

Planning for these changes has reached frenzied levels over the last few months, as owner managers seek to implement structures to protect the value of their businesses against IHT and secure succession for future generations. The window of opportunity to undertake such planning before 6 April 2026 is closing rapidly.

Once the dust settles on these changes, we expect attention will turn to the pension reforms taking effect from 6 April 2027, which brings unused pension funds into the scope of IHT, in addition to the existing income tax on extraction. In many cases, taxpayers will be better off utilising their pension in priority to cash savings to fund their day-to-day expenditure – a reversal of traditional received wisdom which was to treat pensions as savings of last resort.

With the above changes, coupled with frozen IHT allowances (the nil rate band has remained at £325,000 since 2009 and is frozen until 2031 at least) and growth in property values, more families are finding themselves within the scope of IHT. This is prompting younger families to consider setting up tax efficient long-term structures that can protect family wealth for future generations.

The November 2025 Budget was fortunately less dramatic, albeit characterised by the familiar themes of marginal increases to tax rates (for dividend, savings and property income), curtailing of reliefs, and extended freezes to thresholds and allowances.

We approach the new tax year against the backdrop of escalating geopolitical tensions creating an uncertain world, with potential for inflationary increases. Post-tax incomes have already been squeezed over the last few years by the effect of fiscal drag – most keenly felt in times of high inflation – and a further round of inflationary pressure will have a punishing effect on household budgets.

It is therefore more important than ever that taxpayers continue to utilise ISA and pension allowances to maximise the benefits of these tax-free environments where possible.

With the overall tax burden ever-increasing, it is not surprising that we continue to receive enquiries from individuals looking to leave the UK for sunnier (and lower tax) climes. The replacement of the non-domicile tax regime in favour of a new residence-based regime has made it more prescriptive for British nationals to escape the UK IHT net, whilst still retaining some ties to the UK (such as keeping a UK home).

While the new regime is overall less favourable for new arrivals, it is more straightforward, and generous exemptions can apply to foreign income and gains received within the first four years of UK residence. This is likely to be particularly attractive to highly paid and internationally mobile employees. Anyone considering moving to, or leaving the UK, should take specialist advice, as there are many nasty pitfalls that need to be carefully navigated.

Lastly, non-doms who intend to remain in the UK for the long term, and who have previously claimed the remittance basis should take advice. The Temporary Repatriation Facility ('TRF') provides a one-time opportunity between now and 5 April 2028 to remit untaxed foreign income and gains at low rates (currently 12%, increasing to 15% for 2027/28).

If you would like to discuss any of the points raised in this guide, please contact your regular Forbes Dawson contact.

Best wishes

Laura Hutchinson
Managing Partner



Tax efficient investments

Individual Savings Accounts ('ISAs')

Summary

- For 2025/26 the annual ISA allowance is **£20,000 per adult**. This allowance does not roll over and is lost if it is not used. The limit applies across all forms of ISA.
- ISAs are effectively tax-free wrappers that allow savings and investments to grow in value over time in a tax-free environment.
- Planned increases to the income tax rates for dividend and interest income (effective from April 2026 and 2027 respectively) makes ISAs now even more valuable.
- Most ISAs are flexible and sometimes it is possible to extract the monies in the short-term and replace them by the end of the year without losing your ISA allowance.
- The 2025/26 limit for Junior ISAs is £9,000 and is one of the few ways that parents can provide financial benefits for their minor children, tax efficiently.
- The government have announced that the annual Cash ISA allowance will be reduced from £20,000 to £12,000 for under 65s from 6 April 2027, to encourage investment over cash savings. The total ISA allowance will remain unchanged.

ISA

The ISA has been around for over 20 years and is perhaps one of the best-known tax-efficient saving vehicles in the UK. Whether you wish to invest in cash or shares, the ISA limit is £20,000 per person. The limit can be split between cash and shares.

The ISA limit does not roll over each year and therefore, if you have the available funds, you should generally utilise it.

Whilst the tax impact on £20,000 of savings or investments may not seem significant now, the main advantages arise with ISAs that have been consistently funded over the longer-term. A couple investing £20,000 each for 25 years can expect a £1m pot for their retirement (without accounting for any investment growth) which will generate tax-free returns (on both income and gains).

Lifetime ISA ('LISA')

A LISA can be opened by anyone aged between 18 and 39. You can contribute up to £4,000 per year (which counts towards the main £20,000 limit) until the age of 50. The government will pay a 25% bonus on any money invested into your LISA, providing a £1,000 'top up' on a £4,000 investment. Cash LISAs and stocks and shares LISAs are both available.

You can only withdraw the funds (and bonus) from a LISA to use towards the purchase of your first home, or if you are over the age of 60. In any other circumstances, a withdrawal penalty of 25% applies.



Tax efficient investments

Individual Savings Accounts ('ISAs') (continued)

Lifetime ISA ('LISA') (continued)

The government have announced plans to replace the existing LISA from 2028, with a new, dedicated first time buyer savings product. It is expected that the replacement product will have no early withdrawal penalties, but the government bonus will be applied at the end when the funds are withdrawn to purchase a property, rather than applying to each deposit (which will limit the benefit of compounding).

Planning point

It is likely that individuals with an existing LISA will be able to continue to contribute to their LISA accounts under the existing rules. It may be worth opening an account (even if just with £1) if you would like to have the option of using a LISA as part of your retirement savings planning.

Innovative Finance ISA ('IFISA')

An IFISA allows you to use your ISA limit to save with a peer-to-peer lender or certain crowd-funding platforms. IFISAs do not have their own ISA limit and therefore form part of your £20,000 annual limit.

Junior ISA ('JISA')

A JISA is an ISA for anyone under the age of 18. They allow for up to £9,000 to be contributed per year. The JISA can be opened by a parent or guardian, but once opened, anyone can contribute to it. This is the only way parents can provide capital to their minor children on which income can be generated, without the income being taxed on the parents.

At the age of 18, the JISA turns into a regular ISA and the child takes full control of the monies. They could then use this money for university or a deposit on their first home, for example.

Planning point

The JISA is an ideal vehicle for grandparents to make gifts to their grandchildren whilst reducing their estate for inheritance tax purposes. These gifts may even be exempt from IHT in certain circumstances.

Flexible ISA

Many ISAs, other than the JISA and LISA, allow you to withdraw funds and return them to the ISA in the same tax year, without affecting your annual ISA allowance.



Tax efficient investments

Individual Investment Accounts ('ISAs') (continued)

Inheritance ISAs

On the death of your spouse or civil partner, you can take over their ISA savings, whilst maintaining the tax-free protection provided by the ISA wrapper.

In such circumstances, an additional allowance applies to enable the surviving spouse to pay into their own ISA an amount equivalent to the value of the deceased's ISA at the time of death. The value transferred does not impact your ISA allowance or your existing personal ISA savings.

This must be done within three years of the date of death, or 180 days from the date of the completion of the administration of the estate (whichever is later).

Changes to ISAs

The government have announced their intention to cut the cash ISA allowance from £20,000 to £12,000, effective from 6 April 2027. The total ISA allowance will remain at £20,000, with the government aiming to encourage investing through stocks and shares ISAs.

Many ISA providers currently offer interest on uninvested cash held within stocks and shares ISAs. The government is therefore planning to charge tax on interest paid on uninvested cash held in stocks and shares ISAs or IFISAs.

More details are due to be published in relation to these changes in due course.



Tax efficient investments

Investment reliefs EIS/SEIS/VCT

The investment reliefs below provide some of the most attractive tax breaks in the UK and are designed to encourage investment (via the subscription for new shares) into new and exciting, small and growing businesses.

Demand for these types of investments has increased over recent years due to various tax changes (such as the pension restrictions which have affected high earners).

Enterprise Investment Scheme ('EIS')

EIS is the most common investment relief and provides the following tax benefits for qualifying investments:

- **Up to 30% income tax relief** in either the year of investment or the previous year, via a carry-back claim, up to a maximum investment of £1m per tax year.
- **Ability to defer capital gains** made elsewhere up to the gross amount of the qualifying EIS investment.
- **Tax-free growth** – no capital gains tax liability on sale if the shares are held for more than three years and income tax relief was obtained on the original investment.
- **Loss relief** – if the investment doesn't work out, it is possible to offset the net loss against either income or capital gains tax.
- **IHT relief** – provided the EIS investment has been held for more than two years, it will typically attract BPR (see page 19).

Tax rules can change, and tax benefits depend on individual circumstances. To retain the benefits of an EIS investment, you must hold it for at least three years, and the investment must remain a 'qualifying' investment.

Planning point

EIS investments may be suitable for investors who have:

- A large income tax liability.
- High income and cannot make large pension contributions due to tapering rules applying.
- A large capital gain that the investor wishes to defer (albeit deferral claims have become less attractive in recent years due to expected and realised capital gains tax increases).

Seed Enterprise Investment Scheme ('SEIS')

SEIS is very similar to EIS but is designed for investment into start-up companies. It provides more generous tax reliefs to reflect the increased risk of investing in smaller companies, including:

- **Up to 50% income tax relief** in either the year of investment or the previous year, via a carry-back claim, up to a maximum investment of £200,000 per tax year.
- **Capital gains tax reinvestment relief** – treat gains as exempt up to 50% of the qualifying investment (i.e. up to a maximum of £100,000 of exempt gains) in the year in which income tax relief is claimed.



Tax efficient investments

Investment reliefs EIS/SEIS/VCT (continued)

- **Tax free growth, loss relief and IHT** – same as EIS shares.

Venture Capital Trusts ('VCTs')

A VCT is a publicly listed company which aims to invest into small, unquoted, entrepreneurial companies. Changes applying from 6 April 2026 allow investment into larger companies than before.

VCT investments provide the following tax benefits, provided the shares are held for five years:

- **Up to 30% (20% from 6 April 2026) income tax relief** – save up to £60k (on maximum investment of £200k) against the income tax liability when investing in newly issued VCT shares. The rate of relief on qualifying investments is decreasing from 6 April 2026 to 20%.

- **Tax-free dividends** – dividends received are not taxable.
- **Tax-free growth** – no capital gains tax on disposal.
- **IHT** – no BPR

The tax advantages above are significant but always take investment advice before making any investments and them based on the merits of the investment itself and not solely on the tax benefits.

Planning point

Consider making VCT investments before 6 April 2026 to attract income tax relief at the higher rate of 30%. From 6 April 2026, income tax relief will apply at 20%.

Summary table

Relief	EIS	SEIS	VCT
Income tax relief	30%	50%	30% (20% from 6 April 2026)
Carry back income tax relief?	1 year	1 year	No
Minimum holding period	3 years	3 years	5 years
Maximum Investment in y/e 5/4/25	£1 million *	£200,000	£200,000
Dividends	Taxable	Taxable	Exempt
Capital gains tax on sale	Tax-free	Tax-free	Tax-free
Capital gains tax deferral on investment	Yes	No – 50% (restricted) exemption instead	No

* £2 million for knowledge intensive companies

Income tax

Utilising all available allowances

Retain your personal allowance

If your taxable income exceeds £100,000, you lose £1 of your personal allowance for every £2 that your income exceeds this threshold. This means your personal allowance is lost completely when your taxable income exceeds £125,140.

As a result, income between £100,000 and £125,140 is taxed at an effective rate of 60%. If you fall victim to this 'tax trap', you should consider the following options to reduce your tax liability:

- i. Make a personal pension contribution to extend your tax bands – subject to Annual Allowance restrictions (see overleaf);
- ii. Make charitable donations to attract Gift Aid;
- iii. Consider the merits of making tax efficient investments; and
- iv. Avoid paying dividends from personal companies which will fall within this band.

Planning point

Business owners should consider charging interest on loans to their companies to utilise the personal savings allowance and starting rate band. This is a particularly attractive method of profit extraction as the interest is tax deductible in the company when paid (thus saving corporation tax at up to 25%).

Alternatively, taxpayers could look to balance investment portfolios, or transfer interest-bearing investments, such as National Savings Bonds, between spouses, to utilise this relief next year.

Planning point

For parents, similar marginal tax rates occur due to the High-Income Child Benefit Charge that applies if one parent earns between £60,000 and £80,000, and the loss of the 30 hours free childcare allowance if one parent earns over £100,000. These 'tax traps' can sometimes result in a parent having a marginal tax rate of over 100%! Any parent who currently earns close to these thresholds should therefore consider whether they need to undertake any planning before the end of the tax year to reduce their taxable income.

Personal savings allowance ('PSA') and starting rate bands

Since 6 April 2016, most savings interest has been paid gross. For 2025/26, the PSA allows the first £1,000 of interest on savings income to be received tax-free for basic rate taxpayers. This allowance is reduced to £500 for higher rate taxpayers. Additional rate taxpayers do not benefit from any tax-free allowance.

In addition, if interest income forms the first tranche of income over and above the personal allowance, up to £5,000 of interest can be received tax-free.

This relief applies in addition to the PSA but can also apply to additional rate taxpayers (e.g. for taxpayers who may only have a small salary/pension of less than £12,570, some interest income and dividend income of a significant amount).



Income tax

Utilising all available allowances (continued)

Planning point

Business owners should consider charging interest on loans to their companies to utilise the personal savings allowance and starting rate band. This is a **particularly** attractive method of profit extraction as the interest is tax deductible in the company when paid (thus saving corporation tax at up to 25%).

Alternatively, taxpayers could look to balance investment portfolios, or transfer interest-bearing investments, such as National Savings Bonds, between spouses, to utilise this relief next year.

Planning point

Where an individual has no other income, they can receive a dividend of up to £13,070 (in 2025/26) without any tax being payable. In a similar vein, they can receive a dividend of up to £50,270 without any higher rate tax being payable.

Dividends in private family companies can be declared in a tax year to trigger the tax point and retained on loan account in the company until funds are needed by the shareholder. If allowances are not used, they are lost.

Dividend allowance

The tax-free allowance on dividend income will remain at £500 for the 2026/27 tax year.

Although the value of this allowance has reduced over the years, there is still a tax saving to be made by ensuring that the allowance is fully utilised. For higher or additional rate taxpayers, this allowance offers a tax saving at rates of 33.75% (35.75% from 2026/27) or 39.35%, respectively.

Married couples should consider reorganising their investments to utilise both spouses' allowances.

Shareholders in family companies may wish to review their profit distribution strategy to look to pay interest, rather than dividends, where possible.



Current tax rates

The last few years have seen a few changes to tax rates. 2026/27 rates are set out below.

Income tax rates

The basic and higher income tax rate for dividends will increase by 2% to 10.75% and 35.75% respectively, from 6 April 2026. Rates on other income (i.e. earnings and interest) remain unchanged for the 2026/27 tax year.

	Income tax 2026/27 (other than dividends)	Income tax 2026/27 (dividends)
Basic	20%	10.75%
Higher	40%	35.75%
Additional	45%	39.35%

From 6 April 2027, income tax rates on savings and property income will increase by 2% at the basic, higher and additional rates (to 22%, 42% and 47% respectively).

Planning point

Taxpayers with unused basic and/or higher rate tax bands should consider taking a dividend prior to 6 April 2026, before rates increase.

Income tax thresholds

Many personal tax thresholds (including the personal allowance and basic rate tax band) have been frozen since April 2021, causing many taxpayers to be dragged into higher rates of tax due to inflation (known as 'fiscal drag').

The personal allowance is currently set at £12,570, with the basic rate tax band applying on the next £37,700 of income (i.e. on total income up to £50,270). The additional rate tax band applies to income over £125,140.

Planning point

Look to take income from family businesses in the form of interest or rent, which generally offers the lowest tax rates overall as no national insurance applies.

National Insurance ('NIC')

The current NIC rates and thresholds will remain unchanged for the 2026/27 tax year.

	NIC rates
Class 1 (employees)	8%/2%
Class 1 (employers)	15%
Class 2	Abolished *
Class 4	6%/2%

* Self-employed individuals are no longer required to pay Class 2 NIC. Self-employed taxpayers can voluntarily pay Class 2 NICs at £3.50 per week to top up credits for entitlement to certain benefits including the state pension.

Corporation tax

The headline corporation tax rate has remained at 25%. For profits between £50,000 and £250,000 the effective rate is 26.5%. The 19% rate will remain for small trading and property investment companies with profits under £50,000.



Pensions

Despite the changes over the years, pensions continue to be extremely tax-efficient vehicles to be used as part of a wider tax planning strategy.

The government announced in the November 2025 Budget that from 6 April 2029 only the first £2,000 of employee pension contributions made under salary sacrifice arrangements will be exempt from NIC. Employee contributions over this amount will be subject to both employer and employee NIC.

Annual pension allowance

For 2025/26, most people have an annual pension allowance of £60,000. This is the maximum amount that can be contributed to the pension and attract tax relief.

In addition to the allowance for 2025/26, carry forward rules allow unused annual allowances to be brought forward from the previous three tax years. Both personal and employer contributions count towards the annual allowance. To take advantage of the carry forward rules, you must have been a member of a pension scheme during the tax year from which you wish to use the unused allowance.

Unused allowances for 2022/23–2025/26 can therefore be utilised before 5 April 2026. The current year allowance is utilised in priority, with any carry forward allowance then utilised on a first-in-first-out basis (i.e. the oldest year first). Unused allowances from 2022/23 will therefore be lost after 5 April 2026 if not used.

Planning point

Ensure you are maximising your pension contributions each year, including any brought forward allowances where possible before 5 April 2026.

Personal pension contributions are limited to the greater of £3,600 (gross) or 100% of your relevant UK earnings. Relevant earnings include employment income, self-employment income and profits from trading partnerships, but not rental income.

Also, consider making pension contributions for children and grandchildren of £2,880 net (£3,600 gross) each.

Planning point

It is possible to make pension contributions for other family members, such as grandchildren. Contributions of up to £2,880 (net) can be made on behalf of each grandchild. These gifts could possibly be treated as normal expenditure out of income for inheritance tax purposes.



Pensions (continued)

Restriction for higher earners

The restriction to contributions made by high earners (that receive net income of more than £200,000) continue to apply.

The annual allowance of £60,000 is reduced by £1 for every additional £2 that an individual's 'adjusted income' exceeds £260,000. Adjusted income includes employer pension contributions, but the restrictions will not apply if your net income is less than £200,000. The £60,000 allowance is tapered in this manner, subject to a minimum allowance of £10,000 (previously £4,000 pre-2022) if your adjusted income is over £360,000

Salary sacrifice changes

From 6 April 2029, the NIC exemption on salary sacrifice pension contributions will be capped at £2,000 per year. This affects both employer and employee NIC. As employers often share the employer NIC saving on salary sacrificed contributions with employees, these changes will reduce the effectiveness of making pension contributions in this way.

Importantly, these changes do not affect income tax relief, so there are still significant tax benefits – particularly for high earners – to making pension contributions.

Inheritance tax

Previously, when considering what assets an individual should live off, pensions were often the last asset that should be touched due to their IHT exemption. In fact, from 6 April 2027 this advice is

likely to be turned completely on its head due to the IHT and potential income tax charges on inherited pensions.

Planning point

Consider taking advantage of salary sacrifice arrangements to make pension contributions, before the £2,000 restriction comes into force in 2029, particularly if you are a high earner suffering the 60% tax trap between £100k and £125k.



Property taxes

Interest restriction

Finance costs in relation to residential property lettings are only relievably at the basic rate of 20%, regardless of your personal rates of tax. It is therefore worth reviewing your assets and borrowings, if you have not already done so.

Planning point

If you are a higher or additional rate taxpayer, you should consider whether it is possible to transfer any residential rental property to a spouse with a lower tax rate or consider the benefits of incorporation.

If the interest restriction applies to you, then it is potentially worthwhile considering incorporating your residential property portfolio. A company can usually attract full relief for interest paid against its profits. The increase to property income tax rates from 2027/28 may also make incorporation more attractive.

However, this is a complex area of taxation and requires professional advice. The capital gains tax ('CGT') and stamp duty land tax ('SDLT') costs of incorporation may make this prohibitive in certain circumstances.

60-day CGT reporting

UK resident individuals selling a UK residential property after 5 April 2020 need to report and pay tax on the sale to HMRC within 60 days of completion.

There are certain exemptions if the property is not taxable, for example, if it is fully covered by Principal Private Residence relief ('PPR') or if the gain is below your annual exemption.

This reporting requirement is in addition to reporting the gain on a self-assessment return for those taxpayers who are within the self-assessment system.

Principal Private Residence Relief ('PPR Relief')

This offers relief against the gain arising on the disposal of your main residence. If you have an interest in more than one property that you have occupied as a main residence, you should consider the benefits of making an election so the property with the greatest potential gain is your main residence for PPR relief purposes.

CGT on residential property

As of 30 October 2024, CGT rates on residential property have been brought back into line with other gains. The headline rate of capital gains tax is 24% for 2025/26, with a lower rate of 18% applying to gains which are covered by a taxpayer's basic rate tax band. These rates are unchanged for 2026/27.

Income tax

From 6 April 2027, income tax rates applying to property income will increase by 2% at each tax band.

	Property income (2026/27)	Property income (2027/28 onwards)
Basic	20%	22%
Higher	40%	42%
Additional	45%	47%

Capital gains tax ('CGT')

Annual exemptions

As the end of the tax year approaches, you should review your investment portfolio and look to realise gains to utilise your CGT exemption of £3,000 for 2025/26. This £3,000 exemption remains unchanged from 2024/25. This exemption cannot be carried forward, so if it is not utilised in the tax year it is wasted.

Married and civil partnership couples can take advantage of two CGT exemptions, as assets can be transferred between spouses at nil-gain/nil-loss. Spouses should consider transferring assets between themselves before a sale to fully utilise each partner's exemption.

If you have assets that are standing at a loss, you could consider selling those assets to offset against any capital gains realised in the year.

However, you may wish to reacquire certain loss-making shareholdings due to their long-term potential. Unfortunately, the CGT matching rules do not allow you to crystallise the loss if you sell the shares and reacquire them within 30 days.

Instead, you could sell the shares on the market and reacquire them in your spouse's name with the proceeds (known as to 'bed and spouse').

You will need to actually sell the shares and reacquire them with the proceeds, as a simple transfer to your spouse will be ineffective. Alternatively, shares could be reacquired through your SIPP ('bed and SIPP') or through your ISA ('bed and ISA') within 30 days. You get the idea!

Business Asset Disposal Relief ('BADR') and Investors' Relief

BADR and Investors' Relief provide a lower rate of CGT on qualifying disposals of certain assets.

The reliefs each have their own specific conditions, but broadly, BADR applies to disposals of personal trading businesses, whereas Investors' Relief applies to disposals of unquoted trading company shares with which the investor is not connected.

Currently, disposals qualifying for either relief attract CGT at the lower rate of 14%, subject to a lifetime limit for qualifying gains of £1m (a separate limit applies for each relief, but any Entrepreneurs' Relief gains reduce the BADR limit).

From 6 April 2026, the rate applying to gains qualifying for either relief will be increased to 18%.

As a reminder, Investors' Relief is a useful, but underused and often misunderstood relief for those investments which do not qualify for EIS or SEIS status. The main conditions to attract Investors' Relief are:

- Unlisted trading company shares.
- Shares must have been subscribed for by the investor (or their spouse).
- Neither the investor, nor anyone connected with the investor, can be an officer or employee of the company.
- Must be ordinary shares, subscribed for and fully paid in cash, and held for at least three years.

Ensure you give your tax adviser full details of your investments so that relief is not missed when reporting.



Inheritance tax ('IHT')

Most couples with children and a family home can attract up to a £1m allowance against their joint estate. Those without children can only attract up to a £650,000 allowance (two nil rate bands).

Income that is not spent each year will accumulate in your estate and may be subject to 40% IHT on death.

Absolute lifetime gifts

Any gifts you make more than seven years before your date of death are outside the scope of IHT. Once you survive three years, then any tax that becomes payable on failed gifts is tapered. Also, it is only the value at the time the gift is made that is brought back into charge; any growth falls outside the charge to IHT. All these factors point towards there being no downside to making gifts from an IHT perspective.

Please note, there are also CGT issues to consider where gifts of chargeable assets are made. However, cash gifts are not liable to CGT. There are, however, various gift exemptions that can be utilised to defer the CGT.

Annual gifts

You can make annual gifts of up to £3,000 which are free from IHT. You can also make smaller gifts of £250 per year to as many people as you like. Special circumstances gifts, like gifting £5,000 to your child on marriage, should also be considered.

Regular gifts out of income

You may also consider establishing a pattern of making regular gifts out of your excess income; such gifts are outside the IHT net and are a simple way to avoid accruing further value in your estate.

Family home

The residence nil rate band provides an additional tax-free allowance of £175,000 per person when a UK residential property passes on death to a lineal descendant.

The allowance is tapered for estates worth over £2m and is lost entirely when an estate exceeds £2.35m (or when a joint estate exceeds £2.7m).

This allowance can be transferred to a surviving spouse on the first death. This allows a married couple to transfer up to £1m of assets free of inheritance tax on second death, in certain circumstances.



Inheritance tax ('IHT')

Trusts

Trusts are popular vehicles to use as they allow you to pass wealth on, retain control and transfer assets standing at a capital gain without incurring CGT.

Each person can contribute their nil rate band (£325,000 for 2025/26) into a trust every seven years without any IHT implications.

If you own shares in an unlisted trading company, you can contribute more due the availability of Business Property Relief for IHT (although please see the changes to this relief on the next page).

Planning point

With no increase to the nil rate band allowance expected until at least 6 April 2031, it is important to make use of the nil rate band during lifetime. Consider setting up trusts every seven years to use this allowance and get assets out of your estate without IHT and CGT. New trusts could be set up every seven years as they provide an easy solution to mitigate your IHT exposure on death.

Family Investment Companies ('FIC')

A FIC may be suitable if you are looking to create a tax-efficient, long-term, family investment vehicle, where you maintain control and allow growth to accelerate in the company.

A FIC can be structured in many different ways to suit the individual's circumstances. It can facilitate existing wealth being passed to the next generation, or it can just allow the growth to accrue outside the

estate, whilst enabling the individual to access the original capital invested to fund their retirement.

Wills

A significant number of adults do not have wills in place or have old wills that are out of date. This is particularly the case after marriage, when the old will is revoked automatically. A good will should give your family flexibility, detail guardians for any minor children and protect the family's needs.

IHT – Business Property Relief (‘BPR’) and Agricultural Property Relief (‘APR’)

One of the biggest changes to IHT announced in recent years was the restrictions of BPR and APR. From 6 April 2026 BPR and APR will be restricted to 100% on the first £2.5m of qualifying assets and 50% thereafter. This has increased from the £1m allowance, which was initially announced in the 2024 Budget.

BPR and APR changes

Previously, qualifying assets (i.e. unlisted trading company shares) qualified for 100% relief from IHT on death or on transfer into trust. However, from 6 April 2026, 100% relief is going to be restricted to the first £2.5m of qualifying assets per person with any remaining value only qualifying for 50% relief. This results in an effective tax rate of 20% on death on values over £2.5m, 10% on any chargeable lifetime transfers and 3% on 10-year charges for trusts.

Historically, these reliefs formed a key part to IHT tax planning strategies, as the reliefs were relied upon to transfer large amounts of wealth into trust and on death without triggering an IHT charge.

Transferrable allowance

In the November 2025 Budget the government announced that the BPR allowance will now be transferrable between spouses, mirroring the tax treatment of the nil rate band. This essentially means that a married couple can pass BPR/APR qualifying assets up to the value of £5m on second death with no IHT arising (excluding any nil rate band) regardless of who holds the assets.

Planning point

Even though the allowance is transferrable between spouses, business owners should still consider equalising the ownership of company shares. If the BPR allowance is used on first death to pass shares to someone other than the spouse, there are potentially significant savings available on the second death due to how unquoted shares are valued for tax purposes.

Impact

Many people have previously relied on 100% BPR being available as their core IHT planning strategy. For example, individuals whose wealth is derived mainly from their multi-generational family business may have simply held onto their trading company shares, expecting to pass the assets on their death to the next generation free from IHT and also with an uplifted value for CGT purposes.

These individuals will now have a significant IHT exposure and will need to consider if any IHT planning can be undertaken to remove assets from their estate.

From 6 April 2026, it will be more difficult to transfer significant value of qualifying assets during lifetime, particularly if the individual wants to retain control of the asset (e.g. in a family company scenario).



IHT – Business Property Relief (“BPR”) and Agricultural Property Relief (“APR”) (continued)

From 6 April 2026, up to £3.15m of value can be transferred to a trust every seven years (i.e. the £2.5m allowance coupled with the nil rate band of £325,000). However, families with particularly high value businesses are likely to have to couple the use of trusts with other strategies, such as making outright gifts of shares to family members in lifetime and looking at utilising growth shares for estate planning purposes.

Planning point

Trusts should still be considered central to IHT planning, even though individuals are going to be limited to contributing £3.15m of qualifying assets every seven years.

Trustees should also consider carefully the benefits that existing trusts offer, before deciding whether to terminate them. Although the changes to BPR impact trusts, and more trusts will incur 10-year charges, paying a 3% IHT charge every 10 years is likely to be more attractive than paying 20/40% IHT on the death of a shareholder.

Making Tax Digital ('MTD')

From 6 April 2026, sole traders and landlords will be required to report their income and expenses on a quarterly basis, if their self-employment and rental property revenue exceeded the £50,000 threshold in the 2024/25 tax year.

The qualifying income threshold will reduce to £30,000 from April 2027 and will further reduce to £20,000 from April 2028, bringing more taxpayers into the scope of MTD.

Qualifying income and thresholds

Taxpayers with qualifying income in excess of the reporting threshold will be obliged to register for and file quarterly returns under MTD. This will often mean acquiring specific software to do this.

Qualifying income is essentially gross rental income or self-employment income, before any deductions for expenses are made. These sources are then combined to give an individual's total qualifying income. In cases where an individual owns a part share of a rental property, for example, it is only their share of the gross revenue which is considered qualifying income for them.

Individuals with qualifying income in excess of £50,000 in 2024/25, will be obliged to register for and file under MTD for 2026/27 onwards.

Individuals with qualifying income in excess of £30,000 for 2025/26 will be brought into the scope of MTD from April 2027, and those with qualifying income in excess of £20,000 in 2026/27 will be brought into the regime from April 2028.

Mandatory start date	Qualifying income threshold	Assessment tax year
6 Apr 2026	£50,000	2024/25
6 Apr 2027	£30,000	2025/26
6 Apr 2028	£20,000	2026/27

Planning point

Individuals with income close to the registration threshold should consider whether they can keep their income below the threshold to avoid the new reporting requirements. For example, an individual which holds rental property generating £25k gross income per annum could transfer 50% to their spouse to stay below the reporting threshold.

Ceasing to meet the requirements of MTD

Once in the MTD regime, a taxpayer will remain liable to file under MTD until their qualifying income falls below the assessment threshold for three consecutive tax years (at which point, they can deregister).

A taxpayer can deregister within three years if they no longer receive self-employment or property income and all qualifying activities cease (e.g. all rental properties are sold, or they cease their self-employment).

Making Tax Digital ('MTD')

MTD reporting

MTD requires individuals to report their qualifying income and expenses for each quarter by the following dates:

Quarter	Tax period	Filing deadline
1	6 Apr – 5 Jul	7 Aug
2	6 Jul – 5 Oct	7 Nov
3	6 Oct – 5 Jan	7 Feb
4	6 Jan – 5 Apr	7 May

A self-assessment tax return will also need to be submitted by 31 January each year. This essentially means those affected will be required to file five returns a year.

MTD does not affect tax payment dates, which will remain on 31 January (balancing payment and first payment on account) and 31 July (second payment on account).

Further details of how we can assist you with MTD reporting will be provided in our separate MTD flyers which we will be issued shortly.

Contact us

To discuss how we can help, please speak to your usual Forbes Dawson contact or:



Andrew Marr
MANAGING PARTNER

T: 0161 927 3854
E: andrew@forbesdawson.co.uk



Laura Hutchinson
MANAGING PARTNER

T: 0161 927 3853
E: laura@forbesdawson.co.uk



Michelle Hogan
PARTNER

T: 0161 927 5674
E: michelle@forbesdawson.co.uk



Tim Shaw
PARTNER

T: 0161 927 5677
E: tim@forbesdawson.co.uk



Tom Minnikin
PARTNER

T: 0161 927 3856
E: tom@forbesdawson.co.uk