Autumn Budget 2025

26 November 2025

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In the run-up to the 2025 Budget, the Chancellor promised a Budget to set Britain on the path to being fairer and more secure. In her Budget speech, she emphasised the need for financial stability and reiterated the importance of growth. However, in meeting her need for financial stability, the Chancellor introduced a number of tax rises.

The main tax rises came in the form of a three-year extension to the freeze on income tax thresholds and employer National Insurance contributions (NICs) thresholds from 2028-29, imposing NICs on salary sacrifice arrangements for pension contributions (with an annual exempt allowance) and a high value council tax surcharge on properties worth over £2 million (to be introduced in April 2028). In addition, from a corporate perspective, the Chancellor announced a reduction to the writing down allowance main rate for corporation tax. From an individual perspective, the Chancellor increased the tax rates on dividends, property and savings income by 2 percentage points effective for dividends from April 2026 while the increases for property and savings income have effect from April 2027.

The challenge for the Chancellor is how any of her announcements will impact behaviours (particularly in relation to new hires and capital investment) that in turn will impact growth.

There has been a lot of information published as part of the Budget documents, and we have highlighted some of the key announcements. Not all of the supporting documents have yet been released. If you would like to discuss any of the points here or would simply like more details over the coming days, please get in touch with your usual EY contact or one of the contacts listed at the end of this alert.

Finance Bill 2025-26 is expected to be published within the next two weeks.

Corporation tax

At the general level, there were no changes to corporation tax rates or the rates of incentive for research and development (R&D) spend, but there was a reduction announced to the writing down allowance (WDA) main rate. The Budget announces a reduction to the WDA main rate from 18% to 14% from April 2026, alongside a new 40% first-year allowance from January 2026. This is expected to raise £1.5 billion in 2029–30. This measure changes the capital allowance rates, for both corporation tax paying companies and unincorporated businesses in the self-assessment regime, on expenditure that does not claim full expensing.

The Budget announces a reduction to the WDA main rate from 18% to 14% from April 2026, alongside a new 40% first-year allowance from January 2026.

The Government will pilot a targeted R&D 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 will legislate in Finance Bill 2025–26 to simplify the 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. This represents the conclusion of various consultations in this area.

The legislation will simplify the UK transfer pricing rules in a number of areas, including the participation condition, intangibles, commissioners' sanctions, UK-to-UK transfer pricing (which will be exempted subject to certain exceptions), financial transactions and interpretation in accordance with Organisation for Economic Co-operation and Development (OECD) principles. In relation to intangibles, HMRC has confirmed that a single valuation standard of market value will be applied for domestic transactions, but it is expected that HMRC will also seek to apply a single arm's-length standard for cross border transactions.

It will also look to bring the UK's permanent establishment rules in line with the latest international consensus on the definition of a permanent establishment and the allocation of profits to a permanent establishment as well as updating the legislation and Statement of Practice on the Investment Manager Exemption, and introducing a new way for a UK-resident company to claim relief where a transfer pricing adjustment is made to a connected foreign company, that relates to a UK permanent establishment.

The legislation will also create a new charging provision for unassessed transfer pricing profits within corporation tax. This repeals the diverted profits tax, which is currently a standalone tax, in its entirety while retaining the essential features of the regime.

In relation to transfer pricing documentation, the Government will legislate to require in-scope multinationals to submit an International Controlled Transaction Schedule (ICTS) which will report information annually on cross-border related party transactions. This measure is expected to take effect for accounting periods beginning on or after 1 January 2027. Technical consultation on its design will take place in spring 2026.

Corporation tax

There will be technical amendments to the UK's Pillar Two legislation to incorporate the latest published international updates. Most provisions will take effect for accounting periods beginning on or after 31 December 2025, though in turn most will also be permitted to take effect from an earlier date at the election of affected taxpayers. However, the changes to the treatment of pre-regime deferred tax assets will take effect for accounting periods ending on or after 21 July 2025.

The Government will work with stakeholders to explore targeted legislative changes aimed at ensuring the qualifying asset holding company (QAHC) regime continues to operate effectively. Any legislative changes will be introduced in a future Finance Bill.

There are to be changes clarifying the tax treatment of payments made between group companies in return for either surrendered research and development expenditure credit (RDEC), audio-visual expenditure credit (AVEC) or video games expenditure credit (VGEC). There will also be an update to the transitional rules between video games tax relief and VGEC and minor changes to the special credit for visual effects, which is part of AVEC.

There will also be legislation in Finance Bill 2025-26 to simplify administration in relation to reporting companies under the corporate interest restriction (CIR) regime. Most of the changes take effect for periods ending on or after 31 March 2026. There will also be technical amendments to CIR in respect of relief for certain capital expenditure. These changes take effect for periods ending on or after 31 December 2021.

In another simplification measure the Government will legislate through statutory instrument to repeal the shadow advance corporation tax (ACT) rules with effect from 1 April 2026 and will consult on the future of the remaining ACT regime in early 2026.

The Government will also legislate in Finance Bill 2025-26 for the payment of interest on amounts collected from taxpayers and now repayable following the successful challenge to the State Aid application to the financing rules in the UK's controlled foreign companies (CFC) regime.

In terms of anti-avoidance, the Government will modernise the anti-avoidance provisions that apply to share exchanges and company reorganisations with immediate effect and introduce a new anti-avoidance provision also effective from 26 November 2025 relating to certain arrangements where there is a non-derecognition liability (particularly aimed at arrangements avoiding a charge under section 455 CTA 2010).

There will also be legislation in Finance Bill 2025-26 to simplify administration in relation to reporting companies under the corporate interest restriction (CIR) regime.

Corporation tax

There will be changes to the eligibility criteria for the enterprise management incentives (EMI) rules to allow scale-ups, as well as start-ups, to access the scheme from 6 April 2026. The venture capital trust (VCT) scheme and the enterprise investment scheme (EIS) annual and lifetime investment limits and the gross assets test will be increased from 6 April 2026, but there will be a reduction in the VCT scheme income tax relief, also from 6 April 2026.

The Government has also launched a Call for Evidence seeking views on the effectiveness of existing tax incentives, and the wider tax system, for business founders and scaling firms, and how the UK can better support these companies to start, scale and stay in the UK. The Call for Evidence will close on 28 February 2026.

The Government has confirmed that the 'Advance Tax Certainty Service' (ATCS) will launch in July 2026 and provide clearances on corporation tax, stamp taxes, VAT, PAYE and the construction industry scheme, where there is no existing statutory route to certainty. The financial threshold will be set at £1bn over the lifetime of the project.

The Government will review the service after it has been in operation for one year, including to assess whether it will be possible to increase capacity, and lower the financial threshold.

The Government will not offer Advance Tax Certainty clearances on transfer pricing or areas that require HMRC to opine on issues relating to, or involving, other fiscal authorities as these are available in specific circumstances via advanced pricing agreements (APAs). However, as a reminder, certainty around cost contribution arrangements (CCAs) is available through a process launched at the time of the UK Spring Statement. Advanced agreements on the tax treatment of CCAs are available through unilateral APAs.

The Government has confirmed that the 'Advance Tax Certainty Service' (ATCS) will launch in July 2026 and provide clearances on corporation tax, stamp taxes, VAT, PAYE and the construction industry scheme, where there is no existing statutory route to certainty.

Employment taxes

The Chancellor is pressing ahead with the proposal to cap tax-free salary sacrifice pension contributions for the purpose of NICs to £2,000 per year. Salary-sacrificed pension contributions above that threshold will no longer be exempt from NICs from April 2029. This means that 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. Ordinary employer pension contributions will remain exempt from NICs.

Salary-sacrificed pension contributions above £2,000 per year will no longer be exempt from NICs from April 2029.

At Autumn Budget 2024, the Government announced it would bring employee car ownership schemes (ECOS) into scope of the Benefit in Kind rules from 6 April 2026. To allow more time for the sector to prepare for and adapt to this change in treatment, its implementation will now be delayed to 6 April 2030, with transitional arrangements until April 2031.

The income tax and NICs exemption for employer-provided benefits will be extended to cover reimbursements for eye tests, home working equipment, and flu vaccinations. The Government will however remove the deduction from income tax for non-reimbursed home working expenses. Employers can still reimburse employees for these costs where eligible without deducting income tax and NICs.

The Government will also legislate to clarify the tax treatment of image rights to ensure that all image rights payments related to an employment are treated as taxable employment income and subject to income tax, and employer and employee NICs. This will be legislated for in Finance Bill 2026-27 and take effect from 6 April 2027.

The proportion of earnings an employer can exclude from PAYE through a PAYE notification will be limited to a maximum 30% where the individual is a qualifying new resident and eligible for Overseas Workday Relief. This will take effect from 6 April 2026.

The Government will publish regulations for technical consultation aimed at simplifying and improving the administration of the construction industry scheme. This will be legislated for in Finance Bill 2025-26 and take effect from 6 April 2026.

Prior to the Budget, the Government announced increases from April 2026 to the National Minimum Wage and the National Living Wage. Workers over 21 will see a 4.1% increase, workers between 18 and 20 will see an 8.5% rise while 16 to 17-year-olds – and those on apprenticeships – will receive a 6% increase.

Individual taxes

From an individual perspective, the Chancellor announced increases to the tax rates on dividends, property and savings income by 2 percentage points. From April 2026, there will be a 2 percentage point increase to the basic and higher rates of tax on dividends, raising them to 10.75% and 35.75% respectively. From April 2027, a 2 percentage point increase will apply to the basic, higher and additional rates of saving income tax, increasing them to 22%, 42% and 47% per cent respectively. From the same date, there will also be a 2 percentage point increase to the basic, higher and additional rates of property income tax, increasing them to 22%, 42% and 47% respectively.

From an individual perspective, the Chancellor announced increases to the tax rates on dividends, property and savings income by 2 percentage points.

The rules for ISA investments will be amended from April 2027 so that while £20,000 per year can be invested, £8,000 must be invested in a stocks and shares ISA (although taxpayers over 65 can still invest £20,000 in a cash ISA).

There are no changes to the taxation of pensions (including the tax-free lump sum) over and above the NICs changes noted under employment taxes above.

The Chancellor also announced that the capital gains tax relief on disposals to employee ownership trusts will be reduced from 100% to 50% from 26 November 2025. Separately, from 6 April 2026, individuals and trustees transferring a business to a company will need to make a claim for incorporation relief through the Self-Assessment return, rather than it applying automatically.

From an inheritance tax perspective, for the purposes of agricultural property relief and business property relief, any unused allowance for the 100% rate of relief will be transferable between spouses and civil partners from 6 April 2026. The Government will maintain the nil-rate band, residence nil-rate band, and allowance for 100% rate of agricultural property relief and business property relief for a further year, from April 2030 until April 2031.

In relation to the inheritance tax treatment of unused pension funds and death benefits, personal representatives will be able to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and pay inheritance tax due in certain circumstances. Personal representatives will be discharged from a liability for payment of inheritance tax on pensions discovered after they have received clearance from HMRC.

The Government will introduce a cap of £5 million on relevant property inheritance tax trust charges for pre-30 October 2024 excluded property trusts. This will apply to trust charges from 6 April 2025. There will also be anti-avoidance rules introduced addressing perceived avoidance relating to UK agricultural property held via non-UK entities and charity exemptions.

Individual taxes

For non-UK residents, the Government will abolish the dividend tax credit, aligning their treatment with UK residents. This will be legislated for in Finance Bill 2025-26 and take effect from 6 April 2026.

There are also technical changes to the residence-based tax regime introduced in Finance Act 2025 (which are not intended to change the underlying policy position) and to the rules for non-resident capital gains.

In terms of property, the Government announced the introduction of a new high value council tax surcharge. From April 2028, owners of properties identified as being valued at over £2 million by the Valuation Office (in 2026 prices) will be liable for a recurring annual charge which will be additional to existing council tax liability. There will be four price bands with the surcharge rising from £2,500 to £7,500 for a property valued in the highest band of £5 million or more. The Government will consult on options for support or deferral of the charge.

Finally, the Government committed to ending the two-child limit in Universal Credit.

From April 2028, owners of properties identified as being valued at over £2 million by the Valuation Office (in 2026 prices) will be liable for a recurring annual charge which will be additional to existing council tax liability.

Indirect & stamp taxes

No changes to the VAT threshold or the main VAT rates have been announced. As far as e-invoicing is concerned, the Government will require all VAT invoices to be issued in a specified electronic format from April 2029. The Government will work with stakeholders to develop an implementation roadmap to be published at Budget 2026.

From 26 November 2025, HMRC is reverting to unconditional whole entity cross-border VAT grouping. HMRC acknowledges that some VAT groups may have accounted for VAT in line with the previous guidance and may now be eligible to reclaim overpaid VAT.

The Government will legislate in Finance Bill 2025–26 to introduce a Carbon Border Adjustment Mechanism (CBAM) from 1 January 2027. The inclusion of indirect emissions within scope of the CBAM will be delayed until 2029 at the earliest.

A new VAT relief for business donations of goods to charity for onward distribution or use in their non-business services will come into force on 1 April 2026 following Royal Assent of Finance Bill 2025–26. The relief will be designed to encourage the reuse of surplus goods and support the UK's transition towards a more circular economy. HMRC will publish detailed guidance for businesses and charities on how to use the relief and comply with the associated requirements.

In addition, the Chancellor has announced changes to the taxation of and subsidies for electric vehicles (EVs). This includes the introduction of a new mileage-based charge on electric cars, additional to the current vehicle excise duty (VED) charges paid by all vehicles, which will be introduced in April 2028. In 2028–29, the charge will equal £0.03 per mile for battery electric cars and £0.015 per mile for plug-in hybrid cars, with the rate per mile increasing annually with CPI.

There are also reforms to the taxation of gambling. From April 2026 there will be an increase in remote gaming duty from 21% to 40% and abolition of bingo duty from its current 10% rate with effect from April 2026. From April 2027, a new rate of general betting duty for remote betting will be introduced at 25%, excluding self-service betting terminals, spread betting, pool bets, and horseracing. The Government has also announced a freeze in casino gaming duty bands in 2026–27 with the usual RPI uprating thereafter.

The Government will remove the customs duty relief for low value imports — goods valued at £135 or less — and reform the way these goods are declared into the UK. From March 2029 at the latest, low value imports will be charged customs duty just as goods imported in bulk already are and new import arrangements will be put in place. The Government will consult on the technical detail of these new arrangements.

From a stamp taxes perspective, the Government is introducing a new UK Listing Relief, effective from 27 November 2025, a three-year exemption from stamp duty reserve tax for companies listing in the UK. Exclusions will broadly prevent take overs and mergers of existing listed companies from qualifying and restrict exemption in the case of inserting a new holding company (unless it is broadly part of a domiciliation to the UK).

It will also legislate to allow regulations that enable the testing of the new digital service for the securities transfer charge, which will replace stamp duty and stamp duty reserve tax as part of the modernisation of the stamp taxes on shares framework.

Finally in addressing the cost of living, fuel duty is to be frozen until September 2026, and measures taken to reduce energy bills including by the ending of the energy company obligation from April 2026.

Tax administration

The UK intends to participate in a new international agreement which will tackle tax evasion by providing for the automatic exchange of readily available information on real estate from 2029 or 2030.

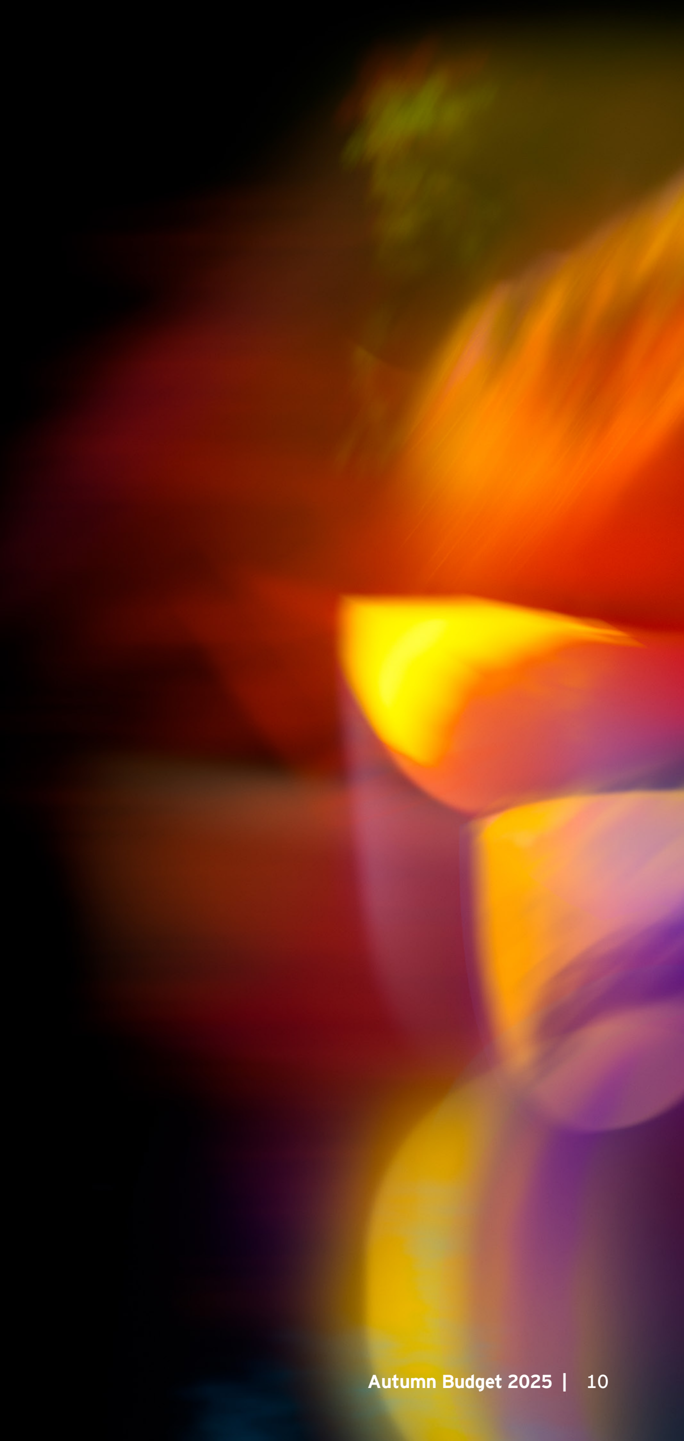
In respect of corporation tax compliance requirements. the Government will consult in early 2026 on delivery timescales and enforcement for prescribing the content and tagging of the corporation tax computation.

On penalties, the Government will double the penalty for taxpayers submitting a corporation tax return late from 1 April 2026. It also intends to modernise HMRC's inaccuracy and failure to notify penalties. The Government will also publish a consultation in early 2026 on the introduction of a new 'recklessness' criminal offence for fraudulently evading direct taxes, to align with existing indirect tax offences.

For individuals, the Government will provide for a new settlement opportunity to support those subject to the loan charge to resolve their affairs with HMRC. It is also committing to reform and simplification of the personal tax offshore anti-avoidance legislation and has set out the next steps for the personal tax offshore anti-avoidance Call for Evidence.

Going forward, the Government will publish a consultation in early 2026 to explore introducing new requirements to report transactions between close companies and their shareholders to HMRC. It will also publish a consultation in early 2026 on proposals to enhance the existing notification regime for uncertain tax treatments.

On penalties, the Government will double the penalty for taxpayers submitting a corporation tax return late from 1 April 2026.



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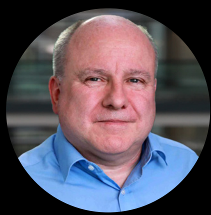

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