

Adviser Edge

2025 UK Budget Guide

CATEGORY: INVESTMENT AND TAX

On 26 November 2025 the UK Chancellor, Rachel Reeves, delivered her second Budget. We explore the announced taxation changes and what they might mean for a financial planning strategy.

Summary of key changes

- An additional 2% tax charge added to the basic and higher rates of tax on dividends **from 6 April 2026**
- An additional 2% added to all rates of tax on savings income **from 6 April 2027**
- Separate tax rates for property income profits: 22% for basic rate, 42% for higher rate, 47% for additional rate taxpayers **from 6 April 2027**
- Personal tax thresholds, and equivalent national insurance (NIC) thresholds, being frozen for a further three years until **2030/31**
- A new £12,000 annual limit on cash ISAs (for under-65s) **from 6 April 2027**
- A £2,000 cap on the amount that can be sacrificed into a pension without paying NICs **from 6 April 2029**
- A High Value Council Tax Surcharge applying to properties valued at £2 million or more **from 2028**.
- The inheritance tax nil-rate band and residence nil-rate band being frozen for a further year **until 2030/31**
- VCT income tax relief decreasing to 20% **from 6 April 2026**

UK Budget 2025

INCOME TAX

Change to tax rates for property, savings and dividend income

The Chancellor announced changes to the rates of income tax payable on property, savings and dividend income to ensure income from assets is taxed fairly, taking account of the fact that those in receipt of property, savings and investment income do not suffer National Insurance Contributions (NICs).

The new measure will see the basic and higher rates of income tax on **dividend income** increased by 2% to 10.75% and 35.75% respectively. There will be no change in the **dividend additional rate** which will remain at 39.35%.

The basic, higher and additional rates of **income tax on property and savings income** increase to 22%, 42% and 47% respectively.

Changes to the use of allowances and reliefs

Under the current rules in chapter 3 of part 2 of the Income Tax Act 2007, allowances and reliefs must be used in a way that minimises an individual's overall liability to income tax.

In conjunction with changes to the tax rates for property, dividend and savings income, these **rules will be changed** so that any available allowances and reliefs which can be used against income not from property, savings or dividends **must be used against this income first**.

This will mean that any available allowances or reliefs (including the personal allowance) are deducted from income which is not property, savings or dividend income first. If the amount of the allowances or reliefs exceeds this income, the balance is then deducted from property income, savings income or dividend income in the way which is most beneficial for an individual.

Main rates of Income Tax frozen

Income tax thresholds and the equivalent NICs thresholds for employees and self-employed individuals will be frozen **for a further three years** from 5 April 2028 to 5 April 2031.

For the **2026/27 tax year**, the income tax personal allowance will remain at £12,570.

The higher rate threshold will remain at £50,270 (comprised of the £37,700 basic rate band plus the £12,570 personal allowance) and the additional rate threshold will remain at £125,140.

Remember the personal allowance is reduced by £1 for every £2 where total income exceeds £100,000.

For non-savings and non-dividend income, i.e. income from employment, property, or pensions, the income tax rates will remain at 20% within the basic rate band, 40% within the higher rate band and 45% within the additional rate band.

The 0% **starting rate band** for savings income will remain at £5,000.

The **personal savings allowance** remains unchanged at £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. Additional rate taxpayers are not eligible for a personal savings allowance.

UK Budget 2025

Tax on savings income will continue to be at 20% within the basic rate band, 40% within the higher rate band and 45% at the additional rate in the 2025/26 and 2026/27 tax years.

The **dividend allowance** will remain at £500.

The adjusted net income threshold at which the **High Income Child Benefit Tax Charge** (HICBC) is triggered remains at £60,000 with the charge being 1% per £200 of income above that level.

The basic, higher and additional rate tax thresholds apply to taxpayers in England, Wales, and Northern Ireland for non-savings and non-dividend income and apply UK-wide for savings and dividend income. For clients based in Scotland, please refer to [Scottish income tax rates](#).

When does this come into effect?

Changes to tax on dividend income – From 6 April 2026.

Changes to tax on property income and/or savings – From 6 April 2027.

What should financial planners do next?

Clients who wish to invest should aim to use their dividend and personal savings allowances in full.

Clients should continue to maximise contributions to ISAs, particularly where dividends are likely to exceed the dividend tax allowance and/or the higher rate tax threshold. Consider the suitability of investing into Venture Capital Trusts (VCTs), which pay tax-free dividends and investment bonds (UK or international – as appropriate), which allow withdrawals to be taken on a tax-deferred basis.

Spouses/civil partners should also try to arrange their investment holdings in such a way to ensure they fully use both personal allowances, personal savings allowances, dividend allowances and starting/basic rate tax bands.

Income tax mitigation will become increasingly important once income tax rates rise in relation to property rental income and income from savings and investments.

SAVINGS AND INVESTMENTS

Cash ISA Allowance reduced for under 65s

The annual subscription limit for Cash ISAs will be **reduced** with effect from 6 April 2027.

The maximum amount that can be invested in a Cash ISA per individual from that date will be **reduced to £12,000** (within the overall annual ISA limit of £20,000) **unless the individual is aged over 65** in the tax year of subscription.

For over 65s, the annual subscription limit for Cash ISAs will remain at £20,000. The annual subscription limits will remain at £20,000 for Stocks and Shares ISAs, £4,000 for Lifetime ISAs (subject to consultation – see below) and £9,000 for Junior ISAs and Child Trust Funds. These allowances are frozen until 5 April 2031.

When does this come into effect?

From 6 April 2027.

UK Budget 2025

Lifetime ISA Reform

The Government is set to publish a consultation in early 2026 on the implementation of **a new, simpler ISA product** to support first time buyers to buy a home. Once available, this new product will be offered in place of the Lifetime ISA.

What should financial planners do next?

Identify those who plan to but have not yet used their Cash ISA allowances in the current tax year and recommend the subscription is used in full in both the current and the 2026/27 tax year while it remains at the current level.

PENSIONS

Cap on pensions salary sacrifice schemes

The Government is **capping the National Insurance (NI) benefits** of pension contributions made by salary sacrifice to **£2,000** from April 2029. Contributions above this level will still benefit from tax relief in the normal way but will be subject to both employer and employee NI.

The NI charges should be implemented automatically via payroll and there will be no need for employees to declare anything to HMRC.

All employee contributions made via salary sacrifice will continue to reduce the client's adjusted net income and so can help restore benefits and allowances such as child benefit and the personal allowance.

The change will cover both existing arrangements and any new arrangements.

When does this come into effect?

From 6 April 2029.

The Government have stated they will provide further guidance before this date.

What should financial planners do next?

The rules do not change until April 2029. As such, clients can still benefit from salary and bonus sacrifice for the current tax year and the next three tax years.

Clients who are already benefiting from salary sacrifice schemes will need to wait to see how their employers react to the changes. Again, there is unlikely to be any immediate change given the timescales. However, where the employer is offering an enhancement to their contributions, they are likely to see this removed by April 2029. The Office of Budget Responsibility (OBR) estimate that employers will pass 76% of the additional costs to employees. Advisers will need to take account of any reduction in contributions into their planning.

Employers will need to review any schemes they have set up. Where they have passed on some or all of their NI savings to their employees they will want to make changes to their offering. This is likely to require legal advice as it will involve a change to the contracts.

The OBR note that employers could replicate the benefits of salary sacrifice by simply reducing future pay increases and instead increasing pension contributions. They could also formally reduce pay and increase pension contributions. However, they believe that the risk of this is mitigated by the interaction with employment laws.

UK Budget 2025

We will need to see more detail and the draft legislation on this, but it does seem that given the timescales, smaller employers in particular, may be able to revise their remuneration policies to achieve the same thing.

Unused Pension Funds and Inheritance Tax

As announced in 2024 Autumn Budget, from 6 April 2027 most unused pension funds will form part of the member's estate. This year's Budget announced **changes to the administration** of this to ease the burden and liability on personal representatives. See *Inheritance Tax* section for further details.

When does this come into effect?

From 6 April 2027.

INHERITANCE TAX

Nil rate band and residence nil rate band frozen until April 2031

The inheritance tax (IHT) nil rate band and residence nil rate band, which are at present set at £325,000 and £175,000 will stay **fixed** at these levels until 5 April 2031. This is in line with the income tax thresholds and the equivalent NICs thresholds. There is no change to the residence nil-rate band taper threshold which will remain at £2 million.

When does this come into effect?

The IHT nil rate bands will remain at current levels until 5 April 2031.

What should financial planners do next?

Frozen allowances in conjunction with asset price inflation will mean even more clients are brought within the scope of IHT and will no doubt require advice on how to reduce the impact of IHT on their accumulated wealth.

£1 million 100% business/agricultural relief allowance – Spouse Transferable

The £1 million 100% business/agricultural relief allowance is to be **transferable** between spouses/civil partners.

In the 2024 Autumn Budget the Government announced changes to the value of property in an estate qualifying for 100% business property relief and 100% agricultural property relief.

A £1 million 100% allowance was proposed to apply to each individual transferor. Therefore spouses/civil partners would each need to own £1 million of qualifying assets to use the allowance. It has been announced that the £1 million **allowance is to be transferable between spouses/civil partners if unused on first death**, in the same way as the nil rate band and residence nil rate band, even if first death occurred prior to April 2026.

When does this come into effect?

From 6 April 2026.

UK Budget 2025

What should financial planners do next?

The announcement that the **£1 million allowance will be capable of being transferred between spouses/civil partners** is welcome news. However, for many business owners and farmers with businesses and farms worth in excess of £2 million, planning in this area will still be important to maximise allowances.

Possibilities could include introducing other family members, such as adult children, into the business at an earlier stage or using trusts (which will benefit from their own 100% relief allowance) to hold some of the business or agricultural property.

Where the business or farm is operated through a limited company, consider the potential merits of a reorganisation of share capital into different share classes. This may help facilitate the transfer of wealth in such a way that does not impact on control of company or dividend allocation.

For any lifetime transfer strategies, due consideration will need to be given to the potential CGT consequences of any such transfer. This will be even when, as for business assets, the gain can be held over/deferred. There remains a tax-free revaluation of chargeable assets on the death of an owner for CGT which will be lost where assets are transferred during lifetime.

Business owners and farmers in a position to transfer business or agricultural property into trust prior to 6 April 2026, would appear to be able to do so without any immediate IHT charge regardless of the value transferred.

However, if death occurs after 6 April 2026 and within 7 years of the transfer, the £1 million limit will apply retrospectively for the purposes of recalculating the IHT on the failed transfer. The age and state of health of the client will therefore be key in determining whether this is a viable strategy. CGT would need to be considered.

Business and farm owners should, in addition to lifetime transfers when appropriate and subject to commercial considerations, consider the potentially powerful solution that appropriate life insurance in trust can deliver.

Inheritance tax treatment of unused pension funds and death benefits – Personal Representative responsibilities

As previously announced, the Government will bring unused pension funds and death benefits payable from a pension into a person's estate for IHT purposes from 6 April 2027. Personal representatives will be liable for reporting and paying any IHT due. As such, there have been concerns around the administration of this.

The Government has announced that **personal representatives will be able to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and pay IHT due** in certain circumstances.

Personal representatives will be discharged from a liability for payment of IHT on pensions discovered after they have received clearance from HMRC.

UK Budget 2025

When does this come into effect?

From 6 April 2027.

What should financial planners do next?

Bringing unused pension funds and pension death benefits into the scope of IHT has already prompted some clients to rethink decumulation strategies.

For all the other continuing benefits of registered pensions (e.g. the tax-free cash and tax-free accrual of capital gains and income in the fund) pensions are likely to be less attractive as an estate planning tool, post April 2027.

One option for those with large pots and /or those who do not need access to the funds and are worried about IHT could be to withdraw funds, take the income tax hit and gift or use other available planning structures (e.g. business relief investment with 100% or 50% relief, Loan trust, DGT or a variation of these). An alternative could be to draw down on the pension and use normal expenditure to cover lifetime gifts or to fund a life insurance in trust to meet the IHT.

EIS, VCT's, SEIS

Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCT) & Seed Enterprise Investment Schemes (SEIS)

To help address what is referred to as the scale-up finance challenge, the Government will **increase the VCT and EIS company investment limit to £10 million, and £20 million for Knowledge Intensive Companies (KICs) and increase the lifetime company investment limit** to £24 million, and £40 million for KICs.

Reflecting that companies are raising increasingly larger rounds at an early stage.

The gross assets test will increase to £30 million before share issue, and £35 million after, from April 2026. Alongside this, the **VCT income tax relief will decrease from 30% to 20%**. These changes will be legislated in Finance Bill 2025/26.

Qualifying EIS investments will retain 30% upfront tax relief as well as IHT and capital gain benefits.

Table 1. Summary of EIS and VCT limits and threshold changes

	Current rate	New limit from April 2026
Annual company investment limit	£5m (£10m for KICs)	£10m (£20m for KICs)
Lifetime company limit	£12m (£20m for KICs)	£24m (£40m for KICs)
Gross assets test	£15m before share issue; £16m after share issue	£30m before share issue; £35m after share issue

Source: Columbia Threadneedle Investments and Technical Connection Limited 27 November 2025.

UK Budget 2025

When does this come into effect?

From 6 April 2026.

What should financial planners do next?

While these are considered higher-risk investments and subject to the newly announced changes, investing in EIS and VCT schemes enables an individual to benefit from income tax relief at 30%, subject to the annual investment amount, against their income tax liability and CGT free gains provided the shares are held for three years (EIS) and five years (VCT) respectively.

Given the recent increases to CGT, more individuals may consider investing in these schemes to benefit from tax-free gains as well as the income tax reliefs available.

Remember also that, where capital gains are realised, investing in EIS shares also provides the ability to benefit from CGT deferral relief. In addition, as VCT dividends can be free of income tax within certain limits, these investments may be attractive where the tax-free dividend allowance of £500 is, otherwise, likely to be exceeded.

HIGH VALUE COUNCIL TAX SURCHARGE

The introduction of a High Value Council Tax Surcharge (HVCTS), an annual charge which will be payable in addition to Council Tax by owners of residential property in England valued in excess of £2 million or more in 2026.

Properties above the £2 million threshold will be placed into bands based on their property value. The surcharge is expected to start at £2,500 for properties valued between £2 million and £2.5 million rising to £7,500 for properties valued in excess of £5 million.

Threshold (£Millions)	Annual rate (£)
£2m - £2.5m	£2,500
£2.5m - £3.5m	£3,500
£3.5m - £5m	£5,000
£5 m+	£7,500

Charges will increase in line with CPI inflation each year from 2029/30 onwards. The Government will consult on implementation of HVCTS in the new year.

When does this come into effect?

From April 2028.

What should financial planners do next?

There would seem to be little that affected clients can do to avoid the surcharge.

Those considering a downsize move may want to bring this forward to avoid the annual charge that will apply from April 2028 onwards.

Tax planning around splitting ownership titles between multiple individuals or entities may provide opportunity.

Reconfiguring a single property into multiple smaller properties may also be worth considering.

UK Budget 2025

CAPITAL GAINS TAX (CGT)

Employee Ownership Trusts relief reduction

This measure restricts the amount of relief from Capital Gains Tax (CGT) available on qualifying disposals of shares made to the trustees of an Employee Ownership Trust on or after 26 November 2025.

The measure amends the legislation to provide that where the conditions for relief on disposal of shares to the trustees of an Employee Ownership Trust are met and a claim is made under that section, 50% of the gain on disposal will be treated as the disposer's chargeable gain for CGT purposes.

Neither Business Asset Disposal Relief (BADR) nor Investors' Relief will be available on disposals where relief is claimed. The remaining 50% of the gain will not be chargeable at the time of disposal but will continue to be held over and deducted from the trustees' acquisition cost, so that it will come into charge on any future disposal (or deemed disposal) of the shares by the trustees of the Employee Ownership Trust.

When does this come into effect?

Immediately – 26 November 2025.

What should financial planners do next?

This change is in place immediately. You may want to review clients considering disposing of shares on EOT's and assess tax outcomes.

NATIONAL INSURANCE (NI)

National Insurance Thresholds

National Insurance (NI) and income tax thresholds have been frozen for an extra three years until 2031.

This means the Primary Threshold and Lower Profits Limit will be maintained at £12,570 and the Upper Earnings Limit and Upper Profits Limit will be maintained at £50,270.

The Government is also maintaining the per employee threshold at which employers become liable to NI (the Secondary Threshold) at £5,000 from April 2028 to April 2031.

There will also be an increase the Lower Earnings Limit (LEL) and the Small Profits Threshold (SPT) by the September 2025 CPI rate of 3.8%. For those paying voluntarily, the Government will also increase Class 2 and Class 3 NICs rates by September CPI of 3.8%. The LEL will be £6,708 per annum (£129 per week) and the SPT will be £7,105 per annum. The main Class 2 rate will be £3.65 per week, and the Class 3 rate will be £18.40 per week.

The Government will legislate for this measure in affirmative secondary legislation in early 2026.

When does this come into effect?

From 2026/27.

UK Budget 2025

Voluntary National Insurance contributions (NICs) abroad

The Government will remove access to pay voluntary Class 2 NICs abroad and increase the initial residency or contributions requirement to pay voluntary NICs outside of the UK to 10 years.

When does this come into effect?

From April 2026.

Salary Sacrifice

There will be a £2,000 cap on NIC relief on salary sacrifice. This is covered in more detail under pensions section.

When does this come into effect?

From April 2029.

What should financial planners do next?

Consideration of pensions salary sacrifice or restructure of owner/manager profit extraction.

CONCLUSION

There were, many other tax changes announced in the Budget but, in this analysis, our focus has been on personal and corporate tax changes that are relevant to the tax and financial planning process.

The tax changes we reference reinforce the importance and value of informed and up to date advice. This is especially so when significant economic and taxation change takes place.

Only advice grounded in knowledge of taxation and the client's circumstances can help the client understand their options and make the correct choices.

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