Autumn Budget 2025

Your Guide

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Autumn Budget 2025 – What It Means For You

On 26 November, Rachel Reeves delivered her second Autumn Budget as Chancellor. It comes against a difficult backdrop: weak growth, high debt and ongoing pressure on public services.

Her main aims were to:

- **Plug a large hole in the public finances without another round of "austerity"**
- **Shift more of the tax burden towards wealth, property and investment income**
- **Maintain market confidence by demonstrating fiscal responsibility**

The Office for Budget Responsibility (OBR) expects **real household incomes to grow by only about 0.25% a year to 2030,** so this is not a giveaway Budget.

At the same time, Reeves is using some of the extra tax to:

- Scrap the **two-child benefit cap** from April 2026
- Put more money into the **NHS and public services**
- Help with **energy bills and transport costs** in targeted ways

Broadly:

- **Higher earners, landlords, investors and owners of high-value homes** will pay more.
- **Low-income families and some pensioners** see modest gains.
- **Middle earners** are quietly dragged into higher tax bands over time.

Let's break down the key changes and what they could mean for different types of clients.

1. Income Tax & National Insurance - The Freeze That Bites

Thresholds frozen until April 2031

The big story is not a new tax rate, but the decision to **keep income tax and National Insurance thresholds frozen until 5 April 2031.**

Key thresholds staying put:

- **Personal Allowance:** £12,570
- **Higher-rate threshold:** £50,270
- **Additional-rate threshold:** £125,140

Because wages and pensions will (hopefully) continue to rise, more people are dragged into paying tax or into higher bands.

National Insurance:

- Employee and employer NI **thresholds are also frozen** to 2030/31.
- The **employer secondary threshold** (where employer NI starts) stays at £5,000.

Who's most affected?

- Working-age earners whose pay rises with inflation or promotions.
- Pensioners whose State Pension increases under the triple lock (See section 4) and who have even modest extra income.
- Business owners/directors who draw a mix of salary and dividends.

Planning points:

- Using pensions and ISAs becomes more important to manage tax exposure.
- Couples should consider how income is split between them to use both personal allowances and lower rate bands.
- For company owners, reviewing salary / dividend mix now is crucial given dividend tax increases (see section 2).

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2. Investment, Savings & Property Income – Higher Tax On "Unearned" Income

Reeves has deliberately targeted **dividends, savings interest and rental income,** arguing that these pay less tax than earnings and attract no NI.

Dividends – rates up from April 2026

From **6 April 2026,** dividend tax goes up by **2 percentage points** for basic and higher-rate taxpayers:

- **Basic-rate dividends:** from 8.75% → **10.75%**
- **Higher-rate dividends:** from 33.75% → **35.75%**
- **Additional-rate:** stays at **39.35%**

There's also a change for some **non-UK residents with UK dividends,** who lose the old dividend tax credit from 2026, bringing them broadly in line with UK residents.

Savings interest – 2% rise from April 2027

From **6 April 2027,** tax on savings interest also rises by **2 percentage points:**

- **Basic-rate**: 20% → **22%**
- **Higher-rate**: 40% → **42%**
- **Additional-rate**: 45% → **47%**

The **Starting Rate for Savings** stays at £5,000 until April 2031, which helps a small number of low-income savers.

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The government still expects around **90% of people to pay no tax on savings** thanks to the Personal Savings Allowance and ISAs – but wealthier savers and those with large cash balances will feel the change.

Rental and other property income – landlords hit again

From **6 April 2027,** rental income and certain other property income will have their own slightly higher rates:

- **Basic-rate property income:** 22%
- **Higher-rate:** 42%
- **Additional-rate:** 47%
- **Finance cost relief** will still be given, but at 22% (up from 20%).

This is on top of earlier changes such as the loss of full mortgage interest relief.

The OBR and property commentators warn that this may influence some landlords to consider selling or incorporating, which could have an impact on rental supply**.**

Order of income – less flexibility from April 2027

Currently, the tax system allows your Personal Allowance to be set against whichever income mix is most favourable. From 6 April 2027, the **Personal Allowance will be set first against employment, trading or pension income,** before dividends, savings or property income.

That reduces some of the planning flexibility for clients with multiple income types.

VCT tax relief – trimmed

From **6 April 2026, VCT income tax relief drops from 30% to 20%** on new investments. VCTs remain attractive for some higher-risk investors, but the upfront benefit is clearly less generous.

3. ISAs & Tax-Free Saving – More Valuable, With A Twist

This Budget quietly makes **tax-free wrappers more valuable** by increasing tax on what sits outside them, but there's a tweak to cash ISAs.

ISA allowances
From **6 April 2027:**

- Overall **ISA allowance stays at £20,000.**
- But for under-65s, the **maximum into a cash ISA will be £12,000,** with the rest needing to go into Stocks & Shares or other ISA types if you want to use the full allowance.
- Savers **aged 65+** can still put the full **£20,000 into cash ISAs.**

Other limits are frozen to April 2031:

- **Lifetime ISA:** £4,000
- **Junior ISA / Child Trust Fund:** £9,000

There is no mandatory requirement to invest in UK assets inside an ISA (a rumour that had been circulating), but some providers will offer easier ways to choose UK-focused options.

Lifetime ISA – a sign of change ahead

The government will consult in **early 2026** on a **new, simpler ISA for first-time buyers,** which would eventually replace the Lifetime ISA. Details are to follow, but it's a flag for younger clients to keep an eye on how their first-home strategy is structured.

What this means in practice

For many clients:

- **Maxing ISA allowances** each year becomes even more important as tax on dividends and interest rises.
- The reduced cash ISA cap for under-65s nudges long-term savers towards **investing rather than simply saving,** if appropriate for their risk profile.
- For cautious clients, there may be a case for **laddering cash (inside and outside ISAs)** and using other wrappers (bonds, pensions) for medium- to long-term goals.

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4. Pensions – Allowances Steady, But Salary Sacrifice Capped

Most core pension allowances remain unchanged for the 2026/27 year:

- **Annual Allowance**
- **Lump Sum Allowance**
- **Lump Sum & Death Benefit Allowance**
- **Overseas Transfer Allowance**
- **Tapered Annual Allowance thresholds** (£200,000 / £260,000)

This stability is welcome after several years of upheaval.

Salary sacrifice – £2,000 NIC cap from April 2029

The big pension change is to **salary sacrifice.** The cost to the Exchequer has almost trebled in recent years, so from **April 2029:**

- Up to **£2,000 per year of pension contributions via salary sacrifice** will still benefit from both employer and employee NIC savings.
- **Contributions above £2,000 via salary sacrifice will be subject to NI,** much like ordinary employee contributions.

Normal employer contributions that are not funded via salary sacrifice remain **fully exempt from NICs,** and **income tax relief on pension contributions is unchanged.**

Who's most affected?

- **Private-sector employees** in generous salary sacrifice schemes (particularly higher earners).
- **Basic-rate taxpayers,** under current rules, lose a bigger proportion of the benefit (8% employee NI above the cap, vs 2% for higher and additional-rate earners).

We're likely to see employers:

- Restructuring benefits packages.
- Negotiating higher **employer contributions** instead of large salary-sacrifice arrangements.
- Reviewing how they share NIC savings with staff.

State Pension & triple lock – still intact

The Budget confirms:

- **Triple lock continues** for the rest of this Parliament.
- The full **new State Pension will rise by 4.8% in April 2026,** to around **£12,547.60 per year.**

Because the Personal Allowance is frozen at £12,570, the State Pension is very close to the tax threshold:

- From **2027–28**, many pensioners may see **State Pension alone approach or exceed the Personal Allowance**, meaning they could, in theory, have a small tax bill.
- To avoid lots of tiny tax demands, the government plans to **remove the need for "Simple Assessments"** for pensioners whose onlyincome is the basic/new State Pension without extras. More detail will follow in 2026.

Inheritance tax on pensions – rules tightening from 2027

The Budget reiterates that from **April 2027,** most **unused defined contribution pension death benefits will fall within the scope of IHT** for non-exempt beneficiaries.

The new twist confirmed this year:

- **Personal representatives (PRs)** will be able to tell pension scheme administrators to **withhold up to 50% of taxable pension death benefits** for up to 15 months to cover potential IHT.
- PRs can then instruct schemes to pay IHT directly to HMRC before releasing the remainder to beneficiaries.

This won't apply to:

- Spouse/civil partner benefits (still generally exempt).
- Small pots under £1,000.
- Ongoing annuities.

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For clients with larger DC pensions and estates close to or above the IHT thresholds, this adds **complexity** and underlines the need for **careful nomination and estate planning.**

Defined Benefit & specialist schemes

- **From 1 January 2027,** certain **pre-1997 Pension Protection Fund and Financial Assistance Scheme** rights will receive inflation protection, where the original scheme offered it.

- Rules have also been updated to allow more **multi-employer Collective Money Purchase (CMP)** schemes to register, but these are niche at present.

5. Inheritance Tax – Thresholds Frozen, Reliefs Tightening

Nil-rate bands frozen to April 2031

No surprise here: the **IHT nil-rate band (£325,000)** and **Residence Nil-Rate Band (£175,000)** remain frozen and are now locked until **5 April 2031.**

The Residence Nil-Rate Band taper threshold stays at **£2 million.**

Effect: As house prices and asset values rise, **more estates will drift into IHT,** even without being "super-rich".

Agricultural & Business Property Relief – £1m combined allowance

From **6 April 2026,** we already knew that:

- There will be a **£1m combined allowance per individual** for 100% relief on **Agricultural Property Relief (APR)** and **Business Property Relief (BPR).**
- Above that, qualifying assets get only **50% relief,** effectively a **20% IHT rate** on the excess rather than 40%

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This Budget **extends the freeze** on that £1m limit to 2031 and – according to the draft Finance Bill – will **allow unused £1m allowances to be transferred between spouses/civil partners** from 2026, including where the first death was before 6 April 2026 (based on technical notes advisers are working from). For farming families and business owners:

- Pre-existing planning designed to **use each spouse's £1m allowance separately** may now need a re-think. The message is that **large estates can no longer rely on APR/BPR for a "free pass"**; early estate planning may become increasingly important for some clients. .

No change to IHT gifting rules

All the familiar exemptions (annual £3,000, small gifts, normal expenditure out of income, 7-year PET rules, etc.) remain intact. This makes **lifetime gifting and regular giving from surplus income** even more powerful tools in IHT planning.

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6. Capital Gains Tax – No New Shock This Time

There were **no new CGT rate or allowance changes announced in this Budget.**

The key changes were made in earlier Budgets and are already baked into the system:

- **Annual Exempt Amount** now down at **£3,000** (and frozen), after earlier cuts.
- **Main CGT rates** on most assets (excluding residential property) are already at **18% and 24%,** following rises in the 2024 Budget.

For most clients, this means:

- **Crystalising gains gradually over multiple years** to use the £3,000 allowance is more important.
- **Using ISAs, pensions and other wrappers** to reduce exposure to CGT over the long term remains sensible.
- For business owners looking to sell, the planned **rise in Business Asset Disposal Relief rate to 18% in 2026** still looms in the background – nothing new was added, but it hasn't gone away.

7. Property Wealth
– The "Mansion Tax" & Visitor Levies

High Value Council Tax Surcharge ("mansion tax")

From **2028–29,** a new **High Value Council Tax Surcharge** will apply to **homes in England worth £2 million or more.**

- Estimates suggest **150,000–300,000** properties could be caught once revaluations are done.
- Early reports suggest typical annual charges **in the low thousands of pounds,** with options to **defer until sale or death** to avoid forcing asset-rich, cash-poor owners to sell.

For clients with high-value homes:

- This has been described by some commentators as similar to a form of **annual property-based wealth tax.**
- It may influence decisions about **downsizing, gifting property** or using trusts in future.

Overnight visitor levy

The government will consult on giving **mayors and possibly local authorities** in England the power to introduce a **visitor levy on overnight stays** in hotels, B&Bs, holiday lets and similar.

This could impact:

- **Holiday-let owners** and small hospitality businesses.
- Local tourism costs (most businesses will try to pass the levy on to guests).

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8. Families & Benefits – Two-Child Cap Scrapped

One of the most high-profile measures:

- The **two-child limit in Universal Credit and Child Tax Credit** will be **abolished from 6 April 2026.**

This:

- According to governments estimates, this could **lift around 400,000–450,000 children out of poverty.**
- Costs around **£3bn per year** by the end of the Parliament.

For clients:

- It's more relevant to **financial wellbeing planning** than to tax planning, but it's a significant social change.

- It may ease pressure on larger low-income families, potentially changing how much support they need from other family members.

Child Benefit, HICBC & salary sacrifice

- The **High-Income Child Benefit Charge (HICBC)** is unchanged.

- The Budget confirms that **salary sacrifice can still be used to reduce taxable income for HICBC and Tax-Free Childcare purposes** – the new £2,000 cap is only about NICs relief on pension contributions, not income tax.

This keeps open some useful planning options for higher-earning parents.

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9. Everyday Costs – EV Drivers, Fuel, Gambling & Vaping

A few “headline grabbers” that still matter to clients’ day-to-day budgets:

- **EV mileage charge:** from **6 April 2028,** fully electric cars will pay **3p per mile,** and plug-in hybrids **1.5p per mile,** via a new “eVED” system layered on top of VED.
- **Fuel duty:** the 5p cut is extended until August 2026, with a gradual return to previous levels by March 2027.
- **Gambling duties:** substantial increases in remote gaming and new levies on online betting from 2026/27 – mainly relevant for those in the sector or heavy users.
- **Vaping duty:** from October 2026 there will be a new duty on vaping liquids, alongside higher tobacco duties.

These aren’t core financial-planning issues, but they do feed into your **cost-of-living** picture.

10. Winners, Losers & Practical Next Steps

Based on current measures and independent analysis, the following groups may be more or less affected.

Likely "winners"

Low-income families with more than two children – gain from the end of the two-child cap.

**Pensioners dependent mainly on the State Pension – **benefit from the triple lock and simplified admin if they have no other income.

**Those using ISAs and pensions effectively – **relatively better off as outside-wrapper taxes rise.

Likely "losers"

- **Middle and higher-rate earners** whose incomes rise between now and 2031 – pulled into higher bands by frozen thresholds.
- **Landlords and property investors** – higher tax on rental income, plus potential "mansion tax" for high-value homes.
- **Direct equity investors and owner-managers** – higher dividend tax and reduced VCT relief.
- **Wealthy farming and business families** – APR/BPR changes cap the IHT shelter on trade assets.
- **Higher contributors to salary-sacrifice pensions** – NIC savings above £2,000 per year disappear from April 2029.

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Talking points / actions to consider

You can turn this into a series of review themes:

Tax-efficient wrappers

- "Are you making full use of your ISA and pension allowances before the new dividend and savings tax rates bite?"

Income planning

- "How will frozen thresholds and your expected pay/pension increases affect your tax band over the next 3–5 years?"
- "Should you adjust how income is split between you and your partner?"

Landlords & property owners

- "Will the new property tax rates and possible mansion tax change your property strategy – hold, sell, or incorporate?"

Retirement & estate planning

- "Given the IHT changes for pensions and business/farm assets, do you need to revisit your wills, nominations and gifting strategy?"
- "Do we need to model potential IHT bills under the new APR/BPR rules?"

Family finances

- "If you or your wider family are affected by the end of the two-child cap, how does that change your monthly budget and support needs?"

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