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Client Alert

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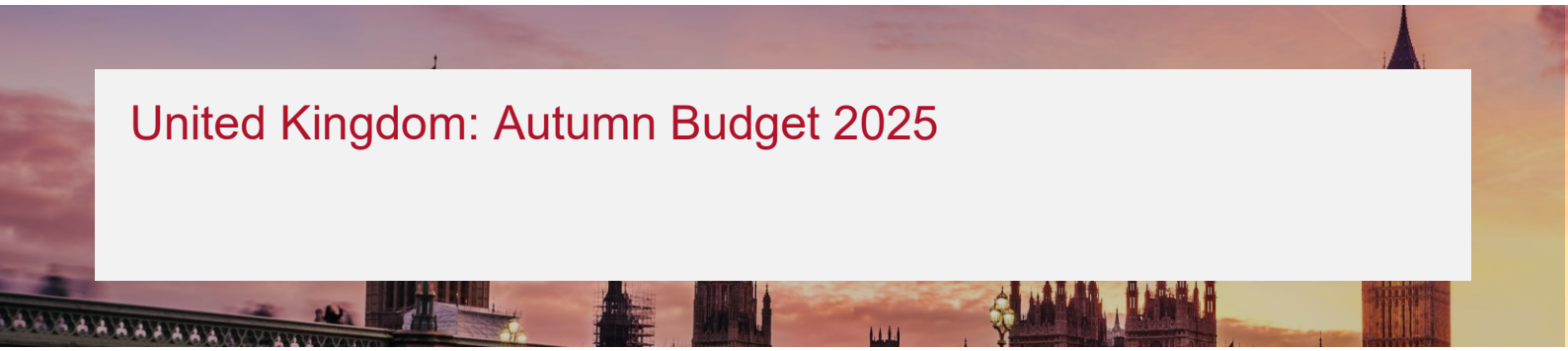

United Kingdom: Autumn Budget 2025

Introduction

On 26 November 2025, the Chancellor of the Exchequer delivered the second Autumn Budget of the Labour Government. It follows last year's announcements of the abolition of the tax regime for UK resident non-UK domiciliaries (RNDs) and the introduction of a residence-based tax regime for the taxation of foreign income and gains known as the "FIG regime" and a new 10/20 year rule for inheritance tax (IHT).

This Budget is less far-reaching than last year's but contains some changes for those previously taxed on the RND regime, particularly with regard to IHT. In particular, the IHT charges that were announced in last year's Budget for excluded property trusts seem to be alleviated through the introduction of a GBP 5 million IHT cap every ten years. This represents a welcome grandfathering (to some extent) of formerly excluded property settlements and suggests that the Government has listened to calls from the industry. It means that individuals previously taxed on the RND regime who have ceased UK tax residence (or were planning to cease UK tax residence), following last year's Budget may be persuaded to remain in, or return to, the UK.

The Government has not yet reformed the offshore trust/non-UK company attribution rules (although it says it remains committed to an ambitious reform and substantial simplification of these rules). Until those changes occur, there may be opportunities for former RNDs to live in the UK with limited exposure to UK taxation.

In addition, the Government also announced its intention to further develop its "tax offer for high-talent new arrivals", which the Budget day documents refer to as an "enhanced offer". While no details are yet available, if such an "offer" includes improved immigration options together with associated tax benefits it is welcome news. A summary of the key takeaways is below.

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Summary of key changes

The Government has announced the following changes, which we consider to be of key relevance to the private wealth industry:

- The introduction of a GBP 5 million cap on ten-year anniversary and exit charges with respect to settled property that was excluded property at 30 October 2024 (which will have retrospective effect from 6 April 2025);
- The unused part of the combined GBP 1 million allowance for the 100% rate of agricultural property relief (APR) and business property relief (BPR) will be transferable between spouses and civil partners;
- The IHT thresholds will be frozen for a further year until April 2031 (they were previously due to be frozen until April 2030). This includes the threshold for the nil rate band, the residential nil rate band and the GBP 1 million combined cap on the 100% allowance for APR and BPR;
- UK agricultural property held through non-UK entities will cause interests in those non-UK entities to be treated as being UK situated for IHT purposes, which will align it with the existing treatment for enveloped UK residential property interests;
- The notional dividend tax credit for non-UK residents will be abolished;
- Distributions from post-departure trade profits will now be subject to the temporary non-residence rules;

- The rates for savings, property and dividend income (with the exception of the additional rate on dividends) will increase by 2%;
- There will be a cap on National Insurance Contributions relief both for employees and employers on salary sacrifice pension contributions to GBP 2,000;
- There will be a "mansion tax" in the form of a council tax surcharge for properties valued at over GBP 2 million. This is not due to come into force until 2028;
- Relief for capital gains tax on the incorporation of a business must now be claimed;
- Gains tax relief on share exchanges and company reorganisations will be tightened;
- There will be "minor corrections" to the residence-based tax regime, with the aim of ensuring associated reliefs operate "as intended"; and
- The Government has also expressed an intention to “explore how further to develop its tax offer for high-talent new arrivals”, although no timeline has been announced.

Key reforms announced in 2025 Budget

IHT Reforms

GBP 5 million IHT cap on trusts that held excluded property at 30 October 2024

The Government will introduce a cap of GBP 5 million on relevant property IHT charges for trusts that held excluded property at 30 October 2024. The cap will apply for each ten year cycle. This cap applies to settled property that was excluded property at 30 October 2024, and that is situated outside the UK at the time of the relevant charge. Draft legislation has been published and the cap is due to take effect from 6 April 2025 (i.e. the measure will have retroactive effect from the date of the abolition of the remittance basis and broader RND regime).

The IHT reforms under the 2024 Budget were among the most frequently-cited reason for former RNDs ceasing UK tax residence. This policy shows that the Government has to an extent listened to those concerns. Some former RNDs may consider that an IHT charge of up to GBP 5m every ten years on their non-UK trust assets is acceptable such that they return to the UK. This may be especially attractive for former RNDs where underlying non-UK companies benefit from the "motive defences" to certain income and capital gains tax anti-avoidance rules, such that the extent to which they are subject to UK income tax and/or capital gains tax on underlying funds, or those otherwise outside of the various attribution rules, is limited. A watchful eye should be kept on the consultation currently underway with respect to the wider reform of the “offshore anti-avoidance rules”, particularly as it concerns motive defences, which is expected to result in amendments to those rules but not before 6 April 2027.

GBP 1 million combined APR/BPR allowance to transfer between spouses

The unused part of the combined GBP 1 million allowance for the 100% rate of APR and BPR will be transferable between spouses and civil partners from 6 April 2026. Where the first spouse died before 6 April 2026, it will be assumed they had a full GBP 1 million allowance that will transfer to the surviving spouse and added to the surviving spouse's own GBP 1 million allowance, allowing the 100% rate of APR and BPR to apply to GBP 2 million of qualifying property on the second death. There is also to be a minor curtailment of the ability to use APR or BPR property to reduce some IHT exit charges on non-APR/BPR assets leaving relevant property trusts, with this change having retroactive effect from 30 October 2024 for trusts established, or to which APR or BPR assets were added, after 30 October 2024.

IHT thresholds remain frozen until 2031

The IHT thresholds will remain fixed until 2031. This extends the existing freeze by a further year. The measure applies to: the nil rate band, the residential nil rate band, and the GBP 1 million combined allowance for 100% APR and BPR.

Deemed situs of non-UK entities holding UK agricultural property

The Government will legislate to ensure that UK agricultural property held via non-UK entities is considered to be UK situs for IHT purposes. Legislation will take effect from 6 April 2026 (i.e. when the proposed caps on 100% relief from APR and BPR are due to come into force). This measure brings UK agricultural property in line with the position for UK

residential property held through non-UK entities (which has been treated as UK situs property for IHT purposes since 6 April 2017).

No ability to resituate assets to avoid an IHT charge on settled assets

In addition, from 6 April 2025, the test for whether an individual's non-UK personal or trust assets are in the scope of IHT depends on whether they are a long term resident. For settled assets, there may be a charge of up to 6% when non-UK property in a trust goes out of the scope of IHT because of the change in status of the settlor. The Government will introduce measures that will prevent trustees seeking to avoid this IHT charge by bringing assets to the UK before a change in the settlor's status and then after the change resituating the assets overseas again such that they are outside the scope of IHT. The change will take effect for trust exit charges from 26 November 2025.

Non-UK residence

Tax on post departure trade profits

The UK has ‘temporary non-residence rules’ designed to prevent individuals from avoiding income tax and capital gains tax by ceasing UK tax residence for only a short period in order to undertake tax planning. Currently, these rules do not apply to some company distributions made out of profits accruing to the company during the individual’s non-UK tax resident period. From 6 April 2026, this exception from the temporary non-residence rules will be removed.

Abolition of notional dividend tax credit for non-UK residents

Non-UK tax resident individuals are only subject to UK income tax on their UK source income. They generally have two options of assessment. They may either "disregard" certain qualifying income, which includes their UK dividend income, which broadly limits tax on such disregarded income to amounts deducted at source, which comes at the expense of losing their personal allowance. Alternatively, they can be assessed on such "disregarded" income and (subject to the usual restrictions) claim the personal allowance. If they opt for the second option under current rules, individuals can also claim a notional basic rate tax credit on their UK dividends. For distributions received on or after 6 April 2026, the Government will abolish the tax notional credit available under the second option. This is intended to align the position of UK and non-UK tax resident individuals in relation to dividend tax credits.

Personal income tax and council tax

Amendments to the "residence-based tax regime"

The Government has noted that it will make "minor corrective amendments" to the residence-based tax regime announced in the 2024 Budget. The intention is to ensure that the regime and associated reliefs operate as intended.

Increases to tax rates for property, savings and dividend income

There will be a 2% increase in the basic and higher rates of tax on dividends; savings; and property income, as well as on the additional rates for savings and property income. The dividend tax rate is relevant to the rate of tax on loans to company participators, which is tied to the higher dividend rate. Changes to the dividend rate will take effect from 6 April 2026, and those in relation to savings and property income from 6 April 2027.

Changes to pension taxes

One way for employees to make pension contributions is via ‘salary sacrifice’ (i.e. reducing their salary, with the reduction being paid into their pension). National Insurance Contributions (NICs) are not currently levied on the sacrificed amount. From April 2029, the amount of pension contributions made via salary sacrifice that will be exempt from NICs will be limited to GBP 2,000 per year. Sacrificed amounts above that threshold will be subject to employee and employer NICs from that date.

Currently, the unused amount of pension funds and pension death benefits are often outside the scope of IHT. In relation to deaths on or after 6 April 2027, most of these will be brought within the scope of IHT. This change was announced in the 2024 Budget and has not been reversed, but the Government has dropped previous proposals that would have made pension scheme administrators liable to calculate and pay any IHT arising, so the personal representatives of the deceased will be ultimately responsible for any IHT liabilities, as is the case in respect of most other assets. The

measures announced at the 2025 Budget allow the personal representatives to instruct pension schemes to withhold 50% of taxable benefits from the respective pension for up to 15 months to pay the IHT arising. Where a scheme is discovered by the representatives after clearance has been obtained from HMRC and the IHT on a death estate has already been settled, the executors are discharged from an IHT liability.

Council tax surcharge on high value properties ("mansion tax")

From April 2028, owners of properties worth GBP 2 million or more, as valued in 2026, will be liable to pay a new annual surcharge in addition to their existing council tax obligations. The tax bands and flat tax rates are to be increased annually with inflation, but are currently proposed to range from GBP 2,500 to GBP 7,500 as follows:

- Properties valued between GBP 2 million to GBP 2.5 million: GBP 2,500;
- Properties valued between GBP 2.5 million to GBP 3.5 million: GBP 3,500;
- Properties valued between GBP 3.5 million to GBP 5 million: GBP 5,000;
- Properties valued over GBP 5 million: GBP 7,500.

The Government will consult on the details of any relief and exemptions determining if any additional support or deferral is required.

Capital gains tax

Capital gains tax relief on incorporation

A transferor will need to make a claim for "incorporation relief" in their self-assessment return for the tax year. The current law provides a form of rollover relief on a transfer of a business to a company and legislation allows the transferor to make an election for the relief not to apply. New legislation will be introduced to amend this provision and include a requirement for the transferor to make a claim in the tax return for the tax year of the transfer. The aim is to provide HMRC with more data.

Tightening of capital gains tax relief on share exchanges and reorganisations

The Government is strengthening anti-avoidance rules in the capital gains tax legislation relating to share exchanges and company reconstructions. Currently, legislation enables corporation tax or capital gains tax to be deferred where there is a reorganisation of a company's share capital or where a company is interposed above another company via a share exchange if the transaction is undertaken for bona fide commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of liability to capital gains tax or corporation tax.

With effect from 26 November 2025, these rules will be amended to apply if the main purpose, or one of the main purposes, of the arrangements is to reduce or avoid liability to capital gains tax or corporation tax (i.e. removing the reference to bona fide commercial reasons). The change will focus solely on whether a capital gains tax or corporation tax advantage was the main purpose or one of the main purposes of the arrangements. The aim of this change is to make the scope of the relief more effective.

Future changes

Personal tax – offshore avoidance rules

The Government has said it "remains committed to an ambitious approach and intends to substantially simplify the legislation in this area". The Government is currently undergoing a "co-creation approach", involving outside experts from representative bodies and wider stakeholders following its call for evidence in 2024 and 2025. We await further details, but expect that the reforms – as and when they are announced – will be material.

Call for evidence on tax support for entrepreneurs

The Government has issued a call for evidence on the effectiveness of existing tax incentives, and the wider tax system, for business founders and investors in high-growth UK companies, 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.

Tax offer for “high talent new arrivals”

The Government has expressed an intention to “explore how to further develop its tax offer for high-talent new arrivals, to build on the success of the existing regime and bolster the ambition for the UK to remain a competitive destination for growth-driving global talent and support internationally mobile individuals to establish themselves and their businesses in the UK”. No concrete timeline for a consultation has yet been announced.

What was not announced?

Notably, the Government did not announce various measures that were trailed in the press in the lead up to the Budget. There was no introduction of an exit tax or a wealth tax, albeit some may argue that the "mansion tax" is a form of wealth tax. Additionally, there were no changes to the capital gains tax rates. There were no changes to the IHT gifting rules, including the "potentially exempt transfer" rules.

Conclusion

The 2025 Budget is unlikely to have been as impactful as the 2024 Budget to many of our clients. However, there are some measures that represent a softening of some of the changes introduced in the 2024 Budget. The concession to grandfather (to some extent) the IHT position for former excluded property settlements could represent a genuine planning opportunity for those formerly taxed on the RND regime to remain in, or return to, the UK at a more acceptable tax cost to their structures.

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